# NEXT SCIENCE®

## ANNUAL REPORT • YEAR ENDED 31 DECEMBER 2019

NEXT SCIENCE LIMITED ACN 622 382 549

# CONTENTS

"Our purpose at Next Science is to heal patients and save lives by addressing the impacts of biofilms on human health, and to commercialise our Xbio technology platform for shareholders. We have a unique opportunity to change the trajectory of the war on infection by providing solutions that eliminate biofilms, and their incumbent bacteria, fungi and viruses."

# 02 OVERVIEW

Utilising a novel patented technology platform (Xbio), Next Science (ASX:NXS) is bringing to market a portfolio of products to eliminate biofilms and their incumbent bacteria, fungus and viruses that are often the cause of chronic infections in humans.

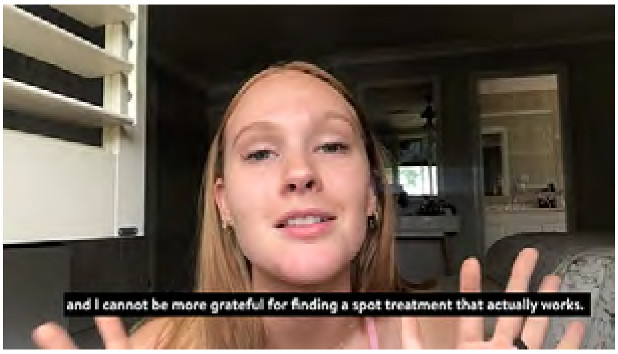
With some products already approved in certain markets, Next Science has provided answers for more than 130,000 patients by the end of 2019 using products designed for use in:

- Prosthetic Joint Infection
- Treatment of Chronic Wounds
- Treatment of Acne
- Prevention of Surgical Site infection


DR THOMAS SERENA


DR MATHEW REGULSKI


RIPRECOVERY – KHAN PORTER




PATIENT TESTIMONIAL

### HEAR ABOUT SOME OF OUR CLINICIANS' AND PATIENTS' EXPERIENCES

The strategic growth of Next Science will come from a combination of broadening the product portfolio to:

- more applications including more prevention products,
- widening our geographic access beyond the US, to more markets with more channels and
- deepening our penetration in accounts across hospitals and ambulatory care centres,

ultimately helping many, many more patients.

# 03 CHAIRMAN'S LETTER

On behalf of the Board of Next Science, I am pleased to provide my comments on the performance and activities of your Company covering the 2019 reporting year and subsequent achievements to the end of the first quarter of 2020.

It is hard to believe it was only a year ago in April 2019, that Next Science commenced trading its shares on the ASX after its successful capital raising. At the time we had just two products in market, both in the US. Just a year later, we have six products in market and another four scheduled from May to December of this year. At the same time, in addition to the US approvals, we have gained regulatory approval to market Bactisure in Europe, as well as BlastX and Bactisure in Canada, New Zealand and South Africa.

We at Next Science are passionate about healing patients and saving lives by addressing the impacts of biofilm and their embedded bacteria and viruses. Our growth in patents demonstrates the unique capability of our Xbio technology to lead in the elimination of infection in human health and related domains.

When investors ask about how the organisation is progressing, I find it easier to describe our major activities in three streams and comment on the progress across each of the three streams. They comprise firstly, our Xbio application research. Secondly, our product development, including the regulatory and manufacturing approvals. Thirdly, our commercial partnering and revenue generation.

As we look back on the progress made by our MD, Judith Mitchell, and her management team in 2019 we have much to be proud of as well as some learnings for how to accelerate clinical adoption.

As I scan across the first stream, I find our progress on Xbio application research led by Dr Matt Myntti has produced more product application opportunities than we had anticipated in the year including one opportunity that takes Next Science beyond our core field of medical devices into a pharmaceutical treatment for skin cancer. This higher value domain will enrich our future product pipeline and will require us to identify an appropriate Pharma partner. Some of the new Xbio applications produced by our lab teams are being fast tracked, including a skin wash and a surface disinfectant.

When looking at the second stream of product development and regulatory, the team has developed several products as planned including our Acne treatment and skin repair product. The main product development project was our new surgical rinse, called XPerience, that has come through on plan and is scheduled for market release in the US in the third quarter of 2020.

The third stream of commercial partnering and revenue growth has received an enormous effort but is behind expectations due primarily to forces beyond our control. The unplanned acquisition of KCI by our distribution partner 3M in mid 2019 resulted in a delayed expansion of the sales force deployment for our BlastX wound gel. This was put back on track in January 2020 with the new KCI salesforce within 3M.

