

PACIFIC EDGE LIMITED INTERIM REPORT 2016

FOR THE SIX MONTHS
TO 30 SEPTEMBER 2016



PACIFIC EDGE PLC
CANCER DIAGNOSTICS COMPANY

Issued Capital

381,738,061 Ordinary Shares

Registered Office

Anderson Lloyd
Level 10, Otago House
Cnr Moray Place and Princes Street
Dunedin

Directors

C Gallaher - Chairman
D Band
D Levison
A Masfen
D Darling - Managing Director
B Williams

Chief Executive Officer

David Darling

Auditors

PricewaterhouseCoopers
Dunedin

Bankers

Bank of New Zealand
Dunedin
ANZ
Dunedin

Solicitors

Anderson Lloyd
Otago House
481 Moray Place
Dunedin

Securities Registrar

Link Market Services Limited
138 Tancred St
Ashburton

Company Number

1119032

Date of Incorporation

27 February 2001

Nature of Business

Develop and commercialise new diagnostic and prognostic tools for the early detection and management of cancers.

The Board of Directors of Pacific Edge Limited are pleased to present the Interim Report for the six months ended 30 September 2016.



Chris Gallaher
Chairman



David Darling
Managing Director
and Chief Executive

Business Snapshot	4
2016 Milestones	6
Financial Highlights	8
Half Year Highlights and Key Events	9
Chairman and CEO Review	11
Consolidated Financial Statements	17
Notes to the Financial Statements	21

BUSINESS SNAPSHOT

Pacific Edge is a cancer diagnostics company, based in New Zealand and delivering innovative cancer diagnostic solutions globally.

We are focused on providing a 'one stop shop' of Cxbladder tests for the detection and management of bladder cancer. Our products are accurate, easy to use, non-invasive and cost effective.

Our primary market is the United States and we have also identified other key markets around the world including New Zealand, Australia and South East Asia. While our commercial journey is still at an early stage, the potential for our company is very large, with over 7 million people with haematuria (blood in the urine and a key indicator of bladder cancer) in the USA alone.

Pacific Edge is the only company in the world to offer a suite of proprietary molecular diagnostic tests in bladder cancer, with three tests now in market and one more on track to be launched in December 2016. These all serve defined clinical needs across the haematuria and bladder cancer clinical pathway, from assessment and detection to management and monitoring for recurrence of the disease.



STRATEGIC OPPORTUNITIES FOR GROWTH

We are targeting high growth over the medium term by creating more products and building sales in an increasing number of targeted markets.

MORE PRODUCTS

- Development of suite of Cxbladder products
- Intellectual Property over other cancer expressions with opportunity to develop specific diagnostic tests

MORE MARKETS

- Revenue growth in existing markets - NZ, Australia, USA
- Geographical growth into new markets - South East Asia, Japan and rest of world

MORE SALES CHANNELS

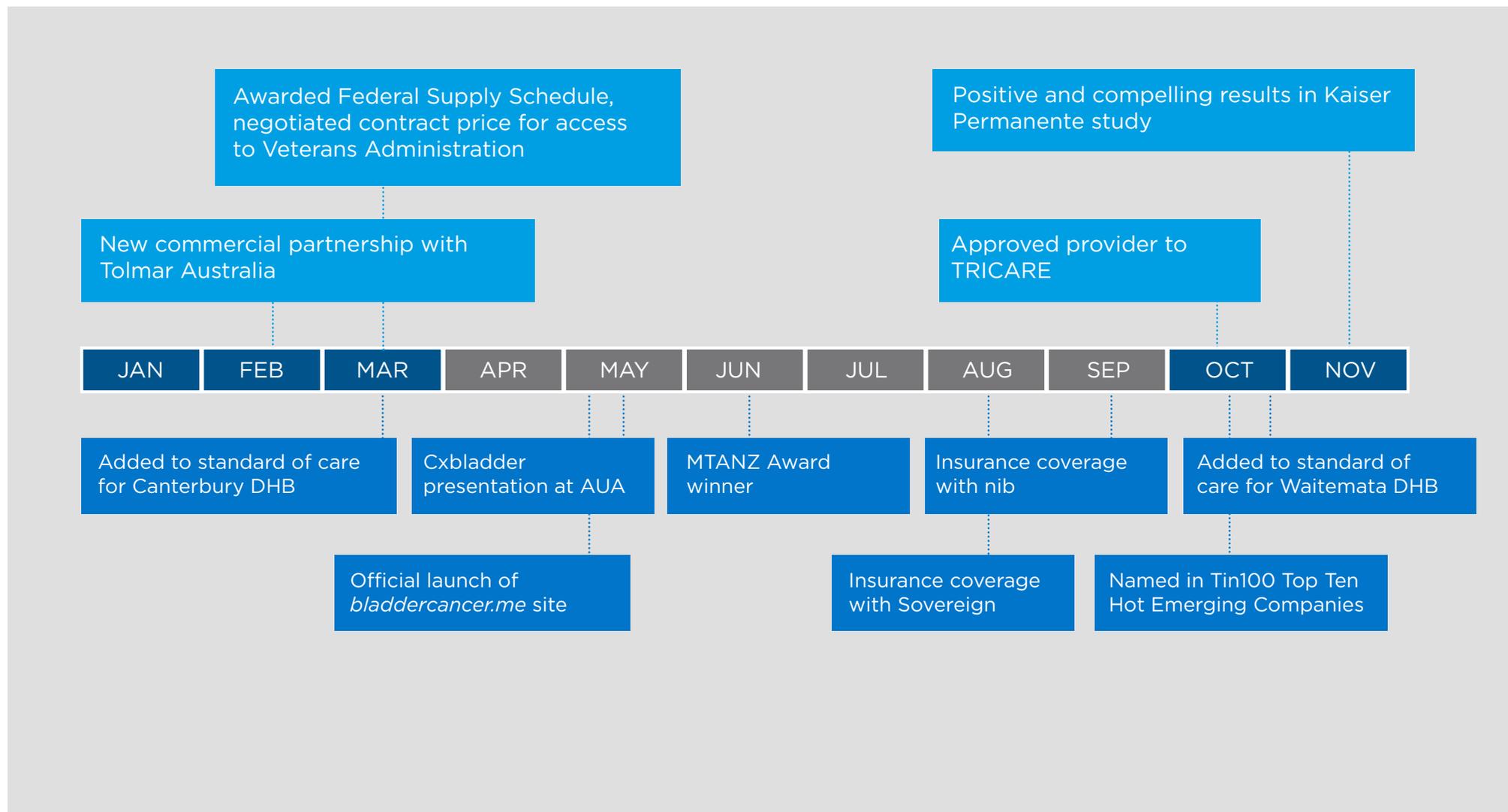
- Direct to consumer, e-commerce, corporate customers

