



**PACIFIC EDGE** LTD  
CANCER DIAGNOSTICS COMPANY

**18**

**PRELIMINARY**

**FINANCIAL STATEMENTS** FOR THE YEAR ENDED 31 MARCH 2018

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## Statement of Comprehensive Income

For the year ended 31 March 2018

	2018 (\$000) (Unaudited)	2017 (\$000) RESTATED (Unaudited)
<b>REVENUE</b>		
Operating Revenue	3,400	3,208
<b>Total Operating Revenue</b>	<b>3,400</b>	<b>3,208</b>
Other Income	1,242	1,105
Interest Income	231	249
Foreign Exchange Gain	129	119
<b>Total Revenue and Other Income</b>	<b>5,002</b>	<b>4,681</b>
<b>OPERATING EXPENSES</b>		
Laboratory Operations	2,060	1,446
Research	4,914	6,570
Sales and Marketing	2,202	1,923
Employee Equity Equivalent Incentive Scheme	-	2,925
Other Expenses	15,470	14,403
<b>Total Operating Expenses</b>	<b>24,646</b>	<b>27,267</b>
<b>NET (LOSS) BEFORE TAX</b>	<b>(19,644)</b>	<b>(22,586)</b>
Income Tax Expense	-	-
<b>(LOSS) FOR THE YEAR AFTER TAX</b>	<b>(19,644)</b>	<b>(22,586)</b>
Items that may be reclassified to profit or loss:		
Translation Foreign Operations	(83)	(43)
<b>TOTAL COMPREHENSIVE (LOSS) attributable to equity holders of the Company</b>	<b>(19,727)</b>	<b>(22,629)</b>
<b>Earnings per share for profit attributable to the equity holders of the Company during the year</b>		
Basic and Diluted Earnings Per Share	(0.045)	(0.057)

*These Financial Statements are to be read in conjunction with the Notes to the Financial Statements*

## Statement of Changes in Equity

For the year ended 31 March 2018

	Share Capital (\$000) (Unaudited)	Retained Earnings (\$000) RESTATED (Unaudited)	Share Based Payments Reserve (\$000) (Unaudited)	Foreign Currency Translation Reserve (\$000) RESTATED (Unaudited)	Total Equity (\$000) RESTATED (Unaudited)
Balance as at 31 March 2016	100,012	(73,527)	2,404	918	29,807
Adjustment on Adoption of NZ IFRS 15 (net of tax)	-	(4,362)	-	88	(4,274)
<b>Restated Balance as at 31 March 2016</b>	<b>100,012</b>	<b>(77,889)</b>	<b>2,404</b>	<b>1,006</b>	<b>25,533</b>
Loss After Tax (as restated)	-	(22,586)	-	-	(22,586)
Other Comprehensive Income (as restated)	-	-	-	(43)	(43)
<b>TOTAL COMPREHENSIVE (LOSS) attributable to equity holders of the Company</b>	<b>-</b>	<b>(22,586)</b>	<b>-</b>	<b>(43)</b>	<b>(22,629)</b>
<i>Transactions with owners in their capacity as owners:</i>					
Issue of Share Capital (net of expenses)	8,659	-	-	-	8,659
Issue of Ordinary Shares - Equity Share Scheme	2,925	-	-	-	2,925
Share Based Payment - Employee Share Options	-	-	486	-	486
<b>Balance as at 31 March 2017</b>	<b>111,596</b>	<b>(100,475)</b>	<b>2,890</b>	<b>963</b>	<b>14,973</b>
Balance as at 31 March 2017	111,596	(100,475)	2,890	963	14,973
Loss After Tax	-	(19,644)	-	-	(19,644)
Other Comprehensive Income	-	-	-	(83)	(83)
<b>TOTAL COMPREHENSIVE (LOSS) attributable to equity holders of the Company</b>	<b>-</b>	<b>(19,644)</b>	<b>-</b>	<b>(83)</b>	<b>(19,727)</b>
<i>Transactions with owners in their capacity as owners:</i>					
Issue of Share Capital (net of expenses)	20,020	-	-	-	20,020
Exercising of Employee Share Options	112	-	(18)	-	94
Share Based Payments - Employee Remuneration	96	-	-	-	96
Share Based Payment - Employee Share Options	-	-	1,183	-	1,183
<b>Balance as at 31 March 2018</b>	<b>131,824</b>	<b>(120,119)</b>	<b>4,055</b>	<b>880</b>	<b>16,640</b>