At the time of writing this letter, we are working through the challenges and opportunities presented by the COVID outbreak. While restrictions on travel and meetings in the US are impacting sales and marketing growth initiatives with new customers, we continue to service existing accounts with remote support. We also expect the increase in awareness around viruses and the need for clean and safe surfaces to drive increased long term demand for our products. If COVID19 has a silver lining for Next Science, it will be the much more heightened attention placed on bacterial infection and prevention.

In summary, across the three streams of our work at Next Science, our teams have delivered a very fruitful portfolio of new Xbio powered product opportunities, more than expected. Our teams have achieved a big lift in marketable products in the US market with some gaining registration in additional markets described above. As these products go to market we have the opportunity in the coming years to bring stronger revenue growth to the business.

I wish to thank Judith Mitchell for her professional leadership of the organisation and her tireless investment in travel and engagement with our various partners and work teams. I also want to convey our appreciation to Dr Matt Myntti who has led a big year in our research centre in Jacksonville as well as making many presentations to professional groups demonstrating the power of our Xbio patented technology.

Finally, I would like to thank my fellow board members who bring with them a wide range of skills and experience, which they have applied enthusiastically to the governance of Next Science.

George Savvides

**George Savvides** *Chairman*

# 04 MANAGING DIRECTOR'S REPORT



2019 was a year of achievements and learnings – we listed on the ASX in April raising A$35m to fund our product development and growth and we launched two new products to market. We also learnt many lessons about bringing disruptive technologies to market including partnership management, proving our product value and continuing to develop clinical support with key opinion leaders.

Our key activities in Next Science for the year were:

- Through our Research and Development team, we continued to build the pipeline of new applications for our Xbio technology platform;
  - We expanded our patent coverage to 22 patents, including dedicated coverage for Oral Care and Acne
  - We discovered two new methods of action for our technology that may allow us to treat a wider range of diseases and these are now under patent submission
  - We built a database of case evidence on which to base future developments in both treatment and prevention products as well as support products in the market.
- We finished development on the XPerience Surgical Wash and the Middle Ear Wash, as well as a non-salicylic acid acne treatment and face cleanser and a repair cream for the treatment of skin injuries and protection from infection. The acne cream and cleanser launched on 18 March, the skin repair and protection cream will launch in H1 2020. The XPerience Surgical Wash and the Middle Ear wash will be subject to regulatory clearance by the FDA.
- Revenue increased by 43%, overall underlying operating expenses were reduced by $0.9M and the cash in bank to fund further developments and market expansion in 2020, was $16.9M USD at 31 December 2019.
- With our business partners we continued to build revenue through further market penetration, new channels and partnerships and direct distribution in the Surgical Site Infection prevention market in the US:
  - Bactisure clearance expanded into Canada (with the commercial launch planned for 2020), along with South Africa and New Zealand. With receipt of the CE Mark in March 2020, Zimmer Biomet, our distribution partner, plans to launch the product into Europe during 2020. Regulatory clearance in Australia is being pursued with product launches anticipated for Q4 2020/Q1 2021.
  - With the 3M purchase of KCI completed, now in 2020, BlastX is being promoted by the 3M/KCI Advanced Wound Care team and Post Acute care team of over 140 personnel in the US. Plans are underway to launch in Canada and New Zealand post the Covid 19 crisis and regulatory clearance.
  - The Prevention of Surgical Infection market is being serviced through a network of sales agents across the US. At the time of publication, coverage has been contracted across 22 states.
  - The distribution partnership for TorrentX with Triad Life Sciences is expected to go to market in H2 2020 (subject to regulatory approvals). Triad are bringing a disruptive tissue substitute, which they are pairing with TorrentX, to the $1B tissue substitute market in the US.

**Covid 19**

Like the majority of medical companies in the world, Next Science is disrupted by the elective surgery and elective treatment shut down that has occurred in the US in March 2020 as part of the strategy to stem the growth of infected cases for the COVID 19 virus. Demand for our surgical products will be delayed until elective patients are once again being scheduled in the hospital systems. During the COVID 19 Crisis, Next Science has donated BlastX Antimicrobial Wound Gel to several home health organisations to help support those chronic wound patients who were unable to get to Outpatient Clinics for treatment.