MORE CUSTOMERS

- Public and private healthcare and clinical organisations
- Corporates
- Patients
- Healthcare insurance providers

2016 MILESTONES

EXCELLENT PROGRESS IN THE FIRST HALF OF FY17



FINANCIAL HIGHLIGHTS

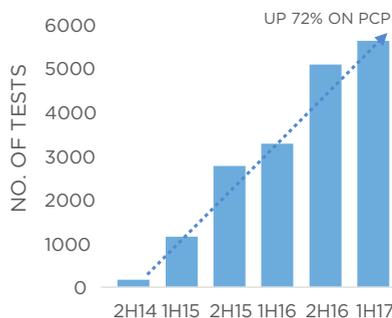
The results are consistent with previous growth and annual revenue trends. Traditionally there is a softer first half year of the financial year and a stronger second half.

- Total income of \$3.8m up 42% on prior comparative period (pcp). Second half revenue expected to ramp up in line with annual trends
- Operating revenue of \$3.0m, up 67% on pcp, with growing sales from both existing and new customers
- Reported loss of \$11.3m for the half year period (including non-cash, non-recurring expense of \$2.9m in relation to the wind up of the Employee Incentive Scheme¹), in line with management expectations
- Total Laboratory Throughput up 72% on pcp due to growing commercial sales and new user programmes
- Total Operating Expenses of \$15.1m (including non-cash, non-recurring \$2.9m expense) reflects continued investment into growth, particularly in the USA
- Net operating cashflow of \$(9.1)m was at a similar level to the previous two half year periods
- Cash and cash equivalents of \$14.6m as at 30 September 2016
- Results reflect impact of stronger US dollar and lower grant income due to changes in the Callaghan Innovation Growth Grant Scheme

¹ Details on page 23 of financial statements in the Pacific Edge 2017 Interim Report

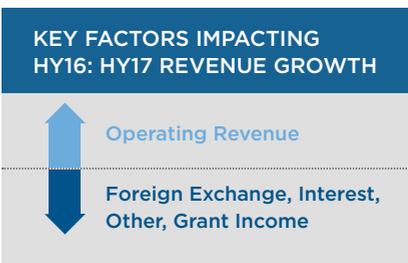
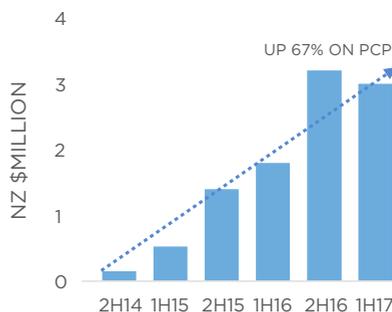
LABORATORY THROUGHPUT

Includes User Programmes and commercial tests



OPERATING REVENUE

Reflects annual trends with softer first half and a stronger second half year



HIGHLIGHTS AND KEY EVENTS

- Successful completion of the large, blinded Kaiser Permanente User Programme study
- Underway with the Veterans Administration (VA), the first of the targeted transformational customers
- US sales executives targeting selected VA healthcare providers following signing of Federal Supply Schedule agreement in February 2016
- Private insurance coverage approved by nib Health Insurance and Sovereign Insurance in New Zealand
- Presentation of positive Cxbladder Monitor study by Key Opinion Leader, Dr Yair Lotan, at American Urological Association 2016 Conference
- Soft launch of Cxbladder Monitor in the USA
- Continue to develop Cxbladder Resolve which is on track for New Zealand launch by end-2016
- Winner of the Medical Technology Association of New Zealand (MTANZ) Innovation Award
- Official launch of online bladder cancer patient community, *bladdercancer.me*, to coincide with International Bladder Cancer Day
- Continuing to work through the required processes to bring transformational customers on board as commercial customers, each of which could result in a quantum leap in sales revenue.