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

## Balance Sheet

As at 31 March 2018

	2018 (\$'000) (Unaudited)	2017 (\$'000) RESTATED (Unaudited)	2016 (\$'000) RESTATED (Unaudited)
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	5,242	6,564	4,160
Short Term Deposits	11,000	8,000	20,000
Receivables	1,064	663	1,456
Inventory	752	824	707
Other Assets	472	490	496
<b>Total Current Assets</b>	<b>18,530</b>	<b>16,541</b>	<b>26,819</b>
<b>NON-CURRENT ASSETS</b>			
Property, Plant and Equipment	854	837	990
Intangible Assets	281	329	247
<b>Total Non-Current Assets</b>	<b>1,135</b>	<b>1,166</b>	<b>1,237</b>
<b>TOTAL ASSETS</b>	<b>19,665</b>	<b>17,707</b>	<b>28,056</b>
<b>CURRENT LIABILITIES</b>			
Payables and Accruals	2,926	2,734	2,523
Finance Leases	73	-	-
<b>Total Current Liabilities</b>	<b>2,999</b>	<b>2,734</b>	<b>2,523</b>
<b>NON-CURRENT LIABILITIES</b>			
Finance Leases	26	-	-
<b>Total Non-Current Liabilities</b>	<b>26</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>3,025</b>	<b>2,734</b>	<b>2,523</b>
<b>NET ASSETS</b>	<b>16,640</b>	<b>14,973</b>	<b>25,533</b>
Represented by:			
<b>EQUITY</b>			
Share Capital	131,824	111,596	100,012
Accumulated Losses	(120,119)	(100,475)	(77,889)
Share Based Payments Reserve	4,055	2,890	2,404
Foreign Currency Translation Reserve	880	963	1,006
<b>TOTAL EQUITY</b>	<b>16,640</b>	<b>14,973</b>	<b>25,533</b>

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

## Statement of Cash Flows

For the year ended 31 March 2018

	2018 (\$000) (Unaudited)	2017 (\$000) RESTATED (Unaudited)
<b>CASH FLOWS TO OPERATING ACTIVITIES</b>		
Cash was provided from:		
Receipts from Customers	3,420	3,198
Receipts from Grant Providers	944	1,418
Interest Received	115	732
	4,479	5,348
Cash was disbursed to:		
Payments to Suppliers and Employees	22,575	23,210
Net GST Cashflow	4	(25)
	22,579	23,185
<b>Net Cash Flows to Operating Activities</b>	<b>(18,100)</b>	<b>(17,837)</b>
<b>CASH FLOWS TO INVESTING ACTIVITIES:</b>		
Cash was provided from:		
Proceeds from Short Term Deposits	8,000	20,000
	8,000	20,000
Cash was disbursed to:		
Purchase of Short Term Deposits	11,000	8,000
Capital Expenditure on Plant and Equipment	195	209
Capital Expenditure on Intangible Assets	140	270
	11,335	8,479
<b>Net Cash Flows to Investing Activities</b>	<b>(3,335)</b>	<b>11,521</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Cash was received from:		
Ordinary Shares Issued	21,318	8,750
Exercising of Share Options	96	-
	21,412	8,750
Cash was disbursed to:		
Repayment of Capital Element of Finance Leases	59	-
Issue Expenses	1,296	91
	1,355	91
<b>Net Cash Flows From Financing Activities</b>	<b>20,057</b>	<b>8,659</b>
<b>Net increase (decrease) in Cash Held</b>	<b>(1,378)</b>	<b>2,343</b>
Add Opening Cash Brought Forward	6,564	4,160
Effect of exchange rate changes on net cash	56	61
<b>Ending Cash Carried Forward</b>	<b>5,242</b>	<b>6,564</b>

