

# 17

## ANNUAL REPORT

FOR THE  
YEAR ENDED  
31 MARCH 2017



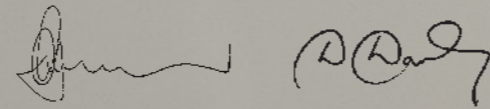
**PACIFIC EDGE LTD**  
CANCER DIAGNOSTICS COMPANY

The Board of Directors of Pacific Edge Limited is pleased to present the Annual Report for the Year ended 31 March 2017.

This Annual Report provides a review of our activities during the 2017 financial year and management and Board commentary on our focus for 2018 and beyond.

We are pleased to have this opportunity to share our progress and future plans with you.

The Annual Report can also be viewed on our website [www.pacificedgedx.com](http://www.pacificedgedx.com)



**Chris Gallaher**  
Chairman

**David Darling**  
Chief Executive Officer



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**KEY DATES**

End of Financial Year	31 March
Full Year Results	By 30 May
Annual Report	By 30 June
2017 Annual Meeting	24 August 2017
End of Half Year	30 September
Interim Results	By 30 November
Interim Report	By 31 December

## ENABLING BETTER CARE

With our Cxbladder technology, we are seeking to create a step change in the standard of care for patients presenting with haematuria (blood in the urine) and those diagnosed with all urothelial cancers (bladder and upper urinary tract cancers).

Haematuria is a key indicator of bladder cancer. Every year, millions of people around the world are tested for bladder cancer or monitored for recurrence of the disease. It is the ninth most common cancer in the world and the fifth most common in the United States. The incidence of haematuria is approximately 10 times that of bladder cancer.

While bladder cancer is by far the most common, our tests also detect other urothelial cancers in the upper urinary tract and renal pelvis which are notoriously difficult to identify.

Although bladder cancer can be treated successfully, it also has one of the highest recurrence rates. Patients live in a world of ongoing testing and monitoring. Because of this, bladder cancer has one of the highest treatment costs of any cancer, estimated at US\$240,000 per patient per year.

Historically, diagnosis and monitoring of bladder cancer has involved an arduous regime of invasive and expensive tests over the lifetime of the disease.

At Pacific Edge, our goal is to enable better care by providing more effective, highly accurate and non-invasive diagnostic tests that can be used throughout the clinical pathway for bladder cancer.

Our suite of Cxbladder tests encompasses many of the decision nodes across the investigation of haematuria, through detection of cancer to the management of patients for the recurrence of the disease.

The deployment of Cxbladder across the haematuria and bladder cancer pathways is providing greater clinical resolution for physicians and patients alike. It is allowing clinicians to make more informed decisions on patient care. It is resulting in a reduction in the total number of procedures required and a reduction of the need for invasive procedures. This in turn allows for a lower cost, better allocation of limited healthcare resources and a better experience and outcome for patients.

Urothelial cancer includes bladder cancer and cancers of the upper urinary tract.

## BETTER DECISIONS

As a busy urologist in Roseland, New Jersey, I routinely see patients presenting with either haematuria or undergoing active surveillance for bladder cancer recurrence. Over the past several years, I have had the opportunity to use Cxbladder in a variety of patients as a diagnostic tool designed to either detect or monitor bladder cancer. I have found it to be an objective genomic test that provides me and my patients with the most reliable, actionable results.

Having Cxbladder as part of my diagnostic pathway enables me to make accurate diagnostic decisions for my patients, while simultaneously allowing me to reduce the frequency and/or necessity of using more expensive, invasive tests in many situations, especially critical in elderly patients.

*Dr Joseph V. DiTrollo, Clinical Professor,  
Department of Surgery/Urology, Rutgers  
New Jersey Medical School*

## BETTER RESOURCING

A recurring point of discussion with urology colleagues is the significant burden bladder cancer places on patient care and the healthcare economy as a whole. It is important that we continue to identify and leverage diagnostic tools that are less invasive while remaining effective in diagnosis of both initial and recurrent bladder cancer. Cxbladder is one of these diagnostic tools.

Genomic tests like Cxbladder can aid physicians in the diagnosis, evaluation and management of bladder cancer, with a dual aim of improving patient care and minimising expensive, unnecessary procedures.

*Dr Sia Daneshmand, Associate Professor of  
Urology (Clinical Scholar), Director of Clinical  
Research, Keck School of Medicine, University  
of Southern California*

## BETTER PATIENT EXPERIENCE

Seeing blood in his urine led Rex Sandford on an urgent visit to his doctor, where a standard workup and a Cxbladder Triage test determined he needed further clinical analysis.

While waiting for his full urology workup - an invasive cystoscopy and a CT scan - to be completed, he did a Cxbladder Detect test. When he received his Cxbladder Detect score several days later, it was great news. The test confirmed he did not have bladder cancer, and the other scans upheld that result.

"That was one of the most stressful weeks of my life, waiting those few days for the result. The potential for having bladder cancer, or cancer of any kind, is horrendous to deal with psychologically. It's the unknown that was the worst. When I got my Cxbladder result, it was such a turnaround."

Although it was a great ending to a potentially stressful situation, Rex did not find cystoscopy to be a pleasant experience. CT scans, he said, were also reasonably stressful.

"With Cxbladder, you only have to pee in a container and send it back to the lab. That's so simple."

"Cxbladder is 98.5% accurate<sup>1</sup>, and provided me with confidence and peace of mind."

<sup>1</sup>This statistic refers to Cxbladder Triage's Negative Predictive Value.



# OUR BUSINESS

## THE MARKET SIZE

The United States is the world's largest healthcare market and our primary focus. We also have commercial partnerships in New Zealand and Australia and are establishing a presence in Singapore.

Together, we estimate that there are up to 5 million test opportunities for Cxbladder on patients with urothelial cancer in these markets every year, with an estimated total market size of up to US\$7.5 billion<sup>2</sup>.

## OUR GROWTH STRATEGY

We are targeting high growth by developing more products and building sales in an increasing number of our targeted markets.

### MORE PRODUCTS



Develop a suite of Cxbladder bladder cancer diagnostic tests

Protect our Intellectual Property over other types of cancer where we have the opportunity to develop specific diagnostic tests

### MORE MARKETS



Drive revenue growth in existing markets - NZ, Australia and United States

Geographical growth into new markets - South East Asia, Japan and rest of the world

### MORE CHANNELS



Enable access to our products through direct to consumer, e-commerce, healthcare providers and corporate customers

### MORE CUSTOMERS



Physicians - urologists and GPs

Patients

Healthcare providers and insurance payers

Public and private healthcare and clinical organisations

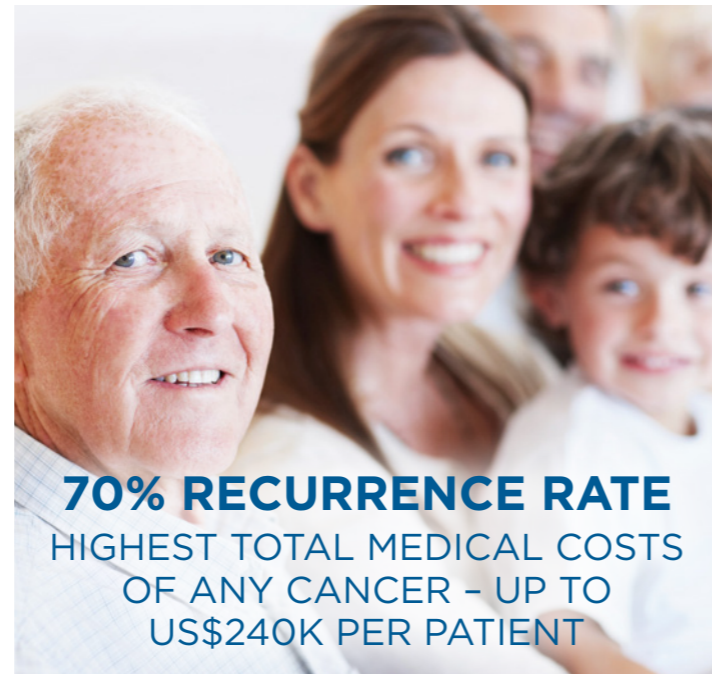


## OUR GOAL

To enable better care by providing faster, more accurate and less invasive diagnosis and management of bladder cancer.

<sup>2</sup>Market value calculated on an average value of US\$1,500 per Cxbladder test.

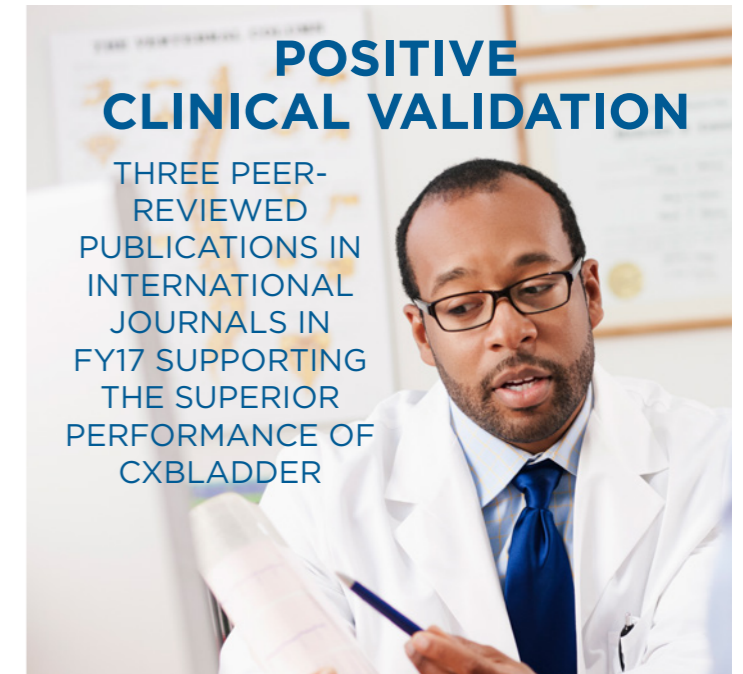
# TACKLING UROTHELIAL CANCER



**70% RECURRENCE RATE**  
HIGHEST TOTAL MEDICAL COSTS OF ANY CANCER - UP TO US\$240K PER PATIENT

**4 CXBLADDER PRODUCTS IN MARKET**

LAUNCH OF CXBLADDER RESOLVE IN DECEMBER 2016



**POSITIVE CLINICAL VALIDATION**

THREE PEER-REVIEWED PUBLICATIONS IN INTERNATIONAL JOURNALS IN FY17 SUPPORTING THE SUPERIOR PERFORMANCE OF CXBLADDER



**5TH MOST COMMON CANCER IN THE US**

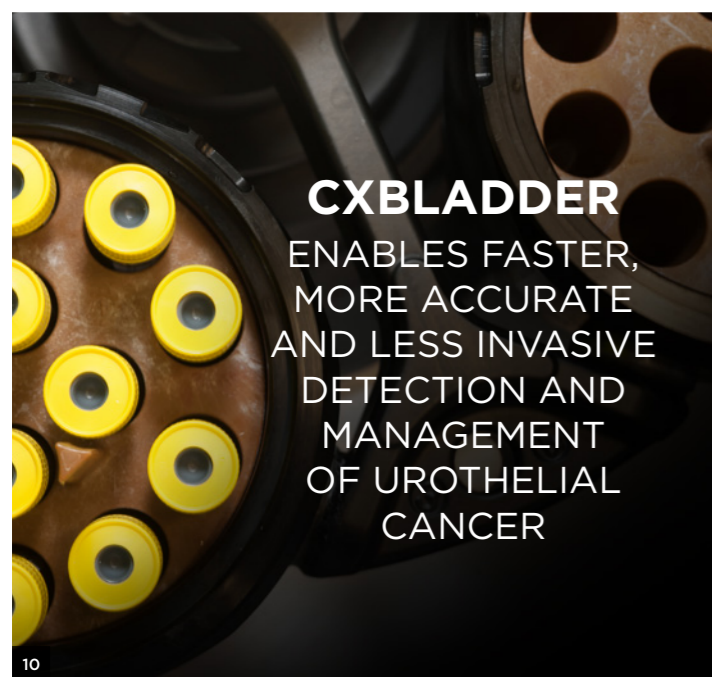


**APPROX 7 MILLION PEOPLE** PRESENT WITH HAEMATURIA IN THE US EVERY YEAR. AROUND 1.5 MILLION PATIENTS WORKED UP FOR UROTHELIAL CANCER



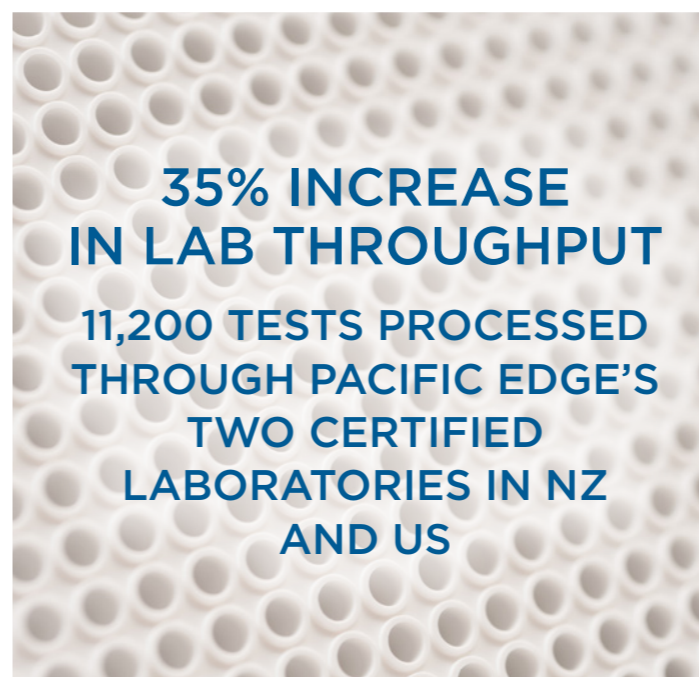
COMMERICAL AND CLINICAL PARTNERSHIPS IN UNITED STATES, NEW ZEALAND, AUSTRALIA AND SINGAPORE

**ENABLING BETTER CARE**



**CXBLADDER** ENABLES FASTER, MORE ACCURATE AND LESS INVASIVE DETECTION AND MANAGEMENT OF UROTHELIAL CANCER

**79,000+ NEW BLADDER CANCER CASES PER ANNUM DIAGNOSED IN US**



**35% INCREASE IN LAB THROUGHPUT**

11,200 TESTS PROCESSED THROUGH PACIFIC EDGE'S TWO CERTIFIED LABORATORIES IN NZ AND US

**MOVING AHEAD IN SOUTH EAST ASIA**

USER PROGRAMMES UNDERWAY IN MAJOR SINGAPORE HOSPITALS. DISTRIBUTION AND SUPPLY CHAIN VALIDATED

# OUR YEAR AT A GLANCE

## ACHIEVEMENTS AND SIGNIFICANT EVENTS

### Significant Progress Achieved with Large Scale Customers

- Identified and commenced commercial activity with targeted Veterans Administration (VA) sites in the US, following award of Federal Supply Schedule and contract price.
- Confirmed as approved provider to TRICARE Health Plan Network for active US military.
- Successful completion of the large, blinded User Programme with Kaiser Permanente, with positive and compelling results in line with peer-reviewed clinical publication data.
- Progressing with the process to gain a Local Coverage Determination (LCD) from the Centers for Medicare and Medicaid (CMS) to enable reimbursement for Medicare patients.

### Increasing Adoption by Healthcare Providers and Insurers

- Private insurance coverage with two large Australasian private insurance payers.
- Added to Standard of Care with two NZ public healthcare providers - Waitemata DHB and Canterbury DHB.

### Multiple Clinical Studies and Papers Validating the Superior Performance of Cxbladder

- Presentation of positive Cxbladder Monitor study by Key Opinion Leader, Dr Yair Lotan, at American Urological Association 2016 Conference.
- Publication of peer reviewed papers in The Journal of Urology, Urologic Oncology and Advances in Therapy with follow-on recognition in key industry publications.