GOVERNANCE

- Appointment of David Levison as Director and Chris Gallaher as Chairman
- Charles Sitch and Chris Swann stepped down from the Board

KEY EVENTS SINCE HALF YEAR END

- Confirmed as approved provider to TRICARE Health Plan Network
- Pacific Edge named in TIN100 Top 10 List
- Cxbladder adopted by Waitemata District Health Board
- New User Programme announced with Singapore General Hospital
- Positive and compelling results from Pacific Edge's analysis of data from large scale, blinded Kaiser Permanente User Programme



Cxbladder Triage

Frontline tool for use by primary physicians in the early evaluation of haematuria (blood in the urine)

- ▶ NZ Launch Dec 2014
- ▶ US Rollout 2015/16

Cxbladder Detect

For use by urologists, for patients who have been referred for a full workup

- ▶ In Market 2013/2014

Cxbladder Monitor

Helps physicians monitor bladder cancer in patients

- ▶ NZ Launch Dec 2015
- ▶ US Rollout 2016/17

Cxbladder Resolve

Help segregate low grade tumours from high grade and late stage tumours

- ▶ NZ Launch December 2016 followed by international rollout

FY17 OPERATING OBJECTIVES

MARKETS

US: Remains the primary focus for growth

Australia: Work with Tolmar Australia to build awareness and increase sales

SEA: Establish a base in Singapore for further investigation into South East Asia; Support and initiate new User Programmes

NZ: Continue to encourage uptake of Cxbladder

CUSTOMERS

Complete Kaiser Permanente User Programme and progress to commercial relationship

Progress discussion with CMS

Continue to initiate new User Programmes with key customers

PRODUCTS

Rollout Cxbladder Monitor into the US and Australia

Launch Cxbladder Resolve in NZ

SALES CHANNELS

US: Continue to target:

- large urology practices
- integrated healthcare providers
- targeted VA centres

Increase online marketing and product awareness

CHAIRMAN AND CEO REVIEW

The first half of the 2017 financial year has been one of hard work and significant commercial wins for the Pacific Edge team, as we have focused on delivering a suite of innovative products, growing awareness and encouraging trial of our Cxbladder products.

“We delivered a solid first half result as we continue to add new customers and ramp up activity in the USA.”

As expected, revenue in the traditionally softer first half was a significant improvement on the prior comparative first half period (pcp)².

Total income was \$3.8m, up 42% on the pcp, and reflects a negative impact from the stronger NZD/USD exchange rate and reduced grant income due to changes under the Callaghan Innovation Growth Grant Scheme. Operating revenue was \$3.0m, up 67% on the prior first half period. FY17 second half revenue is expected to ramp up in line with annual trends.

Revenue is being driven by increasing commercial sales of Pacific Edge's Cxbladder tests, from both existing and new customers, predominantly in the USA. The majority of revenue comes from existing customers, mostly smaller urologist practices, with no contribution yet from the recent new customers - the Veterans Administration (VA) and TRICARE.

In addition, in the USA, first half FY17 growth has been driven from sales of Cxbladder Detect only, with Cxbladder Triage only becoming fully available in the USA late in the first half and Cxbladder Monitor available commercially in the upcoming second half of FY17.

While a smaller market, New Zealand has also delivered strong revenue growth, up 187% on last year's first half revenue, as a result of uptake by both private and public healthcare providers and increased insurance coverage.

Total Laboratory Throughput, which includes commercial sales as well as tests from User Programmes, was 5,622 for the six months, an increase of 72% on the pcp and 11% on the previous six month period. This reflects growing commercial sales and a focus on building the customer base, with new User Programmes offsetting the drop in tests following the completion of the large Kaiser Permanente User Programme during the half year.

Pacific Edge is benefitting from an expanded USA sales team (from 12 to 18 sales executives compared to the pcp) which was the primary driver of the increase in cash expenses to \$12.1m in the first half of FY17, as well as investment into South East Asia and ongoing product development. A non-cash, non-recurring expense of \$2.9m in relation to the wind up of the Employee Incentive Scheme was also included in total operating expenses of \$15.1m.

Net operating cashflow of \$(9.1)m was at a similar level to the previous two six month periods, with a 232% increase in receipts from revenue and grant income compared to pcp, offsetting the higher first half FY17 expenses. As at 30 September 2016, Pacific Edge had cash and cash equivalents of \$14.6m.

Overall, Pacific Edge reported a \$11.3m loss for the FY17 half year period, in line with management expectations.

With the majority of earnings being generated in the USA, the half year results also reflect the negative impact of the stronger US dollar, with the exchange rate moving between NZD/USD 0.63 to 0.76 over the period.

“We are now well on the road to full commercialisation. The international healthcare market is complex and challenging, however we continue to make very good progress and the potential prize is significant.”

User Programmes are key to the commercial adoption of our Cxbladder tests. We have found that the best way to market our products is to allow urologists to trial them in their own clinical settings. This allows them to see for themselves the benefits of our simple, non-invasive, accurate and cost effective diagnostic tests.

Every User Programme is tailored to each individual clinician or healthcare provider and can vary in terms of length of time and size. Some transition quickly to commercial customers, others take more time. We anticipate that new customers will, in most instances, require a User Programme as this is their opportunity to 'test drive' the technology and obtain a customised fit in their clinical pathways.

One of the major achievements in the first half of FY17 was the completion of the Kaiser Permanente User Programme, the largest we have run to date. Patients were recruited by Kaiser Permanente, with samples collected in patients' homes and sent to Pacific Edge's laboratory and analysed in a commercial setting. The results were then sent to Pacific Edge and Kaiser Permanente for analysis.

We have now completed our analysis of the data with positive and compelling findings and, while we still have a number of steps to go through to achieve our goal of bringing Kaiser Permanente on board as a commercial customer, we are now well progressed along this path. We are working hard to close this out and to add, what could be, a step change in revenue for our business.

We are now in contract with two large federal health programmes, the Veterans Administration (VA) and TRICARE Health Plan Network. Between them, these two programmes provide cover to all USA veterans and their families.

Following the award of a Federal Supply Schedule agreement earlier this year, our USA sales team has begun marketing to selected Veterans Administration healthcare providers. Again, User Programmes are an important part of the commercial pathway and we anticipate steady progression of customers undertaking User Programmes as we build our momentum in the USA.

In October, just after the half year ended, we were pleased to enter into contract and be approved as a provider to the TRICARE Health Plan Network, which provides healthcare coverage to approximately 9.4 million beneficiaries around the world under the US Military Health System. As with other new customers, we will be offering their urologists User Programmes and then working to transition them into commercial customers.