*These Financial Statements are to be read in conjunction with the Notes to the Financial Statements*

## Reconciliation of (Loss) with Net Operating Cash Flows

For the year ended 31 March 2018

	GROUP	
	2018 (\$000) (Unaudited)	2017 \$000 RESTATED (Unaudited)
Net Loss for the Period	(19,644)	(22,586)
<b>Add Non Cash Items:</b>		
Depreciation	316	353
Loss on Disposal of Property, Plant and Equipment	10	-
Amortisation	188	189
Employee Share Options	1,183	485
Issue of Employee Incentive Scheme Shares	-	2,925
Employee Bonuses Paid in Shares in Lieu of Cash	96	-
Effect of Exchange Rates on Net Cash	(130)	(95)
<b>Total Non Cash Items</b>	<b>1,663</b>	<b>3,857</b>
<b>Add Movements in Other Working Capital items:</b>		
Decrease (Increase) in Receivables and Other Assets	(383)	798
(Increase) in Inventory	72	(116)
Increase (Decrease) in Payables and Accruals	192	211
<b>Total Movement in Other Working Capital</b>	<b>(119)</b>	<b>892</b>
<b>Net Cash Flows to Operating Activities</b>	<b>(18,100)</b>	<b>(17,837)</b>

## Notes to the Financial Statements

For the year ended 31 March 2018

### 1. SUMMARY OF ACCOUNTING POLICIES

#### Reporting Entity

The unaudited preliminary consolidated financial statements presented for the year ended 31 March 2018 are for Pacific Edge Limited (the 'Company') and its subsidiaries (collectively referred to as the 'Group'). The Group's purpose is to research, develop and commercialise new diagnostic and prognostic tools for the early detection and management of cancers.

Pacific Edge Limited is registered in New Zealand under the Companies Act 1993 and is a Financial Markets Conduct (FMC) reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The financial statements of the Group have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the NZX Main Board Listing Rules. The financial statements presented are those of the Group, consisting of the Parent entity, Pacific Edge Limited ("the Company") and its subsidiaries. The reporting entity is listed on the New Zealand Stock Exchange (NZX).

#### Basis of Preparation

These consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). The Group is a for-profit entity for the purposes of complying with NZ GAAP. The unaudited preliminary consolidated financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The unaudited preliminary consolidated financial statements also comply with International Financial Reporting Standards.

The unaudited preliminary consolidated financial statements are presented in New Zealand Dollars, which is the Parent's functional currency and Group's presentation currency and all values are rounded to the nearest thousand dollars (\$000). The accounting principles recognised as appropriate for the measurement and reporting of earnings, cash flows and financial position on an historical cost basis have been used.

The Statement of Comprehensive Income and Statement of Cash Flows have been prepared so that all components are stated exclusive of GST. All items in the Balance Sheet are stated net of GST, with the exception of receivables and payables.

#### 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) & Operation	Principal Activity	Ownership Interests & Voting Rights	
			2018 %	2017 %
Pacific Edge Diagnostics New Zealand Limited	New Zealand	Commercial Laboratory Operation	100	100
Pacific Edge Pty Ltd	Australia	Biotechnology Research & Development	100	100
Pacific Edge Diagnostics USA Ltd	USA	Commercial Laboratory Operation	100	100
Pacific Edge Diagnostics Singapore Pte Ltd	Singapore	Biotechnology Research & Development	100	100
Pacific Edge Analytical Services Limited	New Zealand	Dormant Company	100	100



## Notes to the Financial Statements

For the year ended 31 March 2018

The unaudited preliminary consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pacific Edge Limited as at 31 March 2018 and the results of all subsidiaries for the year then ended. All subsidiaries have the same balance date as the Company of 31 March.