### Expanded Suite of Cxbladder Tests in Our Markets

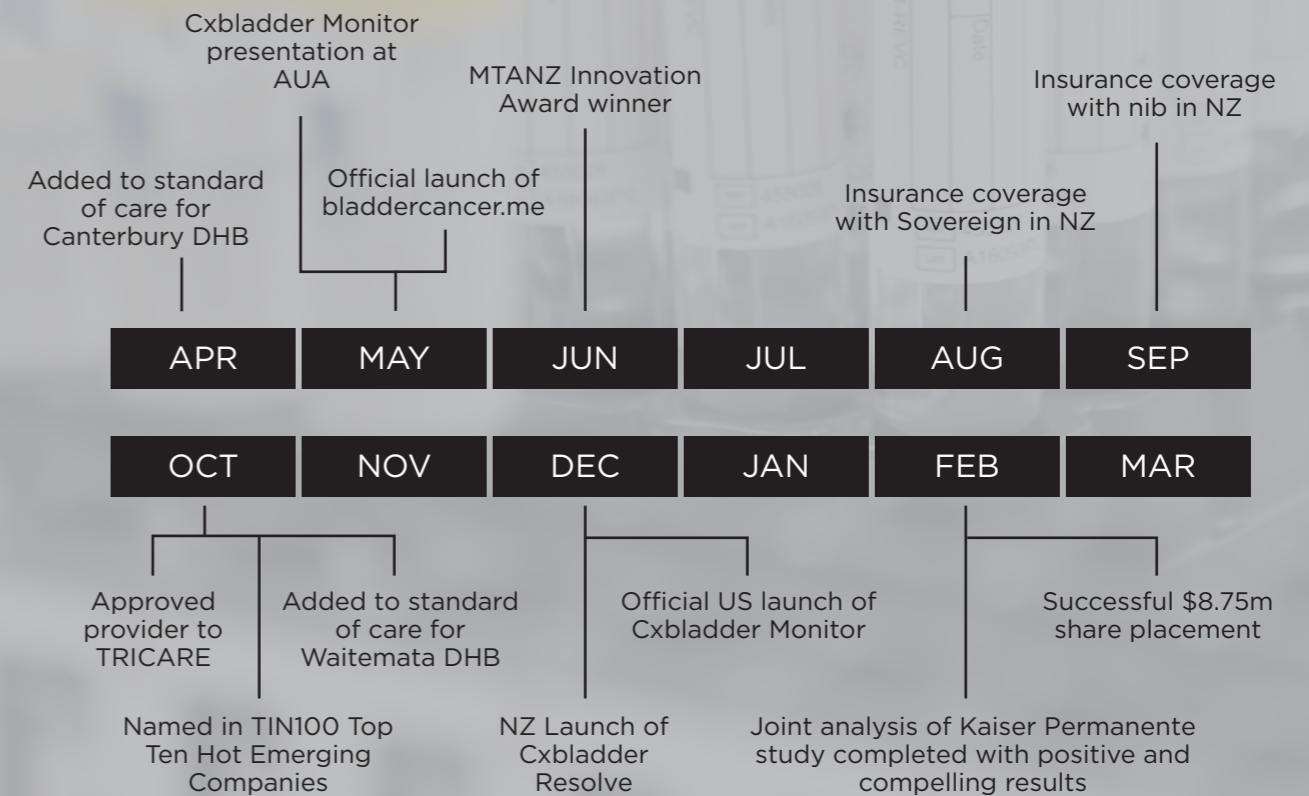
- Official launch of Cxbladder Monitor in the US in December 2016.
- Launch of Cxbladder Resolve in New Zealand in December 2016.
- Increased focus on marketing, particularly online, including lead sponsorship of the bladder cancer patient community, [www.bladdercancer.me](http://www.bladdercancer.me)

### Support for Investment into Growth

- Received an additional grant of up to \$3m over three years, from Callaghan Innovation, to supplement Pacific Edge's investment into further research and development.
- Completion of successful \$8.75m institutional share placement.

### Governance

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



# FINANCIAL SNAPSHOT

62% INCREASE IN OPERATING REVENUE TO \$8.1M

TOTAL REVENUE UP 33% TO \$9.5M

OPERATING EXPENSES \$24.3M  
(Excludes Other Non-Cash Operating Expenses)  
Comparable to previous year (\$22.9m)

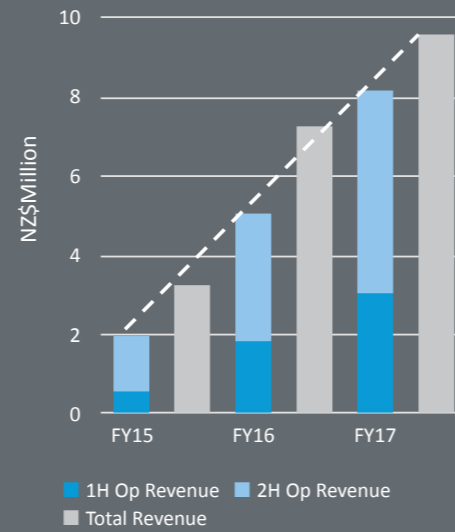
OTHER NON-CASH OPERATING EXPENSES \$6.2M  
Relating to conversion of employee equity scheme and write off and provision for bad debts

OPERATING LOSS \$14.9M,  
4% DOWN ON PREVIOUS YEAR  
Excluding Other Expenses

CASH AND CASH EQUIVALENTS OF \$14.6M  
as at 31 March 2017

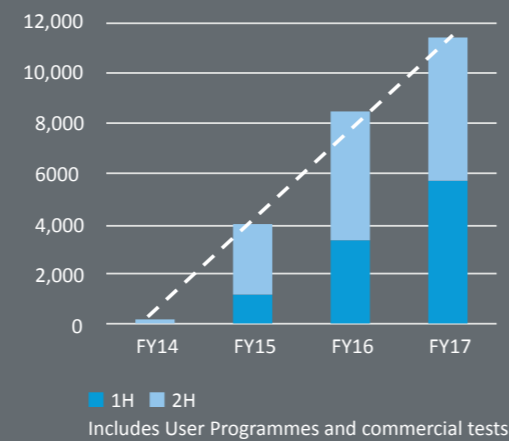
For further detail, please see Understanding Our Financials on page 26 and the Financial Statements from page 31.

## REVENUE



## LABORATORY THROUGHPUT

35% increase in test throughput compared to the previous year



# A WORD FROM THE CHAIR

CHRIS GALLAHER





It has now been almost a year since I joined the Pacific Edge Board and it has been pleasing to see the good progress the company continues to make, with a number of significant commercial milestones achieved in the past year.

Our key goals and objectives remain the same as those established in earlier years; and while we have a flexible strategy which allows us to take advantage of new opportunities, our primary goal has not changed.

In short, we are seeking to establish Pacific Edge and Cxbladder as the world's leading molecular diagnostic technology for the detection and management of bladder cancer and maximise the value of our technology for the benefit of our shareholders.

Our long standing primary target has been the United States, the world's largest healthcare market. Over the years, substantial investment has been made in establishing our business in the US, both in terms of people and laboratory facilities, and we now have a strong platform on which to build our revenues and cash flow.

This primary target market has been well buttressed by success in our home markets in Australasia and now Singapore, and our Dunedin-based head office team has provided great support across the disciplines to our international operations.

We continue to capitalise on the investment we have made into our targeted markets, particularly the US. While in some cases, this has taken longer than anticipated due to factors outside of our control, good progress is being made, with a number of achievements in the past year setting us up well for the future. CEO David Darling will expand on this year's delivered milestones in his report.

I would like to thank all the dedicated people working for Pacific Edge, from the laboratory technicians and research personnel, through to the sales people, support staff and management executives. They are all highly experienced and experts in their field, and they are the ones who will make our vision a reality and deliver for our shareholders.

Pacific Edge is also fortunate to have the advice and guidance of internationally renowned, high calibre scientists and clinicians who sit on our Scientific and Clinical Advisory Boards. The experience and expertise of these individuals covers a wide range of fields and disciplines. They provide advice on global clinical needs and applications for Cxbladder technology, as well as pathology, biotechnology, R&D and commercialisation.

We were privileged to have one of our Scientific Advisory Board members, Sir Murray Brennan, back in New Zealand recently. Sir Murray is one of the world's most experienced and recognised cancer surgeons and scientists. He studied medicine at Otago University before heading to Harvard University, and led the surgery department of the world's largest cancer centre - Memorial Sloan Kettering Cancer Center in New York - for 21 years. Sir Murray was in New Zealand to speak on the US healthcare system and has allowed us to share some of his insights in our annual report. You can read his interview on page 24.

It is encouraging to see the continued high level of shareholder support for our company as we move towards our goal of being cash flow positive and this was reflected in the successful \$8.75m share placement completed in February 2017.

We offer a disruptive technology and are striving to change long established and entrenched clinical practices, particularly in the US. To the extent that we can control the speed of this change, we are doing so. While challenging, the potential prize remains very attractive for our company and our shareholders.

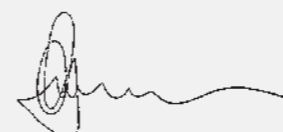
Pacific Edge continues to build momentum - more clinicians are adopting our products, more healthcare funding organisations and insurers are recognising the value our products provide in a world of limited healthcare resources, and more patients are benefitting from our Cxbladder tests.

I would like to thank our Board of Directors. I am grateful for the commitment, skills and experience that they have brought to your company's governance over the past year and for their support.

I would also like to acknowledge and thank Chris Swann and Charles Sitch, who both stepped down from the Board in the past year, for their contributions to our company; particularly Chris who chaired the Board for more than 11 years and played a key role in developing this platform for growth that we have today.

On page 23 you can see the goals we have set ourselves for this year. Our team remains focused on successfully achieving these.

We look forward to reporting to you on our progress at our annual meeting, which will be held in Dunedin on 24 August 2017 and I cordially invite all our shareholders to attend.



Chris Gallaher  
Chairman  
Pacific Edge



## EXECUTIVE REPORT

CEO, DAVID DARLING

The 2017 financial year was one of positive progress for Pacific Edge as we continued to execute our commercial strategy. We are gaining traction in all our markets, with increasing adoption and coverage from private and public healthcare organisations and insurers. This is reflected in our growing revenue, with product sales up 62% on last year and increasing laboratory throughput, up 35%.

The opportunity for our company is significant with millions of people around the world tested for urothelial cancers every year.

We remain the only company in the world to offer a suite of molecular diagnostic tests in bladder cancer that addresses multiple needs throughout the detection and management pathway. Each of our products has specific roles in the clinical pathway, and all of them offer a more effective, accurate and non-invasive diagnostic option for bladder cancer patients and clinicians.

### THE US REMAINS OUR PRIMARY MARKET

The US healthcare market is large, diverse and challenging to enter, with unique systems of healthcare providers and insurance payers. However, with a total healthcare spend of more than \$3 trillion and millions of people presenting with haematuria (blood in the urine, a key indicator of bladder cancer) every year, the potential prize for our company is significant.

We entered the US market only four years ago and even though we are a comparatively small company from the other side of the world, we are making strong progress in our commercial journey with a number of important accomplishments in a relatively short time.

In particular, in the last year, we have made significant progress with the large scale organisations we are targeting, all of which have the potential to be transformational for our company - the Veterans Administration (VA), TRICARE, Kaiser Permanente and the Centers for Medicare and Medicaid (CMS).

- We are now in contract with the VA and TRICARE, which gives us access to a combined 20 million-plus veterans and military personnel in the US and their families. We have identified a number of large VA clinics as our initial focus and our sales team have been working hard to encourage adoption, with several of these clinics expected to incorporate Cxbladder into their clinical practice in the near future.
- We have agreed prices for Cxbladder tests for patients covered by the VA and by TRICARE and our sales team are leveraging existing relationships with high volume sites in targeted areas.
- Kaiser Permanente is a large US healthcare provider and insurer. In the last year, we successfully completed our largest User Programme in partnership with them. The results were positive and compelling, in line with peer reviewed and published performance data. Kaiser Permanente have ratified the results with their own analysis and these study findings will be prepared for submission for scientific publication this year.
- Progress is also being made with the CMS process to obtain a Local Coverage Determination (LCD), which will enable reimbursement for Medicare patients. This is an iterative and lengthy process which everyone must follow. Once we receive our inclusion in the LCD, we will be able to receive reimbursement from the CMS and move to enter into contract with private payers.

Our focus is now on turning these pivotal events into repeatable revenue for the company.

In addition to these organisations, since 2013, we have signed agreements with four of the largest National Provider Networks in the US, making Cxbladder available to an increasing proportion of US residents. This secures a contract price and smooths the path for reimbursement from all providers and payers in the network.

#### CONTINUING TRACTION IN OUR OTHER MARKETS

While much smaller, New Zealand and Australia remain important for us.

Early last year, we announced a new partnership with Tolmar in Australia. They have a dedicated team of sales people, working in the urology sector and leveraging their existing relationships to market and sell our Cxbladder products.

New Zealand serves as a good trial for similar executions in other markets. This year we announced the signing of two large public healthcare providers who have adopted Cxbladder into their standard of care; and private insurance coverage with two of the largest insurers – Sovereign Insurance and nib – providing their customers with access and coverage for our products.

South East Asia is a new market opportunity which we are continuing to investigate and could potentially be even larger than the US one day. We have established a base in Singapore and are currently running User Programmes with two large hospitals. We are working to sign up more User Programmes as we build awareness of our tests for both patients presenting with haematuria and medical tourists coming for regular checkups.

#### DELIVERING PRODUCTS THAT MEET MORE CLINICAL NEEDS

Our aim has always been to create a ‘one-stop-shop’ of Cxbladder products that provide physicians with a suite of tests that enable more accurate and effective detection and management options at all stages of the urothelial cancer pathway from detection in haematuria patients to monitoring for recurrence of cancer.

In December 2016, we officially launched Cxbladder Monitor into the United States, and we also launched our fourth test, Cxbladder Resolve, into New Zealand.

We now have four tests in the market which makes us the first company in the world to have four proprietary molecular diagnostic tests in a single cancer. We will continue to identify and develop new targeted tests that meet clinical needs.

#### CLINICAL VALIDATION OF THE SUPERIOR PERFORMANCE OF OUR PRODUCTS

The growing adoption of our products is being enabled by multiple peer reviewed clinical and utility studies and published data, which validate the superior performance of our products. Without this, physicians are unable to engage with and adopt our technology. In FY17, we published three peer reviewed scientific and clinical papers.

The US launch of Cxbladder Monitor was timed to coincide with the publication of two peer reviewed scientific papers, validating the superior performance of the test and benchmarking the test to other procedures currently being used by physicians.

In summary, these papers showed that Cxbladder Monitor significantly outperforms all compared FDA approved urine tests for bladder cancer; and it delivers a superior performance in ruling out patients, who are presenting for an evaluation for recurrence of bladder or other urothelial cancer, who have a low probability of having cancer.

In a separate study published during the year, the use of Cxbladder Triage and Cxbladder Detect was shown to lead to compelling changes in urologists’ decision making, with fewer total tests and less invasive procedures. This implies a reduction in healthcare costs and an improved experience and outcome for patients.

These published, peer reviewed clinical papers are a key element of our market entry and product adoption. They are essential for validating our products with major healthcare providers and funders, particularly in the US, as well as encouraging adoption and changes to the Standard of Care.

## SUPERIOR PERFORMANCE OF CXBLADDER MONITOR IN RULING OUT RECURRENCE OF BLADDER CANCER

*“Performance Characteristics of a Multigene Urine Biomarker Test for Monitoring for Recurrent Urothelial Carcinoma in a Multicenter Study”*

## CXBLADDER MONITOR SIGNIFICANTLY OUTPERFORMED ALL COMPARED FDA APPROVED URINE TESTS FOR BLADDER CANCER

*“Clinical Comparison of Non-invasive Urine Tests for Ruling Out Recurrent Urothelial Carcinoma”*

## COMPELLING CHANGES IN CLINICAL DECISIONS WITH USE OF CXBLADDER TRIAGE AND CXBLADDER DETECT

*396 clinician and patient interactions totalling 792 separate clinical decisions*

**BUILDING ON OUR MOMENTUM IN FY18**

Our commercial focus remains on growing our revenue through the increasing adoption and sales of our Cxbladder products.

The US remains our primary market for growth and will be our main area of investment again. In particular, we are looking to bring Kaiser Permanente on as a customer; build commercial relationships with the VA practices that we are targeting; and gain our LCD for patients covered under Medicare.

In our Australasian home markets, we are focused on continuing to work closely with Tolmar to increase sales in Australia, increasing the uptake of new Cxbladder products by existing Cxbladder users and implementing commercial relationships with the remaining large public healthcare providers in New Zealand.

Our commercial investigation of markets, logistics and value propositions for physicians in South East Asia will continue this year. We will add more large hospitals and clinics into our User Programmes and start to transition existing User Programmes into commercial relationships.

In line with our usual launch timeline, we will launch Cxbladder Resolve into Australia this year with a soft launch in the US towards the end of the year coinciding with the accepted publication of the product's performance.

We will continue to build on our foundations with new product offerings, new product launches and peer reviewed scientific publications, all of which will underpin our sales and revenue going forward.

We are making strong commercial progress and expect to see sales continue to grow in FY18 as our targeted large scale organisations transition into commercial customers and build significant sales volume.