We continue to follow the regulatory process to gain access to the Centers for Medicare and Medicaid (CMS). This is a lengthy, regulated process which we have to follow, and pleasingly, we are well down the track on this.

We now have three products in market. Cxbladder Detect is commercially available in all our markets; Cxbladder Triage is available in New Zealand and Australia and launched in the USA in the first half of FY17. Cxbladder Monitor is also available in New Zealand and Australia, with the full USA launch timed to coincide with the upcoming publication of a scientific and clinical paper validating the superior performance of this product.

We continue to invest into product development, with our fourth product, Cxbladder Resolve (previously branded Cxbladder Predict) expected to launch in New Zealand at the end of this year.

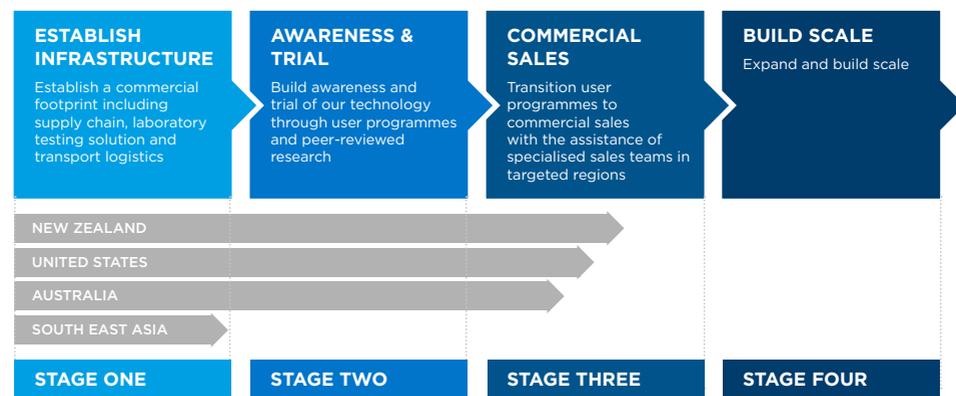
The New Zealand market has now reached a tipping point with a growing number of public and private healthcare organisations adopting Cxbladder tests, and increasing coverage from private insurance providers.

The adoption of our products by several large public District Health Boards (DHBs) in recent months is indicative of the growing recognition of the benefits of our 'one stop shop' of Cxbladder products. Of most significance is the step change in clinical behaviour to replace some of the existing tests and procedures with our accurate, cost effective and non-invasive Cxbladder products, providing an increase in both patient and clinical utility.

We commenced our partnership with Tolmar in Australia earlier this year and their specialist sales force is working to build awareness and trial of our products with urologists and healthcare organisations.

South East Asia is a new opportunity for us and we are targeting both people with haematuria and bladder cancer, as well as the large population of medical tourists. We have now established a commercial base in Singapore, as our entry point to the region, and announced User Programmes with two leading hospitals. We have also established and validated two-way supply chain logistics to collect and send samples for analysis at Pacific Edge's New Zealand laboratory.

PATHWAY TO COMMERCIAL SUCCESS



OUTLOOK

Achievement of our financial goals is dependent on acceptance and uptake by the large USA healthcare organisations we have identified as transformational customers. Their decision to accept and adopt a new product for clinical use can be a lengthy process and outside of our direct control.

However, we are well advanced in our commercial progress with these organisations, having signed the Federal Supply Schedule agreement and entered into contract with the VA, entered into contract with TRICARE and successfully completed the Kaiser Permanente User Programme. While this has taken longer than we originally anticipated, each one of these could result in a quantum leap in sales revenue as we bring them on board as commercial customers.

We are seeing a steady increase in customer numbers and have a growing number of clinicians trialling and using our products through User Programmes, which is an essential part of the clinical adoption cycle.