This shut down affects our short-term sales but has not materially affected our R&D and product development work which continues through a split shift approach at our research centre in Jacksonville, Florida. I do not expect the shutdown to have a longer term impact as the market for Next Science's technologies continues to grow as the awareness of issues and complications caused by infection get an even wider understanding.

J Mitchell

**Judith Mitchell** *Managing Director*

# 05 OUR JOURNEY

## OUR JOURNEY SO FAR

**2012**

**NEXT SCIENCE founded**

**2013**

**FDA Clearances**

Bactisure and BlastX

**2014**

**2015**

**2016**

**August**

Global distribution agreement signed with Zimmer Biomet for Bactisure

**2017**

In market sales of Bactisure commenced with Zimmer Biomet

**2018**

In market BlastX sales commenced via NXS sales team to VA hospitals

**November**

Global distribution agreement signed with 3M for Blast X

**2019**

**Q1**

3M started commercial sales of BlastX

**Q4**

AST commenced sales of Acne treatments

**April**

Listed on ASX raising A$35m.

Acquired future distribution partners:
TorrentX – Triad Life Sciences

Sinus Wash – Grace Medical

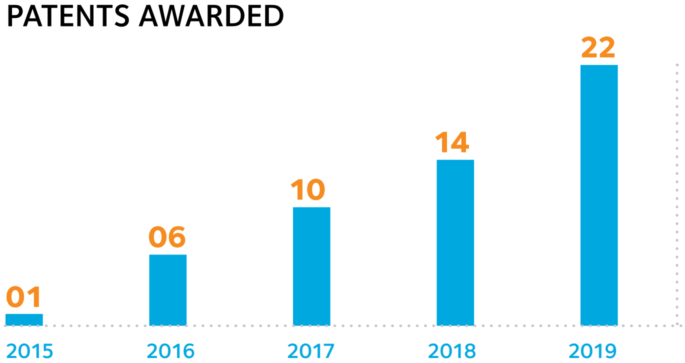
**2020**

**January**

Over 130,000 patients treated successfully to date within the USA and Canada with BlastX and Bactisure

> “Helping patients daily while broadening and strengthening our patent portfolio to support our revenue growth ambitions”
>
> **J MITCHELL MANAGING DIRECTOR**

## PATENTS AWARDED




**40 PATENTS PENDING**

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# 05 OUR JOURNEY

## OUR 2020 PLAN

- Expand product portfolio to address infection prevention.
- Focus on larger market opportunities to increase potential revenue, supported by level one clinical evidence.

2020

**Quarter 1**

- **tbh Skincare Launch (Acne cream and cleanser)**
- Expand Surgical Product distribtion Network
- CE Mark Clearance Bactisure

**Quarter 2**

- **RipRecovery and Protection handcream launch**
- Release of BlastX wound care studies: Under VAC, DFU with Promogram
- FDA clearance to start Phase 2, Skin Cancer Topical Treatment

**2nd Half**

- **XPerience Surgical Rinse US Launch**
- 4 RCTs in Prevention of Surgical Site infection with the use of novel biofilm disrupting technology:
  - Joint replacement skin incision protection (SurgX)
  - Joint replacement surgical rinse (XPerience)
  - Surgically treated Orthopaedic Trauma in compound fractures (XPerience)
  - Head and Neck reconstructive surgery (XPerience)
- **TorrentX Launch with Triad Life Sciences**
- Advancement to Phase II/III Skin Cancer Topical Treatment trials by year end
- CE Mark Clearance BlastX


With a total global addressable market in excess of USD15 billion annually, XPerience Surgical Rinse represents Next Science's key opportunity.

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# 06

# 06 DIRECTORS' REPORT

The Directors present their report together with the consolidated financial statements of the Group comprising of Next Science Limited (the 'Company'), and the entities it controlled at the end of, or during, the year ended 31 December 2019. All amounts are presented in US dollars (USD) unless otherwise stated.

01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16

## DIRECTORS

The Directors of the Company at any time during or since the end of the financial year are:

| | |
|---|---|
| **George Savvides** | **Daniel Spira** |
| **Judith Mitchell** | **Mark Compton** |
| **Bruce Hancox** | **Aileen Stockburger** |

## DIVIDENDS

No dividends were paid or declared since the commencement of the year and the directors do not recommend the declaration of a dividend.