David Darling  
**Chief Executive Officer**  
**Pacific Edge**

**PRIORITIES FOR FY18**

**MARKETS**

**US:** Remains the primary focus for growth. We are looking to grow sales with increased adoption and product utilisation

**Australia:** Work with Tolmar Australia to increase sales, particularly with large institutional and public healthcare providers

**NZ:** Grow the use of Cxbladder products by existing users and increase total use and revenue from healthcare institutions

**SEA:** Grow User Programme base with new urology practices and hospitals

**CUSTOMERS**

Bring Kaiser Permanente on board as commercial customer

Build commercial relationships and generate revenue from targeted large scale VA facilities and urology practices that service veterans and the active military

Initiate User Programmes with targeted VA sites, where necessary

Complete the LCD process with CMS

Transition early adopters into commercial customers

**PRODUCTS**

Launch Cxbladder Resolve into Australia; soft launch into US towards the end of the year

Continue to rollout Cxbladder Monitor in the US, following the official launch in December 2016

Leverage the combined power of the Cxbladder suite across the haematuria and urology pathways.

Gain further recognition of Cxbladder in the guidelines and in customers' Standard of Care

Identify new targeted tests to meet clinical needs

Publish clinical utility data that supports the use of Cxbladder products in our markets for the various clinical needs identified by physicians

**SALES CHANNELS**

Continue to initiate new User Programmes with targeted customers

Increased marketing investment, particularly into digital media

Targeting institutional and large practice academic sites in the US

Grow e-commerce sales in New Zealand

## INTERVIEW WITH SIR MURRAY BRENNAN FROM MEMORIAL SLOAN KETTERING CANCER CENTER

With the introduction of the MACRA Act in January 2017, the US healthcare system is moving away from the current 'fees for service' system and towards value-based care. The impact of this on healthcare companies offering value-enhancing technologies is self evident.

### How do you see this impacting the early detection of cancer?

I don't think there's any doubt that we have a medical system in the US that is in financial crisis, that is failing. And one of the approaches to that is to change to value-based care.

Now I see value as benefit divided by cost. That cost can be financial, it can be personal, it can be many other things. It's no secret that if you make an early diagnosis, then the presumed cost of that care, and the presumed benefit, far exceeds making late diagnosis.

So, it will be an opportunity for new diagnostics. And it will be an opportunity to translate those into value.

There are many procedures used to detect and manage bladder cancer, many of them invasive and expensive. A recent clinical publication defines that less than 40% of bladder cancer patients are compliant with physician-directed care.

### Do you expect that non-invasive tests, such as the new regime of liquid biopsy tests, will impact positively on patient compliance?

If you have the option to be monitored with a non-invasive test as opposed to an invasive test, there's little doubt that you are going to do the former. If only because of the inconvenience and cost and all the other factors associated with invasive tests.

Also, if you have a monitoring test that relates to the identification of the recurrence or the absence of recurrence and that test is non-invasive, that too will be accepted.

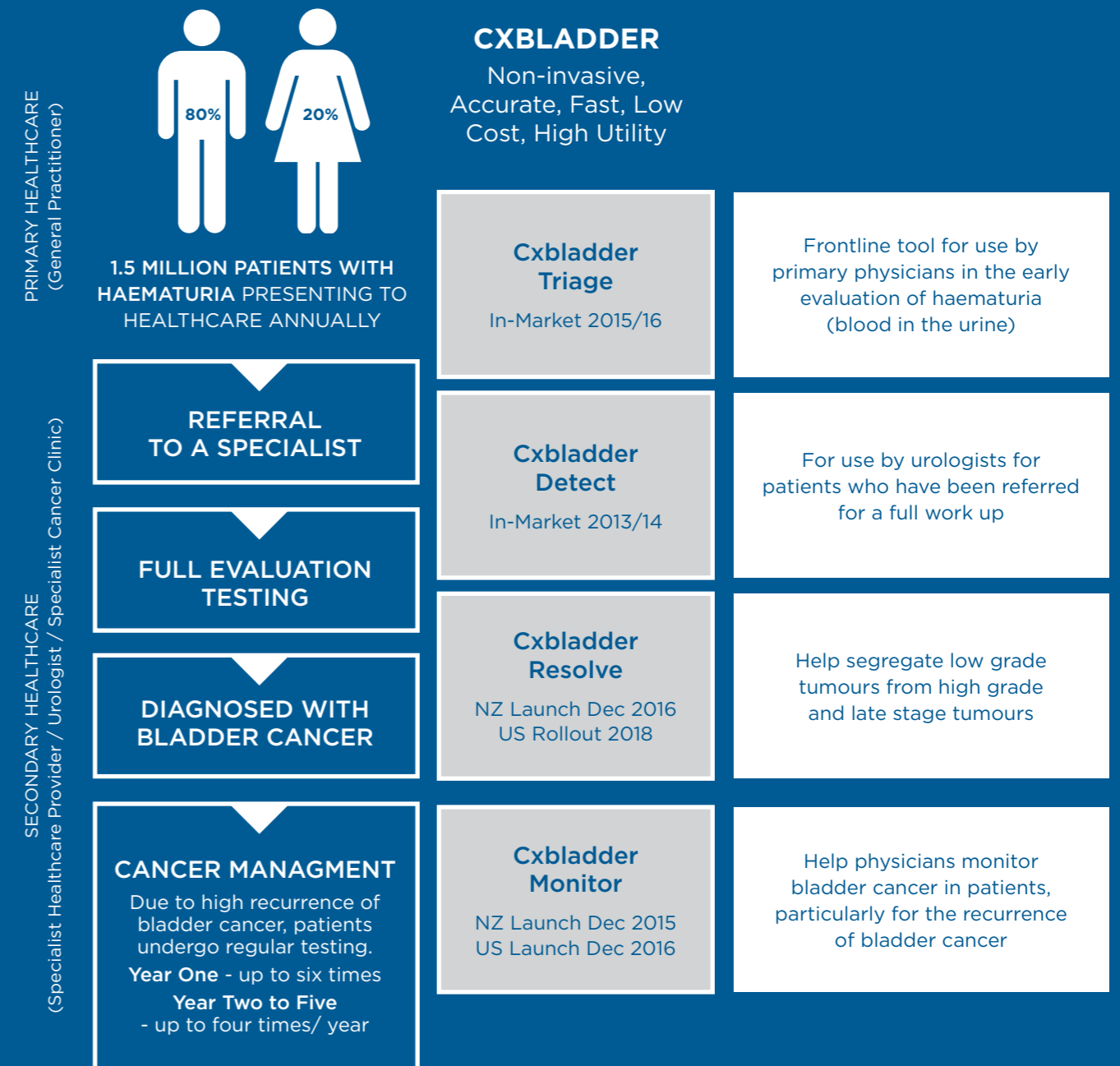
We believe that sometime in the not-too-distant future, you literally will make the diagnosis of cancer by some form of liquid diagnostic. Now if I'm a patient, I'm much more likely to have a blood or urine test than I am to have a CT Scan or a colonoscopy or anything else. So, hopefully that will improve compliance either in diagnosis or in searching for recurrence.

### Until recently, there have been no new diagnostic tests for bladder cancer for 15 years. Has this impacted on the quality of patient care?

What we know from recent analysis done in our institution and published in Nature Medicine just recently, where we looked at 10,000 patients, is that bladder cancer is one of the most frequently mutated. If you look at those results, then bladder should be an extraordinary target for new diagnostics.

## CXBLADDER IN THE CLINICAL PATHWAY

### ONE-STOP-SHOP OF CXBLADDER PRODUCTS



## UNDERSTANDING OUR US REVENUE

<b>US Revenue</b>	<p>Pacific Edge's US revenue currently comes from four main streams: private insurance coverage; public insurance coverage (CMS); VA/ Department of Defence (DOD); and a small amount of out-of-pocket payment direct from the patients.</p> <p>When patients present to the urologist, they will fall into four broad groups of insurance coverage:</p> <ol style="list-style-type: none"> <li>1. No coverage, pay out of pocket</li> <li>2. Private insurance coverage</li> <li>3. Public insurance coverage under the CMS</li> <li>4. Veterans, Military and their families covered by the VA/DOD</li> </ol> <p>Under the US healthcare system, a urologist is required to work up all patients who present for evaluation or treatment. In order to use Pacific Edge's Cxbladder products, they need to be able to offer the test to all groups of patients including those that don't have insurance coverage as well as those covered by the CMS, where Pacific Edge has yet to gain a Local Coverage Determination (LCD).</p> <p>Currently, private insurance payments provide the majority of Pacific Edge's revenue.</p>
<b>CMS Local Coverage Determination</b>	<p>Gaining an LCD from the CMS is key to reimbursement for patients covered under Medicare and Medicaid.</p> <p>All companies seeking reimbursement from the CMS must obtain an LCD. This is a long protracted process and, unlike the similar process completed by the company for the Federal Supply Schedule, is iterative and poorly defined.</p> <p>Pacific Edge is well progressed in the process of obtaining an LCD and, on completion, will be able to obtain consistent and timely reimbursement for Medicare patients and receive revenue on normal CMS payment terms.</p>
<b>CMS Receivables</b>	<p>While there are some outstanding debts in relation to individual patient payments as detailed above, the majority are in relation to tests for patients covered by the CMS which have been invoiced by Pacific Edge.</p>
<b>Bad Debts and Provision for Doubtful Debts</b>	<p>As part of the year end audit process, we have adopted a prudent and conservative approach to some of the aged receivables. This is revenue that has been sitting for some time as a receivable while the company completes the LCD process and has this year been deemed to have a low probability of being recovered from the CMS (Bad Debt book write down).</p> <p>Similarly, there is a further amount of aged receivables that are also deemed to have a low probability of being recovered if the company does not complete the LCD process in this financial year (provision for doubtful debts).</p> <p>Despite this conservative approach with these book write downs, the company is able to continue to seek collection of these receivables following the granting of the LCD.</p>

## FY17 TOPLINE RESULTS

<b>Revenue</b>	<p>Total revenue was up 33% to \$9.5m, including a 62% increase in operating revenue.</p> <p>Grant revenue was impacted by changes in the Callaghan Innovation Growth Grant scheme which means that international investment in R&amp;D is no longer claimable.</p>
<b>Operating Expenses (excluding Other Non-cash Operating Expenses)</b>	<p>Operating expenses of \$24.3m (excluding Other Non-cash Operating Expenses) comparable with \$22.9m in FY16.</p> <p>Pacific Edge has a growth strategy with four main areas of investment - People, Intellectual Property, Market Expansion and Product Development.</p>
<b>Other Non-cash Operating Expenses</b>	<p>\$2.9m in relation to the wind up of the company's staff incentive scheme and the conversion of the equity equivalents into ordinary shares.</p> <p>\$3.2m Bad Debt and Doubtful Debt expenditure, made up of a \$0.6m provision for old receivables and a write off of \$2.6m of aged receivables, primarily relating to the CMS.</p>
<b>Operating Loss (excluding Other Non-cash Operating Expenses)</b>	<p>Operating loss of \$14.9m, an improvement of 4% on the previous year (FY16: \$15.5 million).</p>
<b>Operating Cashflow</b>	<p>Net operating cashflow deficit of \$(17.8)m was at a similar level to last year, with the 116% increase in receipts from customers and grant income offsetting the higher expenses in FY17.</p>
<b>Financial Position</b>	<p>Cash and cash equivalents of \$14.6m as at 31 March 2017.</p> <p>Pacific Edge remains debt free, with funding for growth coming from sales revenue, shareholder capital and technology grants.</p> <p>The company completed a successful \$8.75m share placement in February 2017 and, as at 31 March 2017, there was \$14.6m of cash in the bank. These funds are being invested into commercial growth as Pacific Edge moves towards attaining a cashflow positive position.</p>

# BOARD OF DIRECTORS

Pacific Edge is led by an experienced and knowledgeable Board of Directors who offer a range of complementary skills and expertise.



## 1. Chris Gallaher, Chairman and Independent Director (Appointed 2016)

Chris joined the Board in 2016 and was appointed as Chairman in August 2016. A New Zealander based in Melbourne, before his retirement from full time corporate life last year, Chris held senior executive positions in both general and financial management with a number of large international companies; his last role being Group Chief Financial Officer of Fulton Hogan, a large New Zealand resources based civil contractor. He also serves on the Boards of The Good Shepherd New Zealand and Australia, Good Shepherd Microfinance, Mariposa Ltd and the the investment committee of property development company, Substancia Pty Ltd. Chris is a Chartered Accountant and holds a BCom from Otago University and is a member of the Australian Institute of Company Directors.

## 2. David Band, Independent Director (Appointed 2007)

David is an experienced international businessman and joined the Board in 2007 upon returning to New Zealand from Europe. David's career encompasses significant experience in corporate consulting and management. This included extensive periods with Korn/Ferry International, PA Consulting Group and Sibson Consulting. At PA Consulting Group he was Head of the Management Development Practice. He is Chairman of AbacusBio Ltd and Director of Kauri Australia Pty Ltd.

## 3. Anatole Masfen, Non-independent Director (Appointed 2008)

Anatole is the co-founder of Artemis Capital, a private equity investment firm based in Auckland. Anatole brings to the Board significant experience as an investment manager. Anatole graduated from Auckland University with a MCom (Hons) in Finance and Economics. He then spent seven years at Air New Zealand and Ansett Australia in various roles in Pricing and Revenue Management where he was responsible for systems and process implementation, which continue to drive profitability of the airline.

## 4. Bryan Williams, Independent Director (Appointed 2013)

Bryan Williams is an internationally recognised cancer researcher and research administrator with significant business experience. He was Chairman of the Board of Directors of MEI Pharma, a US based NASDAQ listed company for seven years, was a Director of Cancer Trials Australia and is presently Chairman of the Board of BioGrid Australia. He has served as a Director of Pacific Edge Pty Ltd for the past four years. Bryan was Director of the Monash Institute of Medical Research (MIMR) from 2006 until 2013 and is currently Director and CEO of the Hudson Institute of Medical Research in Melbourne. He previously held leadership positions in Cleveland and Toronto.

## 5. David Darling, Executive Director and CEO (Appointed 2014)

Dave has over 30 years' business experience in life sciences and biotechnology and was appointed to the Board as Executive Director in 2014. In his capacity as Chief Executive Officer he has led Pacific Edge from its early inception, and has significant executive and leadership experience in the development and international commercialisation of biomedical and biotechnology businesses and products. During his career, Dave has held a number of positions in governance, executive and senior management, joining Pacific Edge from Fletcher Challenge.

## 6. David Levison, Independent Director (Appointed 2016)

David has spent 25 years in the healthcare industry, from pharmaceuticals to services to diagnostics. David is the founder and Director of CardioDx, a leading firm in delivering genomic diagnostics to cardiology and primary care physicians. Prior to launching CardioDx, David was a Venture Partner at TPG Ventures and was the CEO of XDx. Previously, he was the founder, President and CEO of iScribe (which was sold to AdvancePCS - now Caremark - in December, 2001). Prior to iScribe, David was President of Oncology Therapeutics Network (sold to Bristol-Myers Squibb in 1996). David also served as CFO of OTN's parent company, Axion, from 1990 to 1993. Prior to Axion, he was with Cole Gilburne Fund, an early stage, technology focused venture capital firm. David received his MBA from Stanford University and BS from Williams College.

Chris Swann and Charles Sitch stepped down as Directors during FY17

## SENIOR EXECUTIVE TEAM

### **Jimmy Suttie, Chief Operating Officer, Pacific Edge**

Jimmy has vast experience, as an executive, with the management of science and technology in New Zealand's primary industry sector, particularly the development and application of science and technology for commercialisation. Jimmy joined Pacific Edge to head up operations for the franchise, product improvement and support and new product development.

### **Parry Guilford, Chief Scientific Officer, Pacific Edge**

Parry has led the science, research and development at Pacific Edge from its early days. As one of the founding scientists and a member of the Scientific Advisory Board of the Company, Parry is the architect of many of the Company's product prototypes. Parry's focus today and going forward is to bring his world class skills and experience on the step change in biotechnology for the Company's next generation of products.

### **Kate Rankin, Chief Financial Officer, Pacific Edge**

Kate joined Pacific Edge in November 2014 and brings international business experience, finance and leadership skills to the senior management team. Her most recent role was at Spark New Zealand as Senior Finance Performance Manager and a member of the Telecom New Zealand International Leadership Team. Prior to that she was Team Leader and Legal Entity Controller at Deutsche Bank in London.

### **Jackie Walker, Chief Executive Officer, Pacific Edge Diagnostics USA**

Jackie brings to the company over 25 years of extensive leadership experience in commercialising medical technologies in the US and a strong general management background. Prior to joining Pacific Edge Diagnostics USA, Jackie held senior executive positions at OSspray Ltd, Ondine Biomedical, Dentsply International, a NASDAQ-100 company, and Ohmeda Medical.

### **Jack Atchason, Vice President of Sales, Pacific Edge Diagnostics USA**

Jack brings over 25 years of successful experience in sales, sales leadership, and commercial operations, with large and small pharmaceutical organisations in the US. A proven leader in start-up organisations and product launches, Jack held roles of increasing responsibility for Abbott Laboratories, Amgen, Cytogen, Idenix, Millenium, and Targanta.