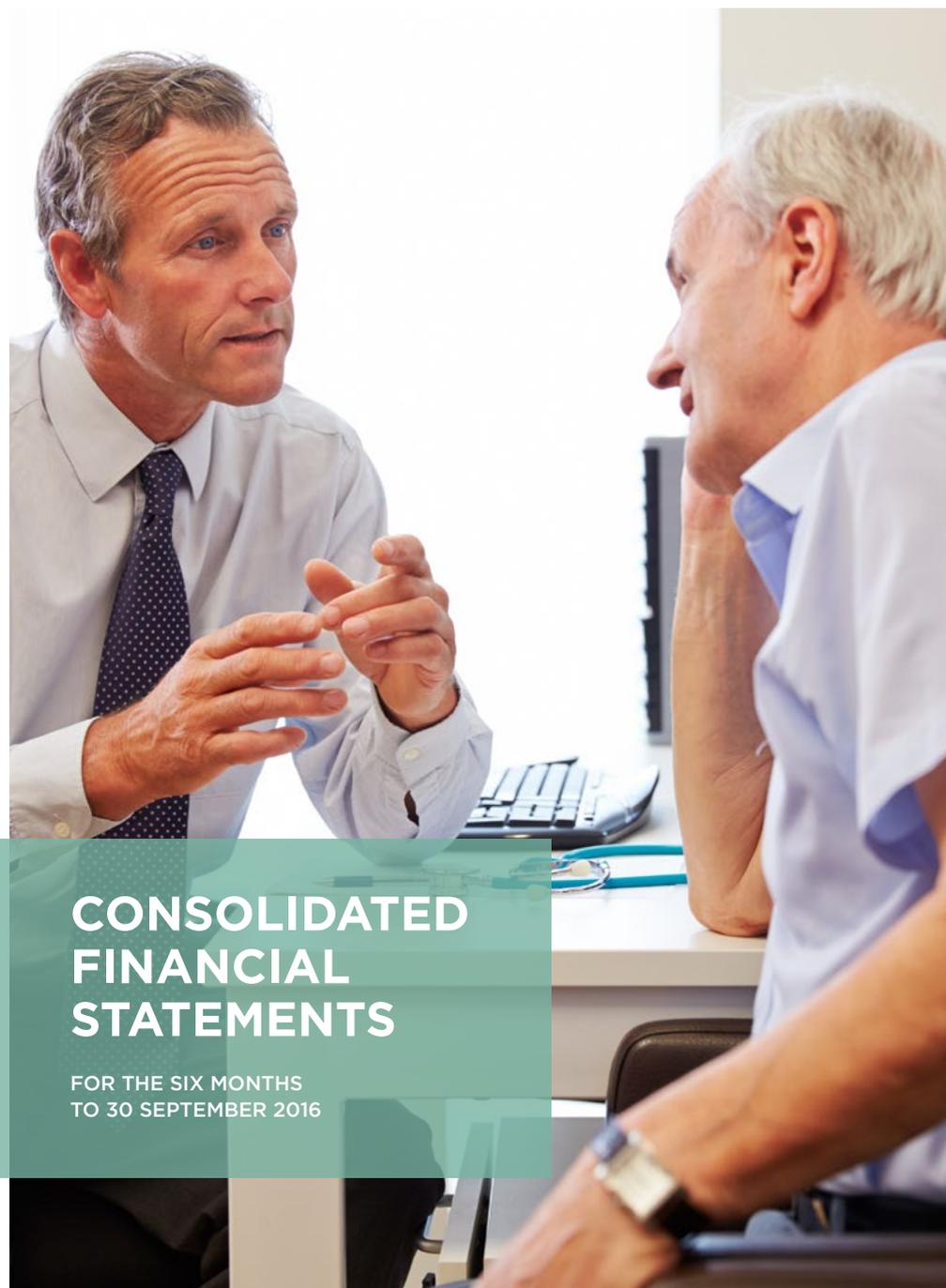
We expect to launch our fourth product, Cxbladder Resolve, to market at the end of this year, with an initial launch in New Zealand followed by rollout in our targeted markets. In the USA, Cxbladder Monitor is expected to move from soft launch to full scale commercial launch in the third quarter of this financial year.

Pacific Edge is well positioned for continued growth, with increasing product recognition, clinical validation and adoption by large customers in our targeted markets. We expect to report a strong second half uplift in line with annual trends and as more customers take advantage of the wider range of Cxbladder tests available in the USA.

Chris Gallaher
Chairman

David Darling
Managing Director and Chief Executive

² The first half of the financial year is traditionally softer for Pacific Edge, due to the USA summer holiday period and insurance deductibles – the amount Americans with private health insurance must pay before their insurance kicks in, which is usually reached in the second half of the year.



CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS
TO 30 SEPTEMBER 2016

FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

STATEMENT OF COMPREHENSIVE INCOME

	NOTES	UNAUDITED SEPT 2016 6 MONTHS (\$'000)	UNAUDITED SEPT 2015 6 MONTHS (\$'000)	AUDITED MARCH 2016 12 MONTHS (\$'000)
REVENUE				
Operating Revenue		2,999	1,797	4,976
Total Operating Revenue		2,999	1,797	4,976
Grant Revenue and Research Rebate		498	575	1,403
Interest Income		273	282	762
Foreign Exchange Gain		43	38	52
Total Revenue and Other Income		3,813	2,692	7,193
OPERATING EXPENSES				
Laboratory Operations		654	394	1,047
Research		2,470	1,932	4,442
Sales and Marketing		707	446	1,022
Employee Equity Equivalent Incentive Scheme	5	2,925	-	-
Other Expenses	4	8,367	6,930	16,358
Total Operating Expenses		15,123	9,702	22,869
NET (LOSS) BEFORE TAX		(11,310)	(7,010)	(15,676)
Income Tax Expense		-	-	-
(LOSS) FOR THE YEAR AFTER TAX		(11,310)	(7,010)	(15,676)
Translation Foreign Operations		(262)	588	223
TOTAL COMPREHENSIVE (LOSS)		(11,572)	(6,422)	(15,453)
Earnings per share for profit attributable to the equity holders of the Company and Group during the year				
Basic and Diluted Earnings per share		(0.030)	(0.017)	(0.043)

Note: These Statements are to be read in conjunction with the Notes to the Financial Statements.

FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

STATEMENT OF CHANGES IN EQUITY

	NOTES	SHARE CAPITAL (\$'000)	FOREIGN CURRENCY TRANSLATION RESERVE (\$'000)	SHARE BASED PAYMENTS RESERVE (\$'000)	RETAINED EARNINGS (\$'000)	TOTAL EQUITY (\$'000)
UNAUDITED 6 MONTHS TO SEPT 2015						
Balance as at 31 March 2015		66,612	695	1,246	(57,851)	10,702
(Loss) After Tax		-	-	-	(7,010)	(7,010)
Other Comprehensive Income		-	589	-	-	589
Issue of Share Capital	7	33,400	-	-	-	33,400
Balance as at 30 September 2015		100,012	1,284	1,246	(64,861)	37,681
AUDITED 12 MONTHS TO MARCH 2016						
Balance as at 31 March 2015		66,612	695	1,246	(57,851)	10,702
(Loss) After Tax		-	-	-	(15,676)	(15,676)
Other Comprehensive Income		-	223	-	-	223
Issue of Share Capital	7	33,400	-	-	-	33,400
Share based payment expense		-	-	1,158	-	1,158
Balance as at 31 March 2016		100,012	918	2,404	(73,527)	29,807
UNAUDITED 6 MONTHS TO SEPT 2016						
Balance as at 31 March 2016		100,012	918	2,404	(73,527)	29,807
(Loss) After Tax		-	-	-	(11,310)	(11,310)
Other Comprehensive Income		-	(262)	-	-	(262)
Issue of Share Capital	7	2,914	-	-	-	2,914
Share based payment expense		-	-	270	-	270
Balance as at 30 September 2016		102,926	656	2,674	(84,837)	21,419

Note: These Statements are to be read in conjunction with the Notes to the Financial Statements.