## OPERATING AND FINANCIAL REVIEW

### PRINCIPAL ACTIVITIES

The principal activities of the Group during the course of the year were the research, development and commercialisation of technologies which solve issues in human health caused by biofilms. The company is headquartered in Sydney, Australia and has a research and development centre in Florida, USA.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 24 January 2019, the Company changed from being a proprietary company with the name Next Science Group Pty Limited to being a public company with the name Next Science Limited. The Company also adopted, with effect from this date, a new constitution suitable for a public ASX listed company pursuant to shareholder approval obtained at a general meeting held on 14 December 2018.

On 24 January 2019, a share split was completed on the basis that every one ordinary share and each option on issue in the Company be divided into 6,500 ordinary shares and 6,500 ordinary options respectively.

On 8 April 2019, the non-redeemable converting notes converted to ordinary shares on the occurrence of an Initial Public Offering event. The conversion price of converting notes to ordinary shares was AUD$0.80.

On 16 April 2019, Next Science Limited was admitted to the Official List of the Australian Securities Exchange ('ASX') and trading commenced on the ASX on18 April 2019 after successful completion of an Initial Public Offering ('IPO') of 35 million ordinary shares to raise AUD$35 million.

In the opinion of the Directors, other than the events previously stated, there were no further significant changes in the state of affairs of the Group that occurred during the financial year.

### REVIEW OF OPERATIONS

The loss for the Group for the financial year to 31 December 2019 after providing for income tax amounted to $14,351,828 (2018: $13,747,504).

Revenue increased by 43% for the period, increasing from $2,844,502 in the prior corresponding period to $4,060,800.

Gross profit was $3,510,320 compared to $2,474,013 in the prior corresponding period. Gross margin as a percent of sales was 86% compared with 87% in the prior corresponding period.

Sales and marketing expenses were $650,318, an increase of $151,268 compared with $499,050 in the prior corresponding period. $48,147 of the expenses relate to IPO investor relations activity, with the balance of the increase resulting from a strengthened focus on customer education and training programs for existing and upcoming products.

General and administration expenses were $3,055,729, an increase of $534,711 compared with $2,521,018 in the prior corresponding period. This increase comprises of $312,106 related directly to IPO associated expenses and increases in compliance costs associated with becoming a listed entity.

Consulting and regulatory expenses were $2,137,717, an increase of $736,301 compared with $1,401,416 in the prior corresponding period. This comprises of $451,736 which relates to IPO associated expenses and expenses related to the pre-IPO capital raising, with the balance of increased spend relating to increased regulatory costs and compliance required for a listed entity.

Research and development expenses were $1,731,653, an increase of $489,201 compared with $1,242,452 in the prior corresponding period, reflecting an increase in product development activity and associated product validation costs.

Finance expenses of $2,129,424 in the current period are mainly attributable to interest expense recognised in the profit and loss on the converting notes, for the period prior to their conversion to ordinary shares on 8 April 2019.

Cash and cash equivalents at 31 December 2019 amounted to $16,910,605 compared to $7,211,102 at 31 December 2018.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Group, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

## ENVIRONMENTAL REGULATION

The Group's operations are not subject to significant environment regulations under both Commonwealth or State legislation. The Board believes that the Group has adequate systems in place for the management of its environmental requirements.

## GOVERNMENT REGULATION

The Group is subject to varying degrees of governmental regulation in the countries in which operations are conducted, and the general trend is toward increasingly stringent regulation. In the U.S., the drug, device, diagnostics and cosmetic industries have long been subject to regulation by various federal and state agencies, primarily as to product safety, efficiency, manufacturing, advertising, labelling and safety reporting. The exercise of broad regulatory powers by the U.S. Food and Drug Administration (the 'FDA') results in increases in the amounts of testing and documentation required for FDA clearance of new drugs and devices and a corresponding increase in the expense of product introduction. Similar trends are also evident in major markets outside of the U.S.

The Group relies on global supply chains, and production and distribution processes, that are complex and are subject to increasing regulatory requirements that may affect sourcing, supply and pricing of materials used in the Group's products, and which are subject to lengthy regulatory approvals.