### **Brent Pownall, Commercial Director, Pacific Edge Diagnostics NZ**

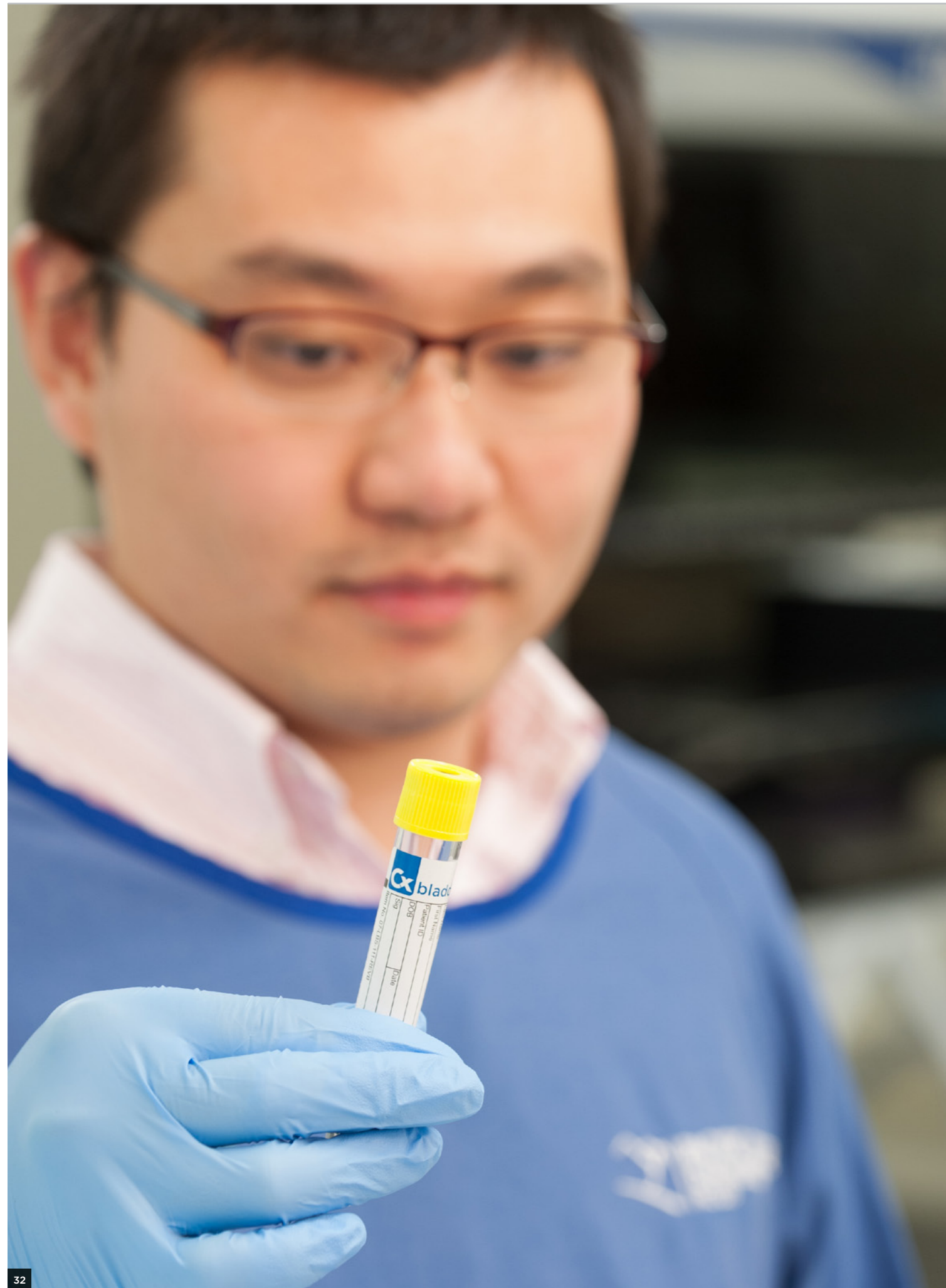
Pacific Edge Diagnostics New Zealand is the Company's commercial arm in New Zealand and Australia. Brent brings significant strategic marketing, business development and commercialisation experience, including sales and marketing of biologics and biomedical products in New Zealand, Australia, Asia and the United States.

# 17 FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017







## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st March 2017

	Notes	2017 \$	2016 \$
<b>REVENUE</b>			
Operating Revenue	3	8,061,994	4,975,532
<b>Total Operating Revenue</b>		<b>8,061,994</b>	<b>4,975,532</b>
Other Income	3	1,104,596	1,403,264
Interest Income	4	248,601	762,177
Foreign Exchange Gain		119,476	52,223
<b>Total Revenue and Other Income</b>		<b>9,534,667</b>	<b>7,193,196</b>
<b>OPERATING EXPENSES</b>			
Laboratory Operations		995,860	1,047,439
Research	5	4,908,270	4,442,459
Sales and Marketing		1,922,895	1,021,831
Employee Equity Equivalent Incentive Scheme	6	2,924,550	-
Other Expenses	7	19,763,394	16,357,858
<b>Total Operating Expenses</b>		<b>30,514,969</b>	<b>22,869,587</b>
<b>NET (LOSS) BEFORE TAX</b>		<b>(20,980,302)</b>	<b>(15,676,391)</b>
Income Tax Expense	16	-	-
<b>(LOSS) FOR THE YEAR AFTER TAX</b>		<b>(20,980,302)</b>	<b>(15,676,391)</b>
Other Comprehensive Income that may be recycled through Profit and Loss:			
Movement in Foreign Currency Translation Reserve	21	(67,406)	222,966
<b>TOTAL COMPREHENSIVE (LOSS)</b>		<b>(21,047,708)</b>	<b>(15,453,425)</b>
<b>Earnings per share for profit attributable to the equity holders of the Company and Group during the year</b>			
Basic and Diluted Earnings Per Share	20	(0.055)	(0.043)

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 31st March 2017

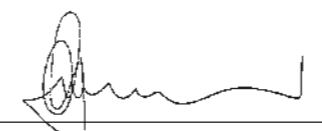
	Notes	Share Capital \$	Foreign Currency Translation Reserve \$	Share Based Payments Reserve \$	Retained Earnings \$	Total Equity \$
Balance as at 31 March 2015		66,611,612	695,380	1,246,087	(57,850,546)	10,702,533
Loss After Tax		-	-	-	(15,676,391)	(15,676,391)
Other Comprehensive Income		-	222,966	-	-	222,966
Issue of Share Capital	18	33,400,214	-	-	-	33,400,214
Share Based Payment Expense	8	-	-	1,158,148	-	1,158,148
<b>Balance as at 31 March 2016</b>		<b>100,011,826</b>	<b>918,346</b>	<b>2,404,235</b>	<b>(73,526,937)</b>	<b>29,807,470</b>
Balance as at 31 March 2016		100,011,826	918,346	2,404,235	(73,526,937)	29,807,470
Loss After Tax		-	-	-	(20,980,302)	(20,980,302)
Other Comprehensive Income		-	(67,407)	-	-	(67,407)
Issue of Share Capital	18	11,583,783	-	-	-	11,583,783
Share Based Payment Expense	8	-	-	485,347	-	485,347
<b>Balance as at 31 March 2017</b>		<b>111,595,609</b>	<b>850,939</b>	<b>2,889,582</b>	<b>(94,507,239)</b>	<b>20,828,891</b>

**BALANCE SHEET**

As at 31st March 2017


	Notes	2017 \$	2016 \$
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	9	6,564,062	4,160,451
Short Term Deposits	9	8,000,000	20,000,000
Receivables	10	6,519,173	5,730,031
Inventory	11	823,748	707,277
Other Assets	12	490,371	495,551
<b>Total Current Assets</b>		<b>22,397,354</b>	<b>31,093,310</b>
<b>NON-CURRENT ASSETS</b>			
Property, Plant and Equipment	13	836,695	989,940
Intangible Assets	14	329,153	247,554
<b>Total Non-Current Assets</b>		<b>1,165,848</b>	<b>1,237,494</b>
<b>TOTAL ASSETS</b>		<b>23,563,202</b>	<b>32,330,804</b>
<b>CURRENT LIABILITIES</b>			
Payables and Accruals	17	2,734,311	2,523,334
<b>Total Current Liabilities</b>		<b>2,734,311</b>	<b>2,523,334</b>
<b>TOTAL LIABILITIES</b>		<b>2,734,311</b>	<b>2,523,334</b>
<b>NET ASSETS</b>		<b>20,828,891</b>	<b>29,807,470</b>
Represented by:			
<b>EQUITY</b>			
Share Capital	18	111,595,609	100,011,826
Accumulated Losses	19	(94,507,239)	(73,526,937)
Share Based Payments Reserve	8	2,889,582	2,404,235
Foreign Translation Reserve	21	850,939	918,346
<b>TOTAL EQUITY</b>		<b>20,828,891</b>	<b>29,807,470</b>

For and on behalf of the Board of Directors



Chris Gallaher, Chairman

Dated the 24th day of May 2017



Anatole Masfen, Director

## STATEMENT OF CASH FLOWS

For the year ended 31st March 2017

	Notes	2017 \$	2016 \$
<b>CASH FLOWS TO OPERATING ACTIVITIES</b>			
Cash was provided from:			
Receipts from Customers and Grant Providers		7,864,222	3,648,395
Interest Received		731,798	318,777
		8,596,020	3,967,172
Cash was disbursed to:			
Payments to Suppliers and Employees		26,458,161	20,907,758
Net GST Change		(24,738)	11,774
		26,433,423	20,919,532
<b>Net Cash Flows to Operating Activities</b>	22	<b>(17,837,403)</b>	<b>(16,952,360)</b>
<b>CASH FLOWS TO INVESTING ACTIVITIES:</b>			
Cash was provided from:			
Proceeds of Short Term Deposits		20,000,000	14,000,000
		20,000,000	14,000,000
Cash was disbursed to:			
Purchase of Short Term Deposits		8,000,000	29,000,000
Capital Expenditure on Plant and Equipment	13	208,684	164,016
Capital Expenditure on Intangible Assets	14	270,299	160,555
		8,478,983	29,324,571
<b>Net Cash Flows to Investing Activities</b>		<b>11,521,017</b>	<b>(15,324,571)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Cash was received from:			
Ordinary Shares Issued		8,750,000	35,335,812
		8,750,000	35,335,812
Cash was disbursed to:			
Issue Expenses		90,768	1,935,596
		90,768	1,935,596
<b>Net Cash Flows From Financing Activities</b>		<b>8,659,232</b>	<b>33,400,216</b>
<b>Net increase (decrease) in Cash Held</b>		<b>2,342,846</b>	<b>1,123,285</b>
Add Opening Cash Brought Forward		4,160,451	2,818,738
Effect of exchange rate changes on net cash		60,765	218,428
<b>Ending Cash Carried Forward</b>	9	<b>6,564,062</b>	<b>4,160,451</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

### 1. GENERAL INFORMATION

The financial statements presented are for the Group. The Group is made up of the "Parent" entity, Pacific Edge Limited ("the Company"), and its subsidiaries. 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. Included within the Group are Pacific Edge Diagnostics New Zealand Limited and Pacific Edge Diagnostics USA Limited which 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's purposes are research and development and sales and marketing. Pacific Edge Analytical Services Limited is a dormant entity.

These consolidated financial statements have been approved for issue by the Board of Directors on 24 May 2017.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pacific Edge Limited is a company registered 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 Part 7 of the Financial Markets Conduct Act 2013, and the NZX Main Board Listing Rules. In accordance with the Financial Markets Conduct Act 2013, because group financial statements are prepared and presented for Pacific Edge Limited and its subsidiaries, separate financial statements for Pacific Edge Limited are no longer required to be prepared and presented.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. The consolidated financial statements are presented in New Zealand dollars, which is the Parent's functional currency and Group's presentation currency. All figures are rounded to the nearest dollar. 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.

#### 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 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 consolidated financial statements also comply with International Financial Reporting Standards.

The consolidated financial statements have been prepared using the historical cost convention. The Group is profit-oriented for financial reporting purposes.

Goods & Services Tax: 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.

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

### 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	
			2017 %	2016 %
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

Pacific Edge Diagnostics New Zealand Limited, Pacific Edge Diagnostics USA Ltd, Pacific Edge Analytical Services Limited, Pacific Edge Diagnostics Singapore Pte Ltd and Pacific Edge Pty Ltd all have a balance date of 31 March, which is the same as the Parent.

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pacific Edge Limited as at 31 March 2017 and the results of all subsidiaries for the year then ended.

Pacific Edge Limited consolidates as subsidiaries in the Group financial statements all entities where Pacific Edge Limited has the capacity to control. 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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

### Critical Accounting Estimates and Assumptions

In preparing these financial statements, the Group made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors including expectations or future events that are believed to be reasonable under the circumstances. The main estimates and assumptions used are in relation to revenue which is detailed further within Note 3: Operating Revenue & Other Income, and the going concern assumption which is further assessed in Note 30: Going Concern. It is not expected that these estimates and assumptions will have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Statements of Cash Flows

Operating activities include the cash received and cash paid for the principal revenue-producing activities of the Group and other activities that are not investing or financing activities. Investing activities are those activities relating to the acquisition and disposal of non-current assets and proceeds and payments of short term deposits. Financing activities comprise the change in equity and debt capital structure of the Group.

### Standards or interpretations issued but not yet effective and relevant to the Group

A number of new standards and amendments to standards and interpretations are not yet effective and have not been applied in preparing these consolidated Financial Statements.

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

NZ IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The group intends to adopt NZ IFRS 15 on its effective date and is currently assessing its full impact. Based on the initial assessment by management, this standard is not expected to significantly impact the Group.

NZ IFRS 16: Leases (Effective date: periods beginning on or after 1 January 2019):

NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. The standard is effective for accounting periods beginning on or after 1 January 2019. Early adoption is permitted but only in conjunction with NZ IFRS 15, 'Revenue from Contracts with Customers'. The Group intends to adopt NZ IFRS 16 on its effective date and has yet to assess its full impact.

There are no other NZ IFRS or NZ IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

### New and Amended Standards Adopted by the Group

There are no standards or amendments adopted by the Group since 1 April 2016 that have a significant impact on the Group.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

### 3. OPERATING REVENUE AND OTHER INCOME

#### ACCOUNTING POLICIES

##### Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. The fair values are determined based on management estimates of the amounts receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

##### Sale of Goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied: the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. In the case of Cxbladder sales, revenue is recognised when the Cxbladder report has been produced for the sample being tested.

##### Gross Recoverable Revenue

Revenue from Cxbladder sales is accrued at specified Gross Recoverable Revenue ("GRR") amounts, which are considered to be estimated net realisable amounts due from patients and third-party payers for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Under the terms of various agreements, regulations, and statutes, certain elements of third-party reimbursement are subject to negotiation, audit, and/or final determination by the third-party payers. In addition, laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Differences between amounts previously estimated for retroactive adjustments and amounts subsequently determined to be recoverable or payable are included in net patient service revenue in the year that such amounts become known. Changes in prior-year estimates will be accounted for in the period that the change occurs.

##### Licence Fees

Licence fees are recognised in Operating Revenue in the accounting period in which the contract is signed.

##### Grant Revenue

Government Grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in the Statement of Comprehensive Income on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. All conditions of the grants have been complied with.

##### Cxbladder Research Rebate

Cxbladder research rebate is recognised at its fair value where there is a reasonable assurance that the rebate will be received and the Group will comply with all attached conditions. The research programme is administered by Pacific Edge Pty Ltd. All conditions of the research rebate have been complied with.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

### Revenue and Other Income

	GROUP	
	2017 \$	2016 \$
<b>Operating Revenue</b>	<b>8,061,994</b>	<b>4,975,532</b>
<b>Other Income</b>		
Grant Revenue	876,092	1,281,728
Research Rebate Received	228,504	121,536
<b>Total Other Income</b>	<b>1,104,596</b>	<b>1,403,264</b>

Grants are for the reimbursement of research costs. The Company has been awarded grants from Callaghan Innovation and New Zealand Trade and Enterprise.

Callaghan Innovation has awarded the Company a Growth Grant, which commenced on 1 January 2014. Callaghan Innovation reimburses the Company for 20 percent of eligible expenditure on the Group's R&D programme. This eligible expenditure complies with NZ IAS 38: Intangible Assets and the Ministerial Direction / New Zealand Gazette, No 146.

For the year ended 31 March 2017, the total eligible expenditure under this Growth Grant was \$3,953,680 (2016: \$5,700,739). The Company also receives grants from Callaghan Innovation for postgraduate internships and summer students.

New Zealand Trade and Enterprise have awarded the Company an International Growth Fund grant, to support the start up of the Group's operations in Singapore. New Zealand Trade and Enterprise reimburses the Company for 50 percent of eligible expenditure relating to the Singapore operations.

All conditions of the grants have been complied with.