FINANCIAL INFORMATION

AS AT 30 SEPTEMBER 2016

STATEMENT OF FINANCIAL POSITION

	NOTES	UNAUDITED SEPT 2016 6 MONTHS (\$'000)	UNAUDITED SEPT 2015 6 MONTHS (\$'000)	AUDITED MARCH 2016 12 MONTHS (\$'000)
CURRENT ASSETS				
Cash and Cash Equivalents		4,604	3,721	4,160
Short Term Deposits		10,000	29,000	20,000
Receivables		6,427	4,188	5,730
Inventory		600	846	707
Other Assets		580	374	495
Total Current Assets		22,211	38,129	31,092
NON-CURRENT ASSETS				
Property, Plant & Equipment		929	1,157	990
Intangible Assets		273	253	248
Total Non-Current Assets		1,202	1,410	1,238
TOTAL ASSETS		23,413	39,539	32,330
CURRENT LIABILITIES				
Payables and Accruals		1,994	1,858	2,523
Total Current Liabilities		1,994	1,858	2,523
TOTAL LIABILITIES		1,994	1,858	2,523
NET ASSETS		21,419	37,681	29,807
Represented by:				
EQUITY				
Share Capital	7	102,926	100,012	100,012
Accumulated Losses		(84,837)	(64,861)	(73,527)
Share Based Payments Reserve		2,674	1,246	2,404
Foreign Translation Reserve		656	1,284	918
TOTAL EQUITY		21,419	37,681	29,807
FURTHER INFORMATION:				
Return on Assets (%)		(49%)	(16%)	(48%)
Return on Equity (%)		(54%)	(17%)	(52%)
Debt to Equity Ratio (%)		9%	5%	8%
Earnings per share (basic and diluted) (\$)		(0.030)	(0.017)	(0.043)
Net Tangible Assets per share (\$)		0.055	0.100	0.079

Note: These Statements are to be read in conjunction with the Notes to the Financial Statements.

FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

STATEMENT OF CASH FLOWS

	UNAUDITED SEPT 2016 6 MONTHS (\$000)	UNAUDITED SEPT 2015 6 MONTHS (\$000)	AUDITED MARCH 2016 12 MONTHS (\$000)
CASH FLOWS TO OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from Customers & Grant Providers	2,727	821	3,648
Interest Received	316	194	319
	3,043	1,015	3,967
Cash was disbursed to:			
Payments to Suppliers & Employees	12,170	9,864	20,907
Net GST change	(31)	(14)	12
	12,139	9,850	20,919
Net Cash Flows To Operating Activities	(9,096)	(8,835)	(16,952)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash was provided from:			
Sales of Short Term Deposits	10,000	-	14,000
	10,000	-	14,000
Cash was disbursed to:			
Capital Expenditure on Plant and Equipment	130	106	164
Purchase of Short Term Deposits	-	24,000	29,000
Capital Expenditure on Intangible Assets	122	82	161
	252	24,188	29,325
Net Cash Flows From Investing Activities	9,748	(24,188)	(15,325)
CASH FLOWS TO FINANCING ACTIVITIES:			
Cash was received from:			
Ordinary Shares Issued	-	35,336	35,336
	-	35,336	35,336
Cash was disbursed to:			
Issue Expenses	10	1,936	1,936
	10	1,936	1,936
Net Cash Flows To Financing Activities	(10)	33,400	33,400
Net increase in Cash Held	642	377	1,123
Add Opening Cash Brought Forward	4,160	2,819	2,819
Effect of exchange rate changes on net cash	(198)	525	218
Ending Cash Carried Forward	4,604	3,721	4,160
Call Accounts	4,158	2,532	3,202
Foreign Currency Call Accounts	446	1,189	958
Total Cash & Cash Equivalents	4,604	3,721	4,160
ANZ Term Deposit	10,000	29,000	20,000
Total Short Term Deposits	10,000	29,000	20,000
Total Cash, Cash Equivalents and Short Term Deposits	14,604	32,721	24,160

Note: These Statements are to be read in conjunction with the Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

1. SUMMARY OF ACCOUNTING POLICIES

The unaudited interim financial statements (the "financial statements") presented are those of Pacific Edge Limited ("Company") and its subsidiaries ("Group"). The Company is registered and domiciled in New Zealand for the purpose of developing and commercialising new diagnostic and prognostic tools for the early detection and management of cancers. Pacific Edge Diagnostics New Zealand Limited and Pacific Edge Diagnostics USA Limited manage and operate the laboratories used for the detection of bladder cancer. Pacific Edge Pty Limited's purpose is to research and develop the Cxbladder product and other prognostic tools. Pacific Edge Diagnostics Singapore Pte Limited is assisting with research and development and will become a sales and marketing entity and Pacific Edge Analytical Services Limited is a dormant entity.

The Company is a profit oriented entity, registered in New Zealand under the Companies Act 1993. The Company is a Financial Markets Conduct reporting entity for the purposes of the Financial Reporting Act 2013. It is a Financial Markets Conduct Tier 1 reporting entity and its annual financial statements comply with that Act. The unaudited preliminary financial statements are prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP).