Pacific Edge Limited consolidates all entities, where Pacific Edge Limited has the capacity to control, as subsidiaries in the Group financial statements. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from involvement with the investee; and
- has the ability to use its power to affect its returns.

Subsidiaries which form part of the Group are consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interest issued by the Group.

The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### Statement of Cash Flows Restatement

An error was found in the 31 March 2017 Statement of Cash Flows during September 2017. Bad Debts and Doubtful Debts expenses were incorrectly included in the 31 March 2017 Statement of Cash Flows as Operating Cash Expenditure items, rather than being applied against Operating Cash Receipts. The net effect of this error on 31 March 2017 Net Operating Cash Flows was nil, but both Receipts from Customers & Grant Providers and Payments to Suppliers & Employees were overstated in the 31 March 2017 Statement of Cash Flows by approximately \$3.2m. The corrected 31 March 2017 Statement of Cash Flows was released to NZX on the 27th of September 2017 and the corrected 31 March 2017 amounts are shown in the Statement of Cash Flows reported in these Financial Statements.

This error had no impact on the 31 March 2017 Statement of Comprehensive Income, Statement of Changes in Equity, Earnings per Share or the Balance Sheet.

### Change in Accounting Policy

*NZ IFRS 15: Revenue from contracts with customers (Effective date: periods beginning on or after 1 January 2018):*

The Group has previously indicated that, on initial assessment of NZ IFRS 15 in 2017, that there would not be a significant impact on the financial statements. This assessment was based on the expected completion of large customer agreements during FY18, particularly inclusion in the Local Coverage Determination (LCD) with the Centers for Medicare and Medicaid Services (CMS) and a commercial contract with Kaiser Permanente. As these agreements have not been concluded during FY18, the Group has reassessed the impact of NZ IFRS 15 and decided that there is a significant impact on the recognition of revenue relating to Cxbladder tests undertaken for US customers. The Group has adopted this accounting standard in the current financial year in advance of its mandatory commencement date due to this significant impact on

## Notes to the Financial Statements

For the year ended 31 March 2018

the Group's reported financial results. Under the previously applicable accounting standard (NZ IAS 18 Revenue), revenue for Cxbladder sales was accrued on a Gross Recoverable Revenue basis, estimating net realisable amounts due from patients and third-party payers. The revenue for such tests under NZ IFRS 15 is now recognised on a cash receipt basis.

For customers not based in the US, there is no material impact from the adoption of NZ IFRS 15.

The standard provides options as to how transition can be undertaken. The Group has applied the full retrospective transitional approach and has not applied any of the practical expedients. As a result of this approach, the financial statements for FY17 have been restated for NZ IFRS 15.

An explanation of the impact and the amount of adjustment for each financial statement line item affected by the application of NZ IFRS 15 for FY18 and FY17 will be included in the full financial statements, to be released to NZX by 30 June 2018.

### 2. SEGMENT INFORMATION

#### ACCOUNTING POLICY

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer who makes strategic decisions.

There are two operating segments at balance date:

1. Commercial: The sales, marketing, laboratory and support operations to run the commercial businesses worldwide
2. Research: The research and development of diagnostic and prognostic products for human cancer.

The reportable operating segment Research derives its revenue primarily from grant income and the reportable operating segment Commercial derives its revenue primarily from sales of Cxbladder tests. The Chief Executive Officer assesses the performance of the operating segments based on net (loss) for the period.

These segments differ from those reported at 31 March 2017, as the previously reported segments of US Laboratory and NZ Laboratory have been consolidated into Commercial, to align with internal reporting. Therefore the FY17 financial information has been restated to reflect these new segments, as well as the impact of the transition to NZ IFRS 15.