### 4. INTEREST INCOME

#### ACCOUNTING POLICY

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

### 5. RESEARCH AND DEVELOPMENT COSTS

#### ACCOUNTING POLICY

Research is the original and planned investigation undertaken with the prospect of gaining new scientific knowledge and understanding. This includes: direct and overhead expenses for diagnostic and prognostic biomarker discovery and research; pre-clinical trials; and costs associated with clinical trial activities. All research costs are expensed when incurred.

Development is the application of research findings to a plan or design for the production of new or substantially improved processes or products prior to the commencement of commercial production.

When a project reaches the stage where it is reasonably certain that future expenditure can be recovered through the process or products produced, expenditure that is directly attributed or reasonably allocated to that project is recognised as a development asset. If the expenditure also benefits processes or products for which it cannot be recovered, it will be expensed. The asset will be amortised from the date of commencement of commercial production of the product to which it relates on a straight-line basis over the period of expected benefit. Development assets are reviewed annually for any impairment in their carrying value.

	GROUP	
	2017 \$	2016 \$
Research	4,908,270	4,442,459
Includes:		
Employee Benefits (refer note 8)	1,545,317	1,202,283

### 6. EMPLOYEE EQUITY EQUIVALENT INCENTIVE SCHEME

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 position 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.

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. \$2,390,815 of this balance was attributable to employees and is included in note 8 as an employee benefit.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

### 7. OTHER EXPENSES

	Notes	GROUP	
		2017 \$	2016 \$
<b>Other Expenses</b>			
Amortisation	14	188,544	158,719
Auditors Remuneration – Audit Fees		67,000	57,700
- Other Assurance Services (refer below)		5,000	8,500
Bad Debts Expense		2,635,279	-
Doubtful Debts Expense	10	612,666	-
Depreciation	13	353,391	347,483
Directors Fees	24	286,736	225,828
Employee Benefits	8	9,383,967	8,237,118
Employee Share Options	8	485,347	1,158,148
Rental and Lease Expense		1,067,382	1,033,620
Compensation Payment		-	(135,016)
Other Operating Expenses		4,678,082	5,265,758
<b>Total Other Expenses</b>		<b>19,763,394</b>	<b>16,357,858</b>

#### Other Assurance Services

Other assurance services performed by the auditor includes; a share registry audit and a review of the Callaghan Growth Grant claim.

#### Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred. There were no borrowing costs for the year ended 31 March 2017 (2016: NIL).

### 8. EMPLOYEE BENEFITS

	GROUP	
	2017 \$	2016 \$
<b>Represented by:</b>		
Employee Benefits in Research (refer note 5)	1,545,317	1,202,283
Short Term Salaries, Wages and Other Employee Benefits	9,383,967	8,237,118
	10,929,284	9,439,401
Share Option Expense	485,347	1,158,148
Share Issue Expense: Employee Equity Equivalent Incentive Scheme (refer note 6)	2,390,815	-
<b>Total Employee Benefits</b>	<b>13,805,446</b>	<b>10,597,549</b>

#### Employee Share Option Scheme

The Board believes that the issue of share options provides an appropriate incentive for participating employees to grow the total shareholder return of the Company. Share options are issued to selected employees as a long-term component of remuneration in accordance with the Group's remuneration policy.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

The Employee Share Option scheme allows Group employees to acquire shares of the Company. Each option entitles the holder, on payment of the exercise price, to one ordinary share in the capital of the Company. The exercise price of the granted options is determined using the fair value of the Company's share price at the time of the options being granted. The term in which options may be exercised and ultimately lapse if not exercised, varies from case to case depending on the terms of issue for each separate option.

The fair value of options granted is recognised as an employee expense in the Statement of Comprehensive Income over their vesting period, with a corresponding increase in the employee share option reserve. Incentive options vest over three years and the employee must continue to be employed by the Group for their share options to vest. Performance options vest immediately and there are no other vesting conditions for performance options. Tranches of options are exercisable over four to ten years from the relevant vesting date. No options can be exercised later than the tenth anniversary of the final vesting date.

The cost of share options recognised in the Income Statement for the year ended 31 March 2017 is \$485,347 (2016: \$1,158,148).

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of options outstanding and their related weighted average exercise prices are as follows:

	Group			
	2017		2016	
	Weighted average exercise price (\$)	Options	Weighted average exercise price (\$)	Options
Outstanding at 1 April	0.65	6,448,827	0.67	5,784,255
Granted	0.53	470,000	0.51	701,000
Forfeited	0.64	(78,970)	0.64	(36,428)
Exercised	-	-	-	-
Expired	0.54	-	-	-
<b>Outstanding at 31 March</b>	<b>0.64</b>	<b>6,839,857</b>	<b>0.65</b>	<b>6,448,827</b>
Exercisable at 31 March	0.66	6,373,252	0.67	5,282,123

The weighted average fair value of options granted during the year, determined using the Black-Scholes valuation model, was \$0.53 per option (2016: \$0.51).

The significant inputs into the Black-Scholes valuation model were the market share price at grant date, the exercise price shown below, the expected annualised volatility of 50%, a dividend yield of 0%, an expected option life of between one and ten years and an annual risk-free interest rate of between 2.25% and 4.71%

The volatility measured is the standard deviation of continuously compounded share returns and is based on a statistical analysis of daily share prices in the past one to ten years.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

Share options outstanding at the end of the reporting periods have the following expiry dates, vesting dates and exercise prices:

Expiry Month	Vesting Date	Exercise Price	31 March 17 Options	31 March 16 Options
April 2017	April 2013	0.3629	259,585	259,585
April 2018	April 2014	0.3629	259,585	259,585
August 2018	August 2014	0.535	83,333	83,333
September 2018	September 2014	0.8	73,000	73,000 *
November 2018	November 2014	0.535	200,000	200,000
April 2019	April 2015	0.3629	259,585	259,585
June 2019	June 2015	0.69	13,333	13,333
July 2019	July 2015	0.69	6,666	6,666
August 2019	August 2015	0.535	83,333	83,333
September 2019	September 2015	0.8	750,000	750,000
November 2019	November 2015	0.535	200,000	200,000
June 2020	June 2016	0.69	13,077	13,334
July 2020	July 2016	0.69	2,740	2,740
August 2020	August 2016	0.535	83,334	83,334
September 2020	September 2016	0.8	750,000	750,000
November 2020	November 2016	0.535	200,000	200,000
June 2021	June 2017	0.69	-	13,334
July 2021	July 2017	0.69	-	-
September 2021	September 2017	0.8	750,000	750,000
September 2024	September 2014	0.69	310,000	310,000 *
April 2025	April 2015	0.69	6,666	6,666
July 2025	July 2015	0.5	-	12,500
July 2025	July 2015	0.69	345,831	345,831
August 2025	August 2015	0.72	4,166	4,166
September 2025	September 2015	0.5	320,000	270,000 *
September 2025	September 2015	0.69	15,000	15,000
September 2025	September 2015	0.72	14,998	14,998
November 2025	November 2015	0.72	83,333	83,333
January 2026	January 2016	0.72	17,498	17,498
April 2026	April 2016	0.69	6,667	6,667
July 2026	July 2016	0.5	8,332	8,332
July 2026	July 2016	0.69	345,834	345,834
August 2026	August 2016	0.5	8,332	8,332
August 2026	August 2016	0.72	2,866	4,167
September 2026	September 2016	0.5	85,333	85,333
September 2026	September 2016	0.69	15,000	15,000
September 2026	September 2016	0.72	15,001	15,001
November 2026	November 2016	0.6	14,998	14,998
November 2026	November 2016	0.72	83,333	83,333
December 2026	December 2016	0.6	4,166	4,166
January 2027	January 2017	0.72	10,834	10,834

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

Expiry Month	Vesting Date	Exercise Price	31 March 17 Options	31 March 16 Options
February 2027	February 2017	0.6	10,000	10,000
March 2027	March 2017	0.6	4,166	4,166
April 2027	April 2017	0.6	75,000	-
April 2027	April 2017	0.69	6,667	6,667
May 2027	May 2017	0.6	13,333	-
July 2027	July 2017	0.5	4,190	8,334
July 2027	July 2017	0.69	343,346	345,835
August 2027	August 2017	0.48	4,166	-
August 2027	August 2017	0.5	8,334	8,334
August 2027	August 2017	0.72	-	4,167
September 2027	September 2017	0.48	10,832	-
September 2027	September 2017	0.5	85,333	85,333
September 2027	September 2017	0.69	15,000	15,000
September 2027	September 2017	0.72	11,302	15,001
October 2027	October 2017	0.48	20,000	-
November 2027	November 2017	0.6	10,251	15,000
November 2027	November 2017	0.72	83,334	83,334
December 2027	December 2017	0.6	4,167	4,167
January 2028	January 2018	0.72	10,834	10,834
February 2028	February 2018	0.6	10,000	10,000
March 2028	March 2018	0.6	4,167	4,167
April 2028	April 2018	0.6	75,000	-
May 2028	May 2018	0.6	13,333	-
July 2028	July 2018	0.5	2,671	8,334
August 2028	August 2018	0.48	4,167	-
August 2028	August 2018	0.5	8,334	8,334
September 2028	September 2018	0.48	10,834	-
September 2028	September 2018	0.5	85,334	85,334
October 2028	October 2018	0.48	30,000	-
November 2028	November 2018	0.6	8,334	15,001
December 2028	December 2018	0.6	4,167	4,167
February 2029	February 2019	0.6	10,000	10,000
March 2029	March 2019	0.6	4,167	4,167
April 2029	April 2019	0.6	75,000	-
May 2029	May 2019	0.6	13,334	-
August 2029	August 2019	0.48	4,167	-
September 2029	September 2019	0.48	10,834	-
October 2029	October 2019	0.48	40,000	-
			<b>6,839,857</b>	<b>6,448,827</b>

\* Included within these tranches are 703,000 options (2016: 684,000) that vested immediately.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

### 9. CASH, CASH EQUIVALENTS AND SHORT TERM DEPOSITS

#### ACCOUNTING POLICY

Cash at Bank includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Short Term Deposits are with ANZ Bank, with periods ranging from 60 to 150 days.

	GROUP	
	2017 \$	2016 \$
Cash at Bank	6,564,062	4,160,451
Short Term Deposits	8,000,000	20,000,000
<b>Total Cash, Cash Equivalents and Short Term Deposits</b>	<b>14,564,062</b>	<b>24,160,451</b>
NZD	13,857,544	23,202,186
AUD	59,127	13,345
USD	612,141	938,318
EUR	1,532	6,602
SGD	33,718	-
<b>Total Cash, Cash Equivalents and Short Term Deposits</b>	<b>14,564,062</b>	<b>24,160,451</b>

Interest on the bank balances ranges from 0% to 3.45% (2016: 0% to 3.95%) per annum. Funds held on term deposit with ANZ Bank can be accessed with one month's notice at the request of the authorised bank signatories of Pacific Edge Ltd.

### 10. RECEIVABLES

#### ACCOUNTING POLICY

Receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate.

	GROUP	
	2017 \$	2016 \$
Trade Receivables	6,613,746	4,486,259
Less Provision for Doubtful Debts	(612,666)	-
Sundry Debtors	474,975	692,719
Accrued Interest	707	483,904
GST/BAS Refund Due	42,411	67,149
<b>Total Receivables</b>	<b>6,519,173</b>	<b>5,730,031</b>



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

An allowance for doubtful debts has been recognised for the year ended 31 March 2017, totalling \$612,666 (2016: \$0).

Amounts overdue but not impaired are as follows:

- \$3,759,078 is within 0 – 180 days old
- \$1,475,945 is within 181 – 365 days old
- \$766,057 is over 365 days old but is still expected to be recovered

### 11. INVENTORY

#### ACCOUNTING POLICY

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average formula.

	GROUP	
	2017 \$	2016 \$
Laboratory Supplies	823,748	707,277
<b>Total Inventory</b>	<b>823,748</b>	<b>707,277</b>

Laboratory supplies used during the year are included within the Statement of Comprehensive Income in Laboratory Operations.

### 12. OTHER ASSETS

	GROUP	
	2017 \$	2016 \$
Prepayments	329,514	339,935
Lease Security Deposit	103,596	97,725
Credit Card Collateral	57,261	57,891
<b>Total Other Assets</b>	<b>490,371</b>	<b>495,551</b>

### 13. PROPERTY, PLANT & EQUIPMENT

#### ACCOUNTING POLICY

Property, Plant and Equipment are those assets held by the Group for the purpose of carrying on its business activities on an ongoing basis. All Property, Plant and Equipment is stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. The cost of purchased assets includes the original purchase consideration given to acquire the assets, and the value of other directly attributable costs that have been incurred in bringing the assets to the location and condition necessary for their intended service. This includes the laboratory equipment for the establishment of the laboratories.

Gains and losses on disposals are determined by comparing the net proceeds with the carrying amount and are recognised within the Statement of Comprehensive Income when they occur.

#### Depreciation

Depreciation of plant and equipment is based on writing off the assets over their useful lives, using the straight line (SL) and diminishing value (DV) basis.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

Main rates used are:

Laboratory Equipment	5% to 26.4%	DV
Office and Computer Equipment	5% to 60%	DV
Leasehold Improvements	10%	SL
Plant and Equipment	5% to 40%	DV
Furniture and Fittings	7% to 25%	DV

The assets' useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

	Laboratory Equipment	Office & Computer Equipment	Leasehold Improvements	Plant & Equipment	Furniture & Fittings	Total
<b>Cost</b>						
Balance at 1 April 2015	2,153,399	826,129	200,416	103,459	169,590	3,452,993
Additions	55,652	95,822	-	11,386	1,156	164,016
Disposals	49,701	15,471	9,760	88	12,318	87,338
Foreign Translation Difference	-	-	-	-	-	-
<b>Balance at 31 March 2016</b>	<b>2,258,752</b>	<b>937,422</b>	<b>210,176</b>	<b>114,933</b>	<b>183,064</b>	<b>3,704,347</b>
Balance at 1 April 2016	2,258,752	937,422	210,176	114,933	183,064	3,704,347
Additions	31,853	96,481	64,922	9,838	5,589	208,683
Disposals	-	-	-	-	-	-
Foreign Translation Difference	(7,239)	(2,612)	(1,414)	(13)	(1,784)	(13,062)
<b>Balance at 31 March 2017</b>	<b>2,283,366</b>	<b>1,031,291</b>	<b>273,684</b>	<b>124,758</b>	<b>186,869</b>	<b>3,899,968</b>
<b>Accumulated Depreciation</b>						
Balance at 1 April 2015	1,608,646	575,238	31,726	59,147	59,921	2,334,678
Depreciation Expense	196,414	97,154	17,927	10,313	25,675	347,483
Disposals	-	-	-	-	-	-
Foreign Translation Difference	21,723	5,513	1,527	37	3,446	32,246
<b>Balance at 31 March 2016</b>	<b>1,826,783</b>	<b>677,905</b>	<b>51,180</b>	<b>69,497</b>	<b>89,042</b>	<b>2,714,407</b>
Balance at 1 April 2016	1,826,783	677,905	51,180	69,497	89,042	2,714,407
Depreciation Expense	185,216	107,905	24,379	11,067	24,824	353,391
Disposals	-	-	-	-	-	-
Foreign Translation Difference	(3,094)	(711)	(222)	(5)	(494)	(4,526)
<b>Balance at 31 March 2017</b>	<b>2,008,905</b>	<b>785,099</b>	<b>75,337</b>	<b>80,559</b>	<b>113,372</b>	<b>3,063,272</b>
<b>Carrying Amounts</b>						
At 1 April 2015	544,753	250,891	168,690	44,312	109,669	1,118,315
At 31 March 2016	431,969	259,517	158,996	45,436	94,022	989,940
At 31 March 2017	274,461	246,192	198,347	44,199	73,497	836,695

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

### 14. INTANGIBLE ASSETS

#### ACCOUNTING POLICY

##### Intellectual Property

The costs of acquired Intellectual Property are recognised at cost and amortised on a straight-line basis over its anticipated useful life, which is currently assessed at four to five years. All Intellectual Property has a finite life. The carrying value of Intellectual Property is reviewed for impairment, where indicators of impairment exist.

The following costs associated with Intellectual Property are expensed as incurred during the research phases of a project and are only capitalised when incurred as part of the development phase of a process or product within development assets: Internal Intellectual Property costs including the costs of patents and patent application.

##### Software Development Costs

Costs associated with development of software are held at cost and amortised over their useful lives of between two and five years.