(a) Basis of Preparation of Financial Statements

These general purpose financial statements for the six months ended 30 September 2016 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with NZ IAS 34, Interim Financial Reporting and also with IAS 34.

These consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the audited financial statements of Pacific Edge Limited for the year ended 31 March 2016 which have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS). The Group is designated as a profit-oriented entity for financial reporting purposes.

(b) Accounting Policies

All significant accounting policies have been applied on a basis consistent with those used in the audited financial statements of Pacific Edge Limited for the year ended 31 March 2016.

(c) Presentation Currency

The financial statements are presented in New Zealand dollars, and all values are rounded to the nearest thousand dollars (\$000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

(d) Authorisation

The Interim Financial Statements we authorised by the Board of Directors on 24 November 2016. The annual financial statements for the year ended 31 March 2016 were authorised by the Board of Directors on 26 May 2016.

(e) Audit

The Interim Financial Statements have not been audited. The comparative full year financial results for the year ended 31 March 2016 have been audited.

(f) Basis of Consolidation

The following entities and the basis of their inclusion for consolidation in these Financial Statements are as follows:

Name of Subsidiary	Place of Incorporation (or registration) and Operation	Principal Activity	Ownership Interests & Voting Rights	
			30 Sept 2016 (%)	30 Sept 2015 (%)
Pacific Edge Diagnostics New Zealand Limited	New Zealand	Commercial Laboratory Operation	100	100
Pacific Edge Pty Limited	Australia	Biotechnology Research & Development	100	100
Pacific Edge Diagnostics USA Limited	USA	Commercial Laboratory Operation	100	100
Pacific Edge Analytical Services Limited	New Zealand	Dormant Company	100	100
Pacific Edge Diagnostics Singapore Pte Limited	Singapore	Biotechnology Research & Development	100	100

2. INVESTMENT AND ADVANCES IN SUBSIDIARIES

The consolidated financial statements incorporate the assets and liabilities and result of Pacific Edge Diagnostics New Zealand Limited, Pacific Edge Diagnostics USA Limited, Pacific Edge Diagnostics Singapore Pte Limited, Pacific Edge Analytical Services Limited and Pacific Edge Pty Limited, all of which are 100% owned. Subsidiaries have a 31 March balance date. The investment and advance in subsidiaries are eliminated on consolidation in the Group financial statements.

3. DIVIDENDS

The company does not propose to pay dividends to shareholders similar to previous years. This policy continues.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

4. OTHER EXPENSES

	Unaudited Sept 2016 6 Months (\$000)	Unaudited Sept 2015 6 Months (\$000)	Audited March 2016 12 months (\$000)
Other Expenses			
Amortisation	96	75	159
Auditors Remuneration - Audit Fees	3	5	58
- Other Assurance Services (refer below)	15	-	9
Depreciation	172	166	347
Directors Fees	143	114	226
Employee Benefits	4,242	3,721	8,237
Employee Share options	270	-	1,158
Rental and Lease Expense	567	469	1,034
Compensation payment	-	(135)	(135)
Other Operating Expenses	2,859	2,515	5,265
Total Other Expenses	8,367	6,930	16,358

Other assurance services

Other assurance services performed by the auditor includes; a share registry audit, review of the half year disclosure to the NZX, a review of the Callaghan Growth Grant claim and other assurance services.

Employee Share Options

Employee Share Options are a non-cash expense.

5. PACIFIC EDGE INCENTIVE PLAN

In March 2011 the Company developed an "Incentive Plan" as a means of providing Key Persons with the opportunity to participate in the potential increasing profitability of the Group. The Plan was an Equity Equivalent (EE) Scheme that provides EE Units on the following terms:

- EE Units are vested to the Participant over a period of 4 years but cannot be redeemed during the first two years from the date of their issue.
- Each EE Unit has the equivalent value of an ordinary share in the Company.
- Redemption is in cash for the difference between the value of the EE Units at the time of allocation and their value at the time of redemption.
- The Company must be trading in a cash flow positive condition and the Company's share price on the NZX must have reached \$1.00 per share.
- A maximum of 25% of a Participant's vested EE Units can be redeemed in any one year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

On 30 June 2016 the Board of Directors voted in favour of winding up this scheme. 6,253,000 EE units had been issued at this date of which 5,720,500 had vested. After obtaining an independent valuation and receiving approval from the EE unit holders to cancel the scheme, the scheme was cancelled and 5,194,583 shares were issued to employees as consideration at \$0.563 per share. This has been treated as a modification from a cash settled to equity settled share scheme. The shares were issued with no vesting conditions attached and as no liability had been recognised for these EE units in previous years, this has resulted in a non-cash share based payment expense for the period of \$2,924,550.

6. SEGMENT INFORMATION

The Chief Executive Officer has determined the operating segments based on reports reviewed by him that are used to make strategic decisions.

The Chief Executive Officer considers the business to be three operating segments at 30 September 2016.

These segments are:

- Research and development of diagnostic and prognostic products for human cancer (Pacific Edge Limited, Pacific Edge Diagnostics Singapore Pte Limited and Pacific Edge Pty Limited).
- The operator of the laboratories in New Zealand (Pacific Edge Diagnostics New Zealand Limited).
- The operator of the commercial laboratory in the United States (Pacific Edge Diagnostics USA Limited).

The segment revenue and assets information provided to the Chief Executive Officer for the reportable segments described above, for the six months ended 30 September 2016, are shown below.