## Notes to the Financial Statements

For the year ended 31 March 2018

Segment income, expenses and profitability are presented on a gross basis excluding inter-segment eliminations to best represent the performance of each segment operating as independent business units. The segment information provided to the Chief Executive Officer for the reportable segments described above, for the year ended 31 March 2018, is shown below.

	Commercial (\$000) (Unaudited)	Research \$000 (Unaudited)	Less: Eliminations \$000 (Unaudited)	Total External Income \$000 (Unaudited)
<b>2018</b>				
<b>Income</b>				
Operating Revenue - External	3,400	-	-	3,400
- Internal	154	-	(154)	-
Other Income	127	2,137	(1,022)	1,242
Interest income	2	3,158	(2,929)	231
Foreign Exchange Gain	-	129	-	129
<b>Total Income</b>	<b>3,683</b>	<b>5,424</b>	<b>(4,105)</b>	<b>5,002</b>
<b>Expenses</b>				
Expenses	18,834	9,413	(4,105)	24,141
Depreciation and Amortisation	191	313	-	504
<b>Total Operating Expenses</b>	<b>19,025</b>	<b>9,726</b>	<b>(4,105)</b>	<b>24,646</b>
<b>Loss Before Tax</b>	<b>(15,342)</b>	<b>(4,302)</b>	<b>-</b>	<b>(19,644)</b>
	Commercial \$000 RESTATED (Unaudited)	Research \$000 RESTATED (Unaudited)	Less: Eliminations \$000 RESTATED (Unaudited)	Total External Income \$000 RESTATED (Unaudited)
<b>2017</b>				
<b>Income</b>				
Operating Revenue - External	3,208	-	-	3,208
- Internal	165	-	(165)	-
Other Income	70	1,983	(948)	1,105
Interest Income	-	2,230	(1,981)	249
Foreign Exchange Gain	3	116	-	119
<b>Total Income</b>	<b>3,446</b>	<b>4,329</b>	<b>(3,094)</b>	<b>4,681</b>
<b>Expenses</b>				
Expenses	16,088	13,731	(3,094)	26,725
Depreciation and Amortisation	227	315	-	542
<b>Total Operating Expenses</b>	<b>16,315</b>	<b>14,046</b>	<b>(3,094)</b>	<b>27,267</b>
<b>Loss Before Tax</b>	<b>(12,869)</b>	<b>(9,717)</b>	<b>-</b>	<b>(22,586)</b>

### Eliminations

These are the intercompany transactions between the subsidiaries and the parent. These are eliminated on consolidation of Group results.

## Notes to the Financial Statements

For the year ended 31 March 2018

### Segment Assets and Liabilities Information

<b>2018</b>	<b>Commercial (\$000) (Unaudited)</b>	<b>Research (\$000) (Unaudited)</b>	<b>Total (\$000) (Unaudited)</b>
Total Assets	1,977	17,688	19,665
Total Liabilities	1,917	1,108	3,025

<b>2017</b>	<b>Commercial (\$000) RESTATED (Unaudited)</b>	<b>Research (\$000) RESTATED (Unaudited)</b>	<b>Total (\$000) RESTATED (Unaudited)</b>
Total Assets	2,111	15,597	17,707
Total Liabilities	1,419	1,315	2,734

Additions to non current assets include:

	<b>Commercial (\$000) (Unaudited)</b>	<b>Research (\$000) (Unaudited)</b>	<b>Total (\$000) (Unaudited)</b>
Property, Plant & Equipment	236	117	353
Intangible Assets	-	139	139
Total Additions to Non Current Assets	236	257	493

There are three external revenue customers who individually represent greater than 10% of the total trade receivables balance. As trade receivables totals \$38,000 in 2018, this is not deemed to be a material balance in the financial statements and therefore the Group has determined that there is not a significant concentration risk in relation to the receivables balance.

Sales between segments are carried out at arm's length. The revenue from external parties reported to the Chief Executive Officer is measured in a manner consistent with that in the statement of comprehensive income.

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

There are no unallocated assets or liabilities.



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