##### Amortisation of Intangible Assets

- Patents - Amortisation is charged on a straight-line basis over the estimated useful life of the intangible assets 1-20 years. The estimated useful life and amortisation method is reviewed at the end of each reporting period.
- Software development costs - Amortisation is charged on a straight-line basis over the estimated useful life of the intangible assets 2-5 years. The estimated useful life and amortisation method is reviewed at the end of each reporting period.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

	Software Development Costs	Patents	Cxbladder Development Costs	Total
<b>Cost</b>				
Balance at 1 April 2015	385,738	93,470	32,846	512,053
Additions	105,010	55,545	-	160,556
Disposals	-	-	-	-
Foreign Translation Difference	2,653	-	-	2,653
<b>Balance at 31 March 2016</b>	<b>493,401</b>	<b>149,015</b>	<b>32,846</b>	<b>675,262</b>
Balance at 1 April 2016	493,401	149,015	32,846	675,262
Additions	206,561	63,738	-	270,299
Disposals	-	-	-	-
Foreign Translation Difference	(384)	-	-	(384)
<b>Balance at 31 March 2017</b>	<b>699,578</b>	<b>212,753</b>	<b>32,846</b>	<b>945,176</b>
<b>Accumulated Amortisation</b>				
Balance at 1 April 2015	194,839	63,636	9,529	268,004
Amortisation Expense	122,397	36,322	-	158,719
Foreign Translation Difference	985	-	-	985
<b>Balance at 31 March 2016</b>	<b>318,221</b>	<b>99,958</b>	<b>9,529</b>	<b>427,708</b>
Balance at 1 April 2016	318,221	99,958	9,529	427,708
Amortisation Expense	146,246	42,298	-	188,544
Foreign Translation Difference	(229)	-	-	(229)
<b>Balance at 31 March 2017</b>	<b>464,238</b>	<b>142,256</b>	<b>9,529</b>	<b>616,023</b>
<b>Carrying Amounts</b>				
At 1 April 2015	190,898	29,834	23,317	244,050
At 31 March 2016	175,179	49,057	23,317	247,554
At 31 March 2017	235,338	70,497	23,317	329,153

### 15. 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 three operating segments at balance date: The Laboratories used for the detection of bladder cancer, currently operating in New Zealand and in the United States of America; and the Research and development of diagnostic and prognostic products for human cancer, operating in New Zealand, Australia, and Singapore.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

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 segment described above, for the year ended 31 March 2017, is shown below:

2017	NZ Laboratory	US Laboratory	Research NZ, Australia & Singapore	Less: Eliminations	Total External Income
<b>Income</b>					
Operating Revenue	296,623	7,765,372	-	-	8,061,995
Research Tests Processed	125,120	39,473	-	(164,593)	-
Grant Revenue and Research Rebate	-	-	1,104,596	-	1,104,596
Interest	-	17	2,229,786	(1,981,202)	248,601
Intercompany Cost Recovery	60,899	9,131	878,015	(948,045)	-
Foreign Exchange Gain	2,908	-	116,568	-	119,476
<b>Total Income</b>	<b>485,550</b>	<b>7,813,993</b>	<b>4,328,965</b>	<b>(3,093,840)</b>	<b>9,534,668</b>
<b>Expenses</b>					
Expenses	1,251,001	18,084,509	13,731,364	(3,093,840)	29,973,032
Depreciation and Amortisation	16,463	210,795	314,678	-	541,936
<b>Total Operating Expenses</b>	<b>1,267,464</b>	<b>18,295,304</b>	<b>14,046,042</b>	<b>(3,093,840)</b>	<b>30,514,970</b>
<b>Loss Before Tax</b>	<b>(781,914)</b>	<b>(10,481,311)</b>	<b>(9,717,077)</b>	<b>-</b>	<b>(20,980,302)</b>

### Eliminations

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

### Segment Assets and Liabilities Information

2017	NZ Laboratory	US Laboratory	Research NZ, Australia & Singapore	Total
Total Assets	447,313	7,519,255	15,596,634	23,563,202
Total Liabilities	104,081	1,314,809	1,315,421	2,734,311

Additions to non current assets include property, plant and equipment of \$124,054 to Research NZ and Australia, \$10,673 to the NZ Laboratory and \$73,956 to the US Laboratory. There were also \$270,299 in additions to intangible assets within Research NZ and Australia.

There is no external revenue to any particular customer greater than 10%, nor is there a significant concentration risk in relation to receivable balances.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

2016	NZ Laboratory	US Laboratory	Research NZ, Australia & Singapore	Less: Eliminations	Total External Income
<b>Income</b>					
Operating Revenue	344,001	4,631,036	495	-	4,975,532
Research Tests Processed	190,670	200,331	-	(391,001)	-
Grant Revenue and Research Rebate	-	-	1,403,264	-	1,403,264
Interest	24	28	2,051,437	(1,289,312)	762,177
Intercompany Cost Recovery	66,606	9,452	757,555	(833,613)	-
Foreign Exchange Gain	(1,214)	-	53,437	-	52,223
<b>Total Income</b>	<b>600,087</b>	<b>4,840,847</b>	<b>4,266,188</b>	<b>(2,513,926)</b>	<b>7,193,196</b>
<b>Expenses</b>					
Expenses	1,204,288	13,298,230	10,374,793	(2,513,926)	22,363,385
Depreciation and Amortisation	18,421	216,207	271,574	-	506,202
<b>Total Operating Expenses</b>	<b>1,222,709</b>	<b>13,514,437</b>	<b>10,646,367</b>	<b>(2,513,926)</b>	<b>22,869,587</b>
<b>Loss Before Tax</b>	<b>(622,622)</b>	<b>(8,673,590)</b>	<b>(6,380,179)</b>	<b>-</b>	<b>(15,676,391)</b>

### Segment assets and liabilities information

2016	NZ Laboratory	US Laboratory	Research NZ, Australia & Singapore	Total
Total Assets	256,448	5,663,653	26,410,703	32,330,804
Total Liabilities	45,714	1,095,004	1,382,616	2,523,334

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.

The reportable operating segment research derives its revenue primarily from grant income and the reportable operating segment laboratories derive their revenue primarily from sales of Cxbladder detection tests. The Chief Executive Officer assesses the performance of the operating segments based on net profit/(loss) for the period.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

### 16. INCOME TAX

#### ACCOUNTING POLICY

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements in accordance with NZ IAS 12. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The Company and Group has incurred an operating loss for the 2017 financial year and no income tax is payable.

	GROUP	
	2017 \$	2016 \$
<b>Income tax recognised in the profit or loss:</b>		
Current tax expense	-	280,570
Adjustments to current tax in respect to prior years	223,896	373,269
Benefit from previously unrecognised tax losses	(223,896)	(653,840)
Deferred Tax in respect of the current year	(6,060,437)	(4,542,481)
Adjustments to deferred tax in respect to prior years	91,872	358,857
Deferred tax assets not recognised	5,968,565	4,183,625
<b>Income tax expense</b>	<b>-</b>	<b>-</b>
<b>The prima facie income tax on pre-tax accounting profit from operations reconciles to:</b>		
Accounting loss before income tax	(20,980,302)	(15,676,391)
At the statutory income tax rate of 28%	(5,874,485)	(4,389,390)
Permanent Differences - Non-deductible expenditure	569,523	968,698
Difference in US and Australian income tax rates	(531,579)	(467,950)
Prior period adjustment	91,872	358,857
Tax losses utilised	(223,896)	(653,840)
Deferred tax assets not recognised	5,968,565	4,183,625
<b>Income tax expense reported in Income Statement</b>	<b>-</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

### Tax Losses

The group has losses to carry forward of approximately \$36,912,687 (2016: \$25,822,801) with a potential tax benefit of \$11,971,562 (2016: \$6,442,095). The tax losses are split between the following jurisdictions (shown in NZD): New Zealand \$8,981,664 (tax effect of \$2,514,866 (at 28%), Australia \$149,951 (tax effect of \$44,985 (at 30%)), Singapore \$199,138 (tax effect of \$33,853 (at 17%) and the United States \$27,581,935 (tax effect of \$9,377,858 (at 34%)). Tax losses are available to be carried forward and offset against future taxable income subject to the various conditions required by income tax legislation being complied with.

### Deferred Research and Development Tax Expenditure

The Group also has deferred research and development tax expenditure of \$34,341,667 (2016: \$29,543,514) to carry forward and claim for income tax purposes in New Zealand in the future. This has a tax effect of \$9,615,667 (2016: \$8,272,184). The deferred research and development tax expenditure can either be carried forward and offset against future income arising from the research and development, or subject to meeting the shareholder continuity requirements can be offset against future other taxable income.

### Deferred Tax Assets

The Group does not recognise a deferred tax asset in the Statement of Financial Position.

### Imputation Credit Account

The Group has imputation credits of \$1,323 (2016: NIL).

### 17. PAYABLES AND ACCRUALS

#### ACCOUNTING POLICY

#### Trade and Other Payables Due Within One Year

Trade payables are recognised at the value of the invoice received from a supplier. The carrying value of trade payables is considered to be approximate fair value as amount are unsecured and are usually paid by the 30th of the month following recognition.

	GROUP	
	2017 \$	2016 \$
Trade Creditors	837,603	1,114,326
Accrued Expenses	533,085	300,236
Employee Entitlements (refer below)	1,363,623	1,108,772
<b>Total Payables and Accruals</b>	<b>2,734,311</b>	<b>2,523,334</b>

Payables and accruals are non-interest bearing and are normally settled on 30 day terms. Therefore their carrying value approximates their fair value.

#### Employee Entitlements

Employee entitlements are measured at values based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date and annual leave earned to, but not yet taken at balance date.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

	GROUP	
	2017 \$	2016 \$
PAYE Tax	51,003	63,173
Holiday Pay	290,021	436,999
Accrued Wages	1,022,599	608,600
<b>Total Employee Entitlements</b>	<b>1,363,623</b>	<b>1,108,772</b>

### 18. SHARE CAPITAL

#### ACCOUNTING POLICY

Ordinary shares are described as equity.

Issue expenses, including commission paid, relating to the issue of ordinary share capital, have been written off against the issued share price received and recorded in the Statement of Changes in Equity.

Equity-settled share-based payments to employees and others providing services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share based transactions are set out in Note 8.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revisits its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share based payments reserve.

	GROUP	
	2017 \$	2016 \$
Ordinary Shares	111,595,609	100,011,826
<b>Total Share Capital</b>	<b>111,595,609</b>	<b>100,011,826</b>

There are 399,271,161 (2016: 376,543,478) Authorised 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.

#### Share Capital Group

	2017 Shares	2017 \$	2016 Shares	2016 \$
Opening Balance	376,543,478	100,011,826	318,615,921	66,611,612
New Issues: Direct Offers	22,727,683	11,674,550	57,927,557	35,335,810
Less Issue Expenses	-	(90,767)	-	(1,935,596)
	22,727,683	11,583,783	57,927,557	33,400,214
<b>Closing Balance</b>	<b>399,271,161</b>	<b>111,595,609</b>	<b>376,543,478</b>	<b>100,011,826</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

### 19. ACCUMULATED LOSSES

	GROUP	
	2017 \$	2016 \$
Opening Balance	(73,526,937)	(57,850,546)
Net (Loss) After Tax	(20,980,302)	(15,676,391)
<b>Closing Balance</b>	<b>(94,507,239)</b>	<b>(73,526,937)</b>

### 20. EARNINGS PER SHARE

#### (a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares on issue during the year excluding ordinary shares purchased by the Company (Note 18).

	GROUP	
	2017 \$	2016 \$
Loss attributable to equity holders of the Company	(20,980,302)	(15,676,391)
Weighted average number of ordinary shares on issue	382,468,279	361,307,737
Earnings per share	(0.055)	(0.043)

#### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group's dilutive potential ordinary shares are in the form of share options. As the Group made a loss during the current year and losses cannot be diluted, basic and diluted earnings per share are the same.

### 21. FOREIGN CURRENCY

#### ACCOUNTING POLICIES

##### Foreign Currency Transactions

The individual financial statements of the Group are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Group financial statements, the results and financial position of the Group entity are expressed in New Zealand dollars ('NZ\$'), which is the functional currency of the Parent and the presentation currency for the Group financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period.

Exchange differences are recognised in the Statement of Comprehensive Income in the period in which they arise.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

### Foreign Operations

For the purpose of presenting the Group financial statements, the assets and liabilities of the Group's foreign operations are expressed in New Zealand dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated as a separate component of equity in the Group's foreign currency translation reserve. Such exchange differences are reclassified from equity to profit or loss (as a reclassification adjustment) in the period in which the foreign operation is disposed of.

### Foreign Currency Translation Reserve

Exchange differences relating to the translation from the functional currencies of the Group's foreign subsidiaries into New Zealand dollars are brought to account by entries made directly to the foreign currency translation reserve.

## 22. RECONCILIATION OF CASH USED FROM OPERATING ACTIVITIES WITH OPERATING NET LOSS

	GROUP	
	2017 \$	2016 \$
Net Loss for the Period	(20,980,302)	(15,676,391)
<b>Add Non Cash Items:</b>		
Depreciation	353,391	347,483
Amortisation	188,545	158,719
Movement in share based payments reserve	485,347	1,158,148
Issue of Employee Incentive Scheme Shares	2,924,550	-
Effect of exchange rates on net cash	(119,474)	(52,223)
<b>Total Non Cash Items</b>	<b>3,832,359</b>	<b>1,612,127</b>
<b>Add Movements in Other Working Capital items:</b>		
Decrease (Increase) in Receivables and Other Assets	(783,965)	(3,396,273)
(Increase) in Inventory	(116,471)	(84,373)
Increase (Decrease) in Payables and Accruals	210,976	592,550
<b>Total Movement in Other Working Capital</b>	<b>(689,460)</b>	<b>(2,888,096)</b>
<b>Net Cash Flows to Operating Activities</b>	<b>(17,837,403)</b>	<b>(16,952,360)</b>

## 23. FINANCIAL INSTRUMENTS

### ACCOUNTING POLICIES

Financial instruments include cash and cash equivalents, short term deposits, receivables and trade creditors. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

### Managing Financial Risk

The Group's activities expose it to the financial risks of changes in interest rate risk, credit risk, liquidity risk and foreign currency risk.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

### Interest Rate Risk

The Group's bank deposits are at floating interest rates, which mitigates the risk of interest rates being less than market rates.

### Credit Risk

The Group incurs credit risk from bank balances, receivables in the normal course of its business and other assets. Regular monitoring of receivables and other assets is undertaken to ensure that the credit exposure remains within the Group's normal terms of trade. The Group's cash and short term deposits are placed with high credit quality financial institutions.

Accordingly, the Group has no significant concentration of credit risk other than bank deposits with 1.08% of total assets at the Bank of New Zealand and 58.34% at ANZ Bank.

The carrying values of financial assets represent the maximum exposure to credit risk.

### Liquidity Risk

Liquidity risk is the risk that the Group may encounter difficulty in raising funds at short notice to meet its commitments as they fall due. Management maintains sufficient cash and the availability of funding through an adequate amount of committed credit facilities if required.

Payables and Accruals totaling \$2,734,311 are due within 3 months of balance date (2016: \$2,523,334).

### Fair Values

In the opinion of the directors, the carrying amount of financial assets and financial liabilities approximate their fair values at balance date.

### Market Risk

The Group purchases goods from overseas suppliers. This exposes the Group to foreign currency risk. The Group manages foreign currency risk by purchasing overseas goods only when necessary and when foreign exchanges are favourable.

Management is of the opinion that the Company and Group's exposure to market risk at balance date is defined as:

Risk Factor	Description	Sensitivity
(i) Currency risk	Assets and liabilities are denominated in NZD, USD, AUD, and EUR currencies.	As below
(ii) Interest rate risk	Exposure to changes in Bank interest rates	As below
(iii) Other price risk	No securities are bought, sold or traded	Nil

Balances in AUD and EUR currencies are not significant. A 10% increase or decrease in USD against the NZD will reduce/increase the loss reported by approximately \$1,058,000 (2016: \$860,000) respectively and increase/reduce equity by the same amount.

A 1% increase or decrease in Bank deposit interest rates will reduce/increase the loss reported by approximately \$183,000 (based on normal levels of bank deposits) and increase/reduce equity by the same amount (2016: \$146,000).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

### 24. RELATED PARTIES

The Group paid consultancy fees for accounting services to CJS Business Advisors Limited. CJ Swann was a director until 25 August 2016, and is a shareholder of this company. The fees charged were on normal terms and conditions and totaled \$6,053 (2016: \$24,975). At balance date \$0 was outstanding relative to these transactions (2016: \$2,723).

A significant shareholder, the University of Otago, provided services, including rental space and car parking, to the Group to the value of \$297,411 (2016: \$250,881). As at 31 March 2017 the Group commitment for the next financial year is \$194,300 (2016: \$186,990).

Refer to Note 6 for details of the Incentive Plan that includes key management remuneration.

Key management personnel comprise of Directors and the Chief Executive Officers of Pacific Edge Limited and Pacific Edge Diagnostics USA Limited. A close personal relation of a member of key management personnel is employed by the company on the same terms as other comparable employees.