Unaudited - 6 Months 30 September 2016	NZ Laboratory (\$000)	US Laboratory (\$000)	Research NZ & Australia (\$000)	Less: Eliminations (\$000)	Total External Income (\$000)
Income					
Product Sales	193	2,806	-	-	2,999
Grant Revenue and Research Rebate	-	-	498	-	498
Other Income	103	46	474	(307)	316
Total Income	296	2,852	972	(307)	3,813
Expenses					
Expenses	594	6,144	8,424	(307)	14,855
Depreciation & Amortisation	8	104	156	-	268
Total Operating Expenses	602	6,248	8,580	(307)	15,123
(Loss) Before Tax	(306)	(3,396)	(7,608)	-	(11,310)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

Unaudited - 6 Months 30 September 2015	NZ Laboratory (\$000)	US Laboratory (\$000)	Research NZ & Australia (\$000)	Less: Eliminations (\$000)	Total External Income (\$000)
Income					
Product Sales	30	1,766	1	-	1,797
Grant Revenue and Research Rebate	-	-	575	-	575
Other Income	145	75	360	(260)	320
Total Income	175	1,841	936	(260)	2,692
Expenses					
Expenses	586	5,146	3,988	(260)	9,460
Depreciation & Amortisation	9	105	128	-	242
Total Operating Expenses	595	5,251	4,116	(260)	9,702
(Loss) Before Tax	(420)	(3,410)	(3,180)	-	(7,010)

Pacific Edge Diagnostics New Zealand Limited and Pacific Edge Diagnostics USA Limited have carried out the analysis of Cxbladder tests for Pacific Edge Limited as part of the Company's user programmes with customers in New Zealand, Australia and the USA respectively. User Programmes are an important component of the adoption process for Cxbladder.

The revenue from intercompany transactions has been eliminated on consolidation of Group results.

Segment assets and liabilities information:

Unaudited - 6 Months 30 September 2016	NZ Laboratory (\$000)	US Laboratory (\$000)	Research NZ & Australia (\$000)	Total (\$000)
Total Assets	368	6,429	16,616	23,413
Total Liabilities	58	1,081	855	1,994
Unaudited - 6 Months 30 September 2015				
Total Assets	185	4,608	34,746	39,539
Total Liabilities	50	684	1,124	1,858

The amounts provided to the Chief Executive Officer with respect to total assets are measured in a manner consistent with that of the Interim Financial Statements. These assets are allocated based on the operation of the segment and the physical location of the asset.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

7. SHARE CAPITAL

	Shares (000)	Unaudited Sept 2016 6 Months (\$000)	Unaudited Sept 2015 6 months (\$000)	Audited March 2016 12 months (\$000)
Opening Balance	376,543	100,012	66,611	66,611
New Issues	5,195	2,924	35,337	35,337
Share capital before issue expenses	381,738	102,936	101,948	101,948
Less: Issue Expenses	-	(10)	(1,936)	(1,936)
Closing Balance	381,738	102,926	100,012	100,012

There are 381,738,061 (March 2016: 376,543,478 and September 2015: 376,543,478) Ordinary Shares on issue.

All fully paid shares in the Company have equal voting rights and equal rights to dividends. All Ordinary Shares are fully paid and have no par value.

Please refer to note 5 for details of the shares issued during the current period.

8. RECONCILIATION OF CASH USED FROM OPERATING ACTIVITIES WITH OPERATING NET LOSS

	Unaudited Sept 2016 6 Months (\$000)	Unaudited Sept 2015 6 months (\$000)	Audited March 2016 12 months (\$000)
Net Loss for the Period	(11,310)	(7,010)	(15,676)
Add Non Cash Items:			
Depreciation	172	166	347
Amortisation	96	75	159
Movement in share based payments reserve	270	-	1,158
Issue of Employee Incentive Scheme Shares	2,924	-	-
Effect of exchange rates on net cash	(42)	(38)	(52)
Total Non Cash Items	3,420	203	1,612
Add Movements in Other Working Capital items:			
Decrease (Increase) in Receivables and Other Assets	(784)	(1,733)	(3,396)
(Increase) in Inventory	107	(224)	(84)
Increase (Decrease) in Payables and Accruals	(529)	(71)	592
Total Movement in Other Working Capital	(1,206)	(2,028)	(2,888)
Net Cash Flows to Operating Activities	(9,096)	(8,835)	(16,952)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

9. CONTINGENT LIABILITIES

There were no known contingent liabilities at 30 September 2016 (March 2016: Nil and September 2015: Nil). The Company and Group have not granted any securities in respect of liabilities payable by any other party whatsoever.

10. CAPITAL COMMITMENTS

There are no capital commitments at 30 September 2016 (March 2016: Nil and September 2015: Nil).

11. SUBSEQUENT EVENTS

There were no events subsequent to balance date.

12. GOING CONCERN

While the Company continues to incur operating losses, the Company remains solvent and continues to meet its debts as they fall due. The cash flows are a critical part of ensuring the business continues to operate in line with the business strategy adopted by the Directors. In preparing the financial statements, the Directors have applied the principles of going concern on the basis that current cash reserves and its ability to generate cash will be sufficient to meet its debts as they fall due for a minimum of 12 months from signing the financial statements. Given there is uncertainty of future cash flows at the date of signing these financial statements, a material uncertainty exists at that date.

13. REPORTS TO SHAREHOLDERS

The shareholder has a right to receive from the Company, free of charge, a copy of the interim report if the shareholder, within 15 working days of receiving the notice, makes a request to the Company to receive a copy of the interim report.

The interim report is available online, you can access an electronic copy by visiting: www.nzx.com - ticker code (PEB) or www.pacifiedgedx.com or by contacting: office@pacifiedge.co.nz



PACIFIC EDGE LTD
CANCER DIAGNOSTICS COMPANY

87 St David Street, PO Box 56, Dunedin, New Zealand
P +64 3 479 5800 F +64 3 479 5801
www.pacifiedgedx.com