Key management compensation was as follows:

	GROUP	
	2017 \$	2016 \$
Salaries and Other Short Term Employee Benefits	1,301,849	1,223,422
Share Options Benefits	239,603	797,391
Share Issue Expense: Employee Equity Equivalent Incentive Scheme (refer note 6)	1,131,119	-
<b>Total Benefits</b>	<b>2,672,571</b>	<b>2,020,813</b>

Directors' fees and payments during the 2017 financial year are \$286,736 (2016: \$225,828). There are no long term or termination benefits. The total directors fees for the year of \$286,736 includes directors fees for Pacific Edge Limited and Pacific Edge Diagnostics USA Limited. The total directors fees relating to Pacific Edge Diagnostics USA Limited is \$7,050 which is not included within the total remuneration cap of \$275,000. The total directors fees relating to Pacific Edge Limited is \$279,686. This is greater than the \$275,000 cap on directors fees remuneration. During the year Pacific Edge Limited identified that one of the directors had been underpaid for the prior period and the required adjustment was made in the current financial year.

### 25. LEASE COMMITMENTS

#### ACCOUNTING POLICY

Leases in which a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating leases are charged to other expenses in the Statement of Comprehensive Income on a straight-line basis over the term of the lease. The Group has the following lease commitments for buildings and equipment.

	GROUP	
	2017 \$	2016 \$
Non cancellable operating lease commitments within one year	1,160,511	1,007,285
Later than one year, not later than two years	957,543	610,428
Later than two years, not later than five years	1,301,471	13,029
<b>Total Lease Commitments</b>	<b>3,419,525</b>	<b>1,630,742</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

The lease of premises (in the Centre for Innovation) with the University of Otago was renegotiated on 26 May 2015 for a further two years at \$165,700 per annum (2016: \$154,750). Pacific Edge Diagnostics New Zealand Limited's lease of premises is \$28,600 per annum (2016: \$26,650).

Pacific Edge Diagnostics USA Limited has a 5 year lease which expires on 30 November 2017 with a further three year extension to 30 November 2020. The total financial commitment remaining for this lease is \$2,732,178 (2016: \$1,036,219). This includes an Allowance Reimbursement which is payable to the landlord on a monthly basis.

Pacific Edge Diagnostics Singapore Pte. Ltd's lease is \$40,800 per annum (2016: \$0).

### 26. CAPITAL COMMITMENTS

There are no capital commitments for the Group at 31 March 2017 (2016: Nil).

### 27. CONTINGENT LIABILITIES

There were no known contingent liabilities at 31 March 2017 (2016: Nil). The Group has not granted any securities in respect of liabilities payable by any other party whatsoever.

### 28. SUBSEQUENT EVENTS

There are no subsequent events.

### 29. MANAGEMENT OF CAPITAL

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefit for other stakeholders and to maintain an optimal capital structure to support the development of its business. The Company meets these objectives through managing its liquidity position with available funds by reducing expenditure or issuing new shares.

### 30. 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.

At the date of signing the financial statements, the Company is in advanced negotiations with a number of prospective commercial customers for the provision of services. The first of these new contracts has been signed and the Directors are confident that the other negotiations will be successful.

However, in the event that these contract negotiations are not successful, a decrease in forecast cash flows may occur. In which case, a material uncertainty would exist which may cast significant doubt on the Company's ability to continue as a going concern. In this event, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. The Directors have a number of operational options available to them, including cost management and seeking additional funding.



## Independent auditor's report

To the shareholders of Pacific Edge Limited

The consolidated financial statements comprise:

- the balance sheet as at 31 March 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

### Our opinion

In our opinion, the consolidated financial statements of Pacific Edge Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor and providers of other assurance services in relation to a share registry audit and a research and development grant review, we have no relationship with, or interests in, the Group.

### Material Uncertainty Related to Going Concern

We draw attention to the disclosures made in Note 30 in the financial statements which indicates that the ability of the Group to continue in operational existence is dependent upon its ability to generate adequate positive cash flows from operations, manage costs, or seek additional funding. This condition indicates the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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## Our audit approach

### Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall group materiality: \$750,000, which represents 4% of loss before tax.

We chose loss before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

Our key audit matter is the Gross Recoverable Revenue ('GRR') for US derived revenue.

### Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

### Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

The accounting function for the Group is maintained in New Zealand providing consistent accounting systems and processes across the jurisdictions the Group operates in. Our audit was conducted entirely from New Zealand and the scope of our testing covered the transactions of the entire Group.





**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. In addition to the matter described in the Material Uncertainty Related to Going Concern section we have determined the matter described below to be the key audit matter to be communicated in our report. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Key audit matter	How our audit addressed the key audit matter
<p><b>Gross Recoverable Revenue Rate for US derived revenue</b></p> <p>The Group recognises revenue when the relevant individual Cxbladder test report has been issued to the clinician who requested it.</p> <p>There is uncertainty over the level of reimbursement from insurance companies in the US and therefore the fair value of each test varies depending on individual insurance company. This is normal until such time as contracted prices with insurers are entered into. For the year ended 31 March 2017 the Group had US revenue of \$7.8 million.</p> <p>The Group currently accrues revenue at a specified Gross Recoverable Revenue (“GRR”) amount, which is considered to be a fair value of the average consideration expected to be received across the population of Cxbladder tests.</p> <p>The calculation of the GRR involves estimation and judgement to determine fair value. Management calculates the GRR based on the following:</p> <ul style="list-style-type: none"> <li>Actual Gross Recoverable Revenue received per test historically; and</li> <li>Information from the Group’s external billing and reimbursement agency, Quadax, who provide data regarding, cash collected per claim, closed claims and partial payments.</li> </ul>	<p>We considered the appropriateness of the methodology applied by the directors in calculating the Gross Recoverable Revenue (“GRR”) by performing the following:</p> <ul style="list-style-type: none"> <li>Obtained a service organisation controls report for the Group’s third party service provider Quadax to ensure the revenue and receivable controls are operating effectively for the year ended 31 December 2016;</li> <li>Confirmed with the third party provider Quadax that the control environment has remained unchanged during the intervening period to 31 March 2017;</li> <li>Reperformed the GRR calculation to confirm the mathematical accuracy;</li> <li>Agreed the key inputs being the cash collected during the year and the number of closed claims back to external reports from the third party service provider Quadax;</li> <li>Assessed the GRR rate accrued against the prior year and rate achieved during the year; and</li> <li>Held discussions with senior management in both New Zealand and the US to understand if there are any other known factors that could impact the GRR rate.</li> </ul>

**Information other than the financial statements and auditor’s report**

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not, and will not, express any form of assurance conclusion on other information. At the time of our audit, there was no other information available to us.

In connection with our audit of the consolidated financial statements, if other information is included in the annual report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of our auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

**Responsibilities of the Directors for the consolidated financial statements**

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

**Auditor’s responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board’s website at:

[https://xrb.govt.nz/Site/Auditing\\_Assurance\\_Standards/Current\\_Standards/Page1.aspx](https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx)

This description forms part of our auditor’s report.

**Who we report to**

This report is made solely to the Company’s shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor’s report is Nathan Wylie.

For and on behalf of:

Chartered Accountants  
24 May 2017

Dunedin

## RISK ANALYSIS

As a high growth company, there are a number of risks associated with our business. We believe it is important for our shareholders to have an understanding of these risks and the processes the Board and management have put in place to mitigate these risks.

Market Disruption	We operate in a number of different international markets and as we introduce additional products in new areas, we will limit our exposure to any potential market disruption	Reimbursement Risks	We have dedicated specialists working in the area of Accounts and Payer Relationships  We have negotiated agreements in place with major payment facilitators  We have negotiated agreements in place with Federal customers
Acceptance of our products by the medical community and funders/ third party payers	Clinical studies have validated our test results  Our User Programmes are a key ingredient in driving adoption by clinicians  We have CLIA certified laboratories in USA and New Zealand	Financial Risks	\$8.75m of capital was raised from New Zealand based investors in February 2017. The Company had \$14.6m of cash and cash equivalents as at 31 March 2017  The Board believes we have sufficient funding in place to continue with our strategic plan for the next year and that that trading revenue will be a major contributor to future growth funding
Acceptance of our products by funders and third party payers	We are building strong relationships and have negotiated a number of agreements with third party payers and funders	Revenue Generation	We would reasonably expect revenue to grow as we expand our commercial presence in the USA and gain momentum in New Zealand, Australia and Singapore
Dependence on franchise partners to market and sell our products	Greater control in the key US market through our wholly owned subsidiary, Pacific Edge Diagnostics USA Limited  Close working relationships with franchise partners	Foreign Exchange Risks on Expected Royalties	The Board and management monitor these risks regularly and evaluate whether exposure can be reduced by hedging transactions  A natural hedge exists with the US generated revenue
Competitor Activity	We have yet to see any competition in the bladder cancer diagnostic field from new molecular diagnostics  We hold the lead in clinical validation which has long lead times  We are focused on building a strong and loyal customer base around a portfolio of interdependent products	Other Environmental, Health and Safety, Operational and Statutory Risks	These are monitored continuously. Functions and processes have been implemented at each facility to reduce risks. We consult with external experts in our decision making, policies and processes
Intellectual Property related Opportunities and Risks	We have made great progress in expanding our intellectual property portfolio and having several key patents granted  In some cases, we have taken forward looking licenses to hedge the event of other's intellectual property impacting on us	Share Registry Risks	We are aware of the risks associated with our shares such as low levels of liquidity, a number of large investors, high volatility in share price and external influences from investor confidence
Regulatory Risks	We have sought advice from experts in the regulatory landscape  We are aware of the risks and continuously monitor the regulatory environment for changes that may affect our business  We have a successful history of regulatory review in both operating laboratories		

## PACIFIC EDGE SCIENTIFIC ADVISORY BOARD

Pacific Edge has a world class Scientific Advisory Board (see table below). The skills, experience and capability cover a range of disciplines from clinical medicine and pathology through to commercial biotechnology research and development.

Members of the Scientific Advisory Board advise on science, scientific progress and clinical opportunities. Visits to New Zealand by the international members also provide a strong linkage to international issues and opportunities while enabling us to keep abreast of the rapidly changing technology.

Name	Position	Organisation	Country
<b>P. Guilford</b>	Chief Scientific Officer	Pacific Edge Limited	New Zealand
	Professor	University of Otago	New Zealand
<b>N. Kasabov</b>	Director	Knowledge Engineering & Discovery Research Institute (KEDRI)	New Zealand
	Professor Computer Science	Auckland University of Technology	New Zealand
<b>M. Sullivan</b>	Professor Consultant Paediatric Oncologist	The University of Melbourne Royal Children's Hospital	Australia
	<b>M. Brennan</b>	Oncologic Surgeon Scientist Vice President for International Programs Professor	Memorial Sloan Kettering Cancer Center
<b>B. Williams</b>	Director and CEO	Hudson Institute of Medical Research	Australia
	Director	Pacific Edge Limited	New Zealand
<b>O. Ogawa</b>	Professor and Chairman	Department of Urology, Kyoto School of Medicine	Japan
<b>P. Spence</b>	Managing Director	Paul Spence Consultants	United Kingdom

## CLINICAL ADVISORY BOARD

Pacific Edge has a Clinical Advisory Board to provide expert advice on global clinical needs and applications for the Cxbladder technology.

Name	Position	Organisation	Country
<b>R. Getzenberg</b>	Executive Vice President	Veru Healthcare	USA
<b>S. Shariat</b>	Professor and Chairman	Medical University of Vienna, Vienna General Hospital	Austria
	Adjunct Professor	Weill Cornell Medical Center, New York	USA
	Adjunct Professor	University of Texas Southwestern Medical Center	USA
<b>J. Raman</b>	Professor of Surgery and Chief of the Division of Urology	Penn State Hershey Surgical Specialties, Milton S. Hershey Medical Center, Hershey, Pennsylvania	USA
<b>P. Cozzi</b>	Associate Professor	University of Notre Dame	Australia
	Urologist	VMO at St George Public and Private, Mater Private, Sutherland, Kareena, Prince of Wales and Hurstville Private Hospitals	Australia
<b>P. Gilling</b>	Consultant Urologist	Tauranga Hospital	New Zealand
	Head of Urology Department	Urology BOP Ltd	New Zealand
	Professor of Surgery	University of Auckland School of Medicine	New Zealand
<b>M. Fraundorfer</b>	Consultant Urologist	Tauranga Hospital Urology BOP Ltd	New Zealand
<b>P. Davidson</b>	Consultant Urologist	Urology Associates	New Zealand
	Trustee of CURT	Canterbury Urological Research Trust (CURT)	New Zealand
<b>J. Masters</b>	Urologist	Auckland City Hospital Manukau Superclinic	New Zealand

## STATUTORY INFORMATION

For the year ended 31st March 2017

### ENTRIES RECORDED IN THE INTERESTS REGISTER

The Company maintains an Interests Register in accordance with the Companies Act 1993 and the Financial Markets Conduct Act 2013.

The following are particulars of entries made in the Interests Register for the period 1 April 2016 to 31 March 2017.

#### Directors' Interests

Directors disclosed interests, or cessation of interest, in the following entities pursuant to section 140 of the Companies Act 1993 during the year ended 31 March 2017.

DIRECTOR/ENTITY	RELATIONSHIP
<b>C. Gallaher</b>	
Ashdown Group Pty Ltd	Director
The Good Shepherd Australia and New Zealand Ltd	Director
The Good Shepherd New Zealand Ltd	Director
<b>D. Band</b>	
Abacus Bio Ltd	Chairman
GoSkills Ltd	Chairman
Kauri Ltd (Australia)	Director
<b>D. Levison</b>	
CardioDx	Director & Shareholder
CareDx	Shareholder
<b>B. Williams</b>	
BioGrid Australia	Director
Hudson Institute of Medical Research	CEO & Director

### DIRECTORS' SHAREHOLDINGS

as at 31 March 2017

Number of Equity Securities	2017	2016
D. Darling*	6,954,413	5,319,897
C. Swann**	1,171,641	797,064
B. Williams	4,316	4,316
D. Levison***	225,000	-

\*D Darling has a current interest in a total of 6,954,413 equity securities, made up of 4,704,413 ordinary shares in the Company and 2,250,000 options to acquire ordinary shares in the Company.

\*\* C. Swann resigned from the Board on 25 August 2016.

\*\*\* D. Levison's interest is share options only.

## STATUTORY INFORMATION

For the year ended 31st March 2017

### DIRECTORS' REMUNERATION

The maximum total monetary sum payable by the company by way of directors' fees is \$275,000 per annum as approved by shareholders at the 2015 special shareholders' meeting. This excludes fees for subsidiary companies. Non-executive directors received the following directors' fees from the company in the year ended 31 March 2017:

Directors' Fees	2017 NZ\$	2016 NZ\$
C. Gallaher (Chairman)	49,899	-
C. Swann	26,130	62,712
D. Band*	45,328	37,161
A. Masfen	36,863	32,100
B. Nogales**	7,238	29,525
C. Sitch	8,020	32,078
B. Williams	36,863	32,100
D. Levison	78,581	-
<b>Total</b>	<b>286,924</b>	<b>225,676</b>

\* Fees paid to D. Band include a backdated payment for the previous financial year totalling \$4,686.

\*\* B. Nogales' Directors Fees were paid by the subsidiary Pacific Edge Diagnostics USA Limited, of which he was a Director until 30 June 2016. This amount is not included in the \$275,000 total remuneration, which only relates to amounts payable to Directors of the Company.

### INFORMATION USED BY DIRECTORS

The Board of Directors received no notices from Directors wishing to use Company information received in their capacity as Directors, which would not have ordinarily been available.

### INDEPENDENCE

The following directors are considered by the Board to be independent (as defined under the NZX Main Board Listing Rules) as at 31 March 2017: C. Gallaher, B. Williams, D. Band and D. Levison. The following directors are considered by the Board to not be independent: A. Masfen and D. Darling.

### SUBSIDIARY COMPANY DIRECTORS

Section 211(2) of the Companies Act 1993 requires the company to disclose, in relation to its subsidiaries, the total remuneration and value of other benefits received by directors and former directors, and particulars of entries in the interests registers made during the year ended 31 March 2017.

No subsidiary has directors who are not directors of Pacific Edge Limited or employees of the Group. The remuneration and other benefits of such directors are included in the Directors Remuneration section of this report and the remuneration and other benefits of employees totaling NZ\$100,000 or more during the year ended 31 March 2017 are included in the relevant bandings for remuneration below.

Other than B. Nogales, who received remuneration for his position as director of Pacific Edge Diagnostics USA Ltd, no remuneration is paid to any other director of subsidiary companies for their position as director of the subsidiary company.

## STATUTORY INFORMATION

For the year ended 31st March 2017

The persons who held office as directors of subsidiary companies at 31 March 2017 are as follows:

Pacific Edge Diagnostics New Zealand Limited	D.Darling
Pacific Edge Analytical Services Limited	D.Darling
Pacific Edge Diagnostics USA Ltd	D.Darling, C.Gallaher, D.Band, D.Levison, J. Walker
Pacific Edge Pty Ltd	D.Darling, C.Gallaher, B.Williams
Pacific Edge Diagnostics Singapore Pte. Ltd	D.Darling, B.Williams, K.Rankin

## EMPLOYEE REMUNERATION

The Group operates in New Zealand, Australia, Singapore and the United States where market remuneration levels differ. The offshore remuneration amounts are converted into New Zealand dollars. Of the employees noted in the table below, 63% are employed by the Group outside New Zealand. During the year, 35 employees or former employees of the Group, not being directors of the Company, received remuneration and other benefits that exceeded NZ\$100,000 in value as follows:

Employee Remuneration	2017	2016
\$100,000 - \$109,999	2	4
\$110,000 - \$119,999	3	1
\$120,000 - \$129,999	1	2
\$130,000 - \$139,999	1	0
\$140,000 - \$149,999	1	1
\$150,000 - \$159,999	1	0
\$160,000 - \$169,999	6	2
\$170,000 - \$179,999	1	2
\$180,000 - \$189,999	3	2
\$190,000 - \$199,999	2	2
\$200,000 - \$209,999	4	2
\$210,000 - \$219,999	1	3
\$220,000 - \$229,999	1	1
\$230,000 - \$239,999	2	1
\$240,000 - \$249,999	1	0
\$260,000 - \$269,999	0	1
\$270,000 - \$279,999	1	0
\$280,000 - \$289,999	0	1
\$300,000 - \$309,999	1	0
\$350,000 - \$359,999	0	1
\$380,000 - \$389,999	1	0
\$430,000 - \$439,999	1	0
\$440,000 - \$449,999	0	1
\$520,000 - \$529,999	1	0
\$550,000 - \$559,999	0	1
	<b>35</b>	<b>28</b>

## STATUTORY INFORMATION

For the year ended 31st March 2017

### STOCK EXCHANGE LISTING

The total number of issued voting securities was 399,271,161 ordinary shares as at 31 March 2017. The Company's ordinary shares are listed on the NZX Main Board.

### SPREAD OF SECURITY HOLDERS AT 30 APRIL 2017

	No. of Ordinary Security Holders	% of Issued Capital
1 - 1,000	489	0%
1,001 - 5,000	1,778	1%
5,001 - 10,000	1,045	2%
10,001 - 100,000	1,822	14%
Greater than 100,001	298	83%
<b>Total Security Holders</b>	<b>5,432</b>	<b>100%</b>

### TWENTY LARGEST EQUITY SECURITY SHAREHOLDERS AS AT 30 APRIL 2017

	Ordinary Shares
New Zealand Central Securities Depository Limited	158,775,933
K One W One Limited	19,786,297
Forsyth Barr Custodians Ltd	12,344,131
FNZ Custodians Limited	10,501,389
Masfen Securities Limited	9,413,567
Leveraged Equities Finance Limited	5,586,533
Hypertech Holdings Corporation	4,929,169
David Darling & Yvonne McCallum & Independent Trustees (Tauranga) Limited	4,696,141
FNZ Custodians Limited	4,517,862
Carol Anne Edwards & Graeme Brent Ramsey	4,281,930
Steven Cyril Hancock & Bronwyn Hilda Hancock	2,705,000
Custodial Services Limited	2,648,495
Henry Berry Corporation Ltd	2,276,968
Custodial Services Limited	2,162,853
Michael Walter Daniel & Nigel Geoffrey Burton & Michael Murray Benjamin	2,000,000
Farnworth Ventures Limited	1,900,000
David John Mccauley & Sally Anne Mccauley	1,849,980
Pt Booster Investments Nominees Limited	1,705,097
Ballynagarrick Investments Limited	1,574,971
ASB Nominees Limited	1,265,000

## STATUTORY INFORMATION

For the year ended 31st March 2017

### SUBSTANTIAL PRODUCT HOLDERS

The following substantial product holder information is given pursuant to section 293 of the Financial Markets Conduct Act 2013. These substantial product holders are shareholders who have a relevant interest of 5% or more of a class of quoted voting products of the Company. As at 31 March 2017, details of the substantial product holders of the Company and their relevant interests in the Company's shares are as follows:

Name of Substantial Product Holder	Number of Ordinary Voting Securities as at 31 March 2017	
Harbour Asset Management Limited	42,410,994	10.62%
Salt Funds Management Limited	42,406,097	10.62%
Westpac Banking Corporation	34,548,725	8.65%
BNP Paribas Nominees (NZ) Ltd and Smartshares Ltd	20,875,152	5.23%
Devon Funds Management	20,010,577	5.01%

### DIVERSITY

As at 31 March 2017 all six directors of the Company were male. The Company does not have a gender diversity policy. The Officers of the Company (as defined by the NZX Main Board Listing Rules) are the CEO, CFO, COO and Digital Marketing Manager of the Company, the CEO of Pacific Edge Diagnostics USA Limited and the Commercial Director of Pacific Edge Diagnostics New Zealand Limited. As at 31 March 2017, three Officers were male and three were female.

	FY17 Male	FY17 Female	FY16 Male	FY16 Female
Directors of Pacific Edge	6	0	6	0
Officers of Pacific Edge	3	3	3	2

### DONATIONS

The Group made no donations during the year.

### CREDIT RATING

The Company currently does not have a credit rating.

### WAIVERS FROM NZX LISTING RULES

No waivers were granted by NZX during the 12 month period ended 31 March 2017.

### EXERCISE OF NZX POWERS (LISTING RULE 5.4.2)

NZX did not exercise its powers during the year under Listing Rule 5.4.2.

## CORPORATE GOVERNANCE

### Role of the Board

The Board of Directors of Pacific Edge Limited is elected by the shareholders to supervise the management of the Company. The Board establishes the Company's objectives, strategies for achieving these objectives, the overall policy framework within which the business of the Company is conducted, monitors management's performance and ensures that procedures are in place to provide effective internal financial control.

The day-to-day management responsibilities of the Company have been delegated to the Chief Executive Officer.

### Corporate Governance Practices in the Constitution

The Company's constitution sets out guidelines for Directors and management in carrying out their duties and responsibilities. The constitution requires that the Board comply with the Listing Rules and the Companies Act 1993. The provisions in the Second Schedule to the Company's constitution govern the proceedings of the Board. The Company's constitution covers matters such as:

- General corporate governance matters
- Role of the Board
- Composition of the Board
- Directors' responsibilities
- Appointment and removal of Directors (including executive and alternate Directors)
- Powers and rights of Directors
- Remuneration of Directors
- Confidentiality and protection of Company information
- Compliance with laws and regulations
- Shareholder participation, rights, and obligations
- Company transactions
- Conflicts of interest
- Protection of Company assets

The primary responsibilities of the Board include ensuring compliance with the Company's constitution, setting up clear goals for the Company and ensuring that there are appropriate strategies in place for achieving them, monitoring the performance of management, managing the Company's financial position and financial statements, ensuring that the Company follows high standards of ethical and corporate behaviour, and ensuring that the Company has appropriate risk management policies in place. Newly elected directors are expected to be familiar with their obligations under the constitution. Training is also provided to new and existing Directors where this is required to enable Directors to fulfil their obligations under the constitution.

### Board Membership

The Board has been selected on their individual skills and contribution to the Company. The Board is comprised of 5 non-executive Directors including the Chairman Chris Gallaher, David Band, David Levison, Anatole Masfen and Bryan Williams and one executive Director, David Darling. The Chairman is a non-executive Director who is elected by the Directors.

In accordance with the Company's constitution, one third, or the number nearest to one third, of the Board retire by rotation at each annual meeting. The directors to retire are those who have been longest in office since the last election. Directors retiring by rotation may, if eligible, stand for re-election. A Director appointed since the previous annual meeting holds office only until the next annual meeting but is eligible for re-election at that meeting.

## CORPORATE GOVERNANCE

### Internal Financial Control

The Board has overall responsibility for the Company's system of internal financial control. The Directors have established procedures and policies that are designed to provide effective internal financial control. Annual budgets and business plans are prepared, and agreed by the Board. Financial statements are prepared monthly and reviewed by the Board throughout the year to monitor performance against budget targets and objectives.

The Directors are responsible for presenting the financial statements for each financial year.

### Sub Committees

The Board forms subcommittees for designated tasks to be addressed. Such subcommittees include the Audit & Risk Subcommittee, the Nomination Subcommittee and the Remuneration Subcommittee.

### Audit & Risk Committee

The Company's constitution requires it to have an Audit & Risk Committee comprised solely of Directors of the Company, with the majority of members being independent Directors. There must be at least three members in the Audit & Risk Committee and at least one member must have an accounting or financial background. Under the constitution the responsibilities of the Audit & Risk Committee include as a minimum:

- Ensuring that the processes are in place in monitoring those processes so that the Board is properly and regularly informed and updated on corporate financial matters
- Recommending the appointment and removal of the independent auditor
- Monitoring and reviewing the independent and internal auditing practices
- Having direct communication with and unrestricted access to the independent auditors and any internal auditors or accountants
- Reviewing the financial reports and advising all Directors whether they comply with the appropriate laws and regulations
- Ensuring that the external auditor or lead audit partner is changed at least every five years
- The Audit & Risk Committee comprises three directors, Anatole Masfen, David Band and Chris Gallaher, two of whom are independent

### Nomination Subcommittee

The Board has established a nomination committee to recommend director appointments to the Board. The committee members are Anatole Masfen, Bryan Williams and David Levison.

### Remuneration Committee

The Board has a remuneration committee to recommend the remuneration for directors to the shareholders. The members of this committee are David Band, Bryan Williams, David Darling and Chris Gallaher.

## CORPORATE GOVERNANCE

### Conflicts of Interest

The constitution of the Company sets out a procedure to be followed where directors are faced with a potential conflict of interest. At all times a director must be able to act in the interests of the Company as a whole and in accordance with all relevant laws including the NZX Main Board Listing Rules and the Companies Act 1993.

The personal interests of a director must not be allowed to prevail over those of the Company and its shareholders generally. The constitution requires a director to disclose any personal interests to the Company which may conflict with the Company's interest.

The Company's constitution provides that a Director may:

- Contract with the Company and be a party to any transaction with the Company
- Have any personal involvement or interest in any transaction or arrangement to which the Company is a party or is otherwise interested or involved
- Become a director or other officer of, or otherwise be interested in, any corporation promoted by the Company or in which the Company may be directly or indirectly interested as a shareholder or otherwise
- Retain any remuneration profits or benefits in relation to any of these arrangements

However a Director who is interested in a transaction that is entered into by the Company may not vote on a Board resolution in respect of any matter relating to the transaction unless that matter is one in which the Directors are either required to sign a certificate or where the matter relates to an indemnity.

### Compliance with NZX and Securities Commission Guidelines

The Company's governance policies are consistent with the NZX Corporate Governance Best Practice Code and meet the 9 Principles for Corporate Governance issued by the Financial Markets Authority and set out on the Financial Markets Authority website.

In summary, the 9 principles are:

1. Ethical Standards — Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for delivering these standards throughout the organisation.
2. Board Composition and Performance — To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives.
3. Board Committees — The board should use committees where this will enhance its effectiveness in key areas while retaining board responsibility.
4. Reporting and Disclosure — The board should demand integrity both in financial reporting and in the timeliness and balance of corporate disclosures.
5. Remuneration — The remuneration of directors and executives should be transparent, fair, and reasonable.
6. Risk Management — Directors should have a sound understanding of the key risks faced by the business, and should regularly verify there are appropriate processes to identify and manage these.
7. Auditors — The board should ensure the quality and independence of the external audit process.
8. Shareholder Relations — The board should foster constructive relationships with shareholders that encourage them to engage with the Company.
9. Stakeholder Interests — The board should respect the interests of stakeholders, taking into account the entity's ownership type and its fundamental purpose.

## CORPORATE GOVERNANCE

### Reporting and Disclosure

The Board focuses on providing accurate, adequate and timely information both to existing shareholders and to the market generally. This enables all investors to make informed decisions about the Company. All significant announcements made to NZX, and reports issued, are posted on the Company's website.

The Directors have pleasure in presenting the financial statements, set out on pages 33 to 67 for Pacific Edge Limited and its subsidiaries for the year ended 31 March 2017.

The Board of Pacific Edge Limited authorised these financial statements for issue on 24 May 2017.

For and on behalf of the Board of Directors,



**Chris Gallaher**  
Chairman



**David Darling**  
Director and Chief Executive Officer

## GLOSSARY

**Biomarker:** A characteristic that is objectively measured and evaluated as an indicator of normal biologic or pathogenic processes or pharmacological responses to a therapeutic intervention.

**Clinical Laboratory Improvement Amendments (CLIA):** Regulate laboratory testing and require clinical laboratories to be certificated by their state as well as the Centers for Medicare and Medicaid Services (CMS) before they can accept human samples for diagnostic testing.

**Clinical Trial:** A single statistically significant trial for patients with disease. The results of the trial provide performance statistics for the test and are written up and published in a peer reviewed journal.

**CMS: Centers for Medicare and Medicaid:** The Federal program which helps pay health care costs for people 65 and older and for certain people under 65 with long-term disabilities.

**Company:** Pacific Edge Limited.

**Cystoscopy:** This is the use of a scope (cystoscope) which is inserted through the urethra to examine the bladder.

**FSS:** Federal Supply Schedule – General Services Administration's (GSA) Federal Supply Schedules are large contracts through which federal customers can acquire more than 4 million products and services directly from more than 8,000 commercial suppliers. They offer a vast array of brand name products-from office supplies and copier paper to systems furniture, computers and laboratory and services ranging from accounting to graphic design to landscaping.

**Group:** The Company together with its subsidiaries.

**Haematuria:** The presence of red blood cells in the urine and a key indicator of bladder cancer.

**Health care provider:** An individual or an institution who is authorized by the State and performing within the scope of their practice as devined by state law that provides preventive, curative, promotional or rehabilitative health care services in a systematic way to individuals, families, or communities.

**Incidence:** Number of new cases per year in a specific disease indication.

**Indication:** A valid reason to use a certain test, medication, procedure or surgery.

**Local Coverage Determination:** A decision by a Medicare Administrative Contractor (MAC) whether to cover a particular service on a MAC-wide, basis.

**MACRA Act:** The US Medicare Access and CHIP Reauthorization Act (MACRA) introduces a new merit-based payment model that establishes new ways to pay physicians for caring for Medicare beneficiaries and importantly, moves away from fee-for-service payments to quality and value based outcomes.

**Medicaid:** A program administered at the state level, which provides medical assistance to the needy. Families with dependent children, the aged, blind, and disabled who are in financial need are eligible for Medicaid. It may be known by different names in different states.

**Molecular Diagnostics:** Diagnostics based on genetic and epigenetic information.

**Monitoring:** The tracing of potential recurrence or assessment of progression of a disease.

**Recurrence:** Disease return following medical intervention.

**Reimbursement:** To make repayment to for expense or loss incurred.



## GLOSSARY

**TRICARE:** Healthcare programme for the US Armed Forces military personnel, military retirees and their dependents.

**Tumour:** A mass of excess tissue that results from abnormal cell division.

**Urologist:** Specialist clinicians for urological diseases and disorders.

**Urothelial Cancer:** Urothelial cancer includes bladder cancer and cancers of the upper urinary tract.

**User Programme:** Formal evaluation program that allows a physician, group practice, institution, or healthcare system to evaluate the performance of a new product or technology.

**Veterans Administration (VA):** An agency of the federal government which provides a variety of services for United States veterans.

**Validation:** Establishing documented evidence that a process or system, when operated within established parameters, can perform effectively and reproducibly and meet its predetermined specifications and quality attributes.

## COMPANY DIRECTORY

As at 31 March 2017

### Issued Capital

399,271,161 Ordinary Shares

### Registered Office

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

### Directors

C Gallaher – Chairman  
D Band  
D Darling  
D Levison  
A Masfen  
B Williams

### Chief Executive Officer

David Darling

### Nature of Business

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

### Auditors

PricewaterhouseCoopers  
Dunedin

### Bankers

Bank of New Zealand  
Dunedin  
ANZ  
Dunedin

### Solicitors

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

### Securities Registrar

Link Market Services Limited  
138 Tancred St  
Ashburton

### Company Number

1119032

### Date of Incorporation

27th February 2001

## PACIFIC EDGE COMMUNICATIONS

### Websites

[www.pacificedgedx.com](http://www.pacificedgedx.com)  
[www.cxbladder.com](http://www.cxbladder.com)  
[www.bladdercancer.me](http://www.bladdercancer.me)

### Facebook

[www.facebook.com/PacificEdgeLtd](https://www.facebook.com/PacificEdgeLtd)  
[www.facebook.com/Cxbladder](https://www.facebook.com/Cxbladder)

### Twitter

@PacificEdgeLtd  
@Cxbladder

### LinkedIn

[www.linkedin.com/company/pacific-edge-ltd](https://www.linkedin.com/company/pacific-edge-ltd)



**PACIFIC EDGE** LTD  
CANCER DIAGNOSTICS COMPANY

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