## INFORMATION ON DIRECTORS

| | |
|---|---|
| Name: | **George Savvides** |
| Title: | Chairman and Independent Non-Executive Director |
| Special responsibilities: | Member of the Audit and Risk Committee and Member of the Remuneration and Nomination Committee |
| Qualifications: | Bachelor of Engineering (Honours), University of New South Wales and MBA, University of Technology, Sydney.<br>Fellow of the Australian Institute of Company Directors. |
| Experience and expertise | George has 30 years of experience in the Australian & New Zealand healthcare sector. He was CEO of two successful IPO listings on the ASX, being Sigma in 1999 and Medibank Private in 2014. He served as Medibank CEO for 14 years.<br><br>George served as Chairman of Kings Consolidated Group Pty Ltd (2016 to 2018) and Macquarie University Hospital (2016 to 2018) and retired as Chairman of World Vision Australia after 18 years of service in February 2018. He was a board member of the International Federation of Health Plans for 10 years including a period as Deputy President, retiring in 2016. |
| Other current directorships: | He currently serves as Deputy Chairman of the public broadcaster, SBS (since 2017) and Non-Executive Director of IAG (since 2019) and NZX listed Ryman Healthcare, a residential aged care provider in New Zealand and Australia (since 2013). |
| Former listed directorships (last 3 years): | None |

| | |
|---|---|
| Name: | **Judith Mitchell** |
| Title: | Managing Director and Chief Executive Officer |
| Special responsibilities: | None |
| Qualifications: | MBA, University of Hull<br>Graduate of the Australian Institute of Company Directors |
| Experience and expertise: | Prior to joining Next Science in 2017, Judith served as President of DePuy Synthes Asia Pacific, the Orthopaedics Division of Johnson & Johnson, before which Judith was President of Asia Pacific for Synthes GmbH, the world leaders in orthopaedic trauma care.<br><br>Judith commenced her medical technology career at GE Medical Systems, where over 14 years, she held positions in sales, marketing and management. She also held a variety of positions at Cochlear Limited in Product Development, Global Marketing and Education. |
| Other current directorships: | None |
| Former listed directorships (last 3 years): | None |

# 07 DIRECTORS' REPORT

| | |
|---|---|
| Name: | **Bruce Hancox** |
| Title: | Non-Executive Director |
| Special responsibilities: | Chair, Audit and Risk Committee |
| Qualifications: | Bachelor of Commerce, Canterbury University New Zealand |
| Experience and expertise: | Bruce has over 35 years of corporate experience across a broad spectrum of commerce, including 16 years with Brierley Investments Limited in New Zealand. He held a number of senior roles at Brierley Investments as general manager and chairman, and served on the board of a number of their subsidiaries in New Zealand, Australia and the US.<br><br>Bruce has been a financial advisor to interests of Lang Walker since 2008. He serves as a director of investments and wealth management at Walker Corporation Pty Ltd and works with the Walker group of companies to pursue investment opportunities outside the property market. |
| Other current directorships: | Director of Walker Group Holdings Pty Limited. |
| Former listed directorships (last 3 years): | Carbonxt Group Limited (ASX:CG1)<br>Neuren Pharmaceuticals Limited (ASX: NEU)<br>BTC Health Limited (ASX:BTC) |
| Name: | **Daniel Spira** |
| Title: | Independent Non-Executive Director |
| Special Responsibilities: | Chair, Remuneration and Nomination Committee |
| Qualifications: | Bachelor of Commerce, University of New South Wales |
| Experience and expertise: | Daniel is the CEO of iNova Pharmaceuticals (since 2017) which is a leading multinational consumer healthcare and pharmaceutical company with operations across Asia Pacific and Africa. Previously he was at Bausch Health (2011-2015) as Vice President and GM-North America (with responsibility for a portfolio of businesses spanning Vision Care, Dermatology and Aesthetic Devices) and was also Managing Director, Pacific region.<br><br>Prior to that, Daniel spent over 15 years at Johnson & Johnson Inc in various roles including Vice President, Country Manager, Chief Marketing Officer and other sales and marketing roles across the Asia Pacific, Europe/Middle East and North American regions. |
| Other current directorships: | None |
| Former listed directorships (last 3 years) | None |

| | |
|---|---|
| Name: | **Mark Compton** |
| Title: | Independent Non-Executive Director |
| Special responsibilities: | Member, Remuneration and Nomination Committee |
| Qualifications: | Bachelor of Science (Pharmacology, Physiology and Biochemistry) and an MBA, University of New South Wales.<br><br>Fellow of the Australian Institute of Company Directors, the Australasian College of Health Services Management and The Australian Institute of Management and the Royal Society (New South Wales). |
| Experience and expertise: | Mark is Lord Prior of the International Order of St John and Chairman of the Board of Trustees of St John International.<br><br>Mark is Chairman of Sonic Healthcare Limited, a global medical diagnostics and healthcare organisation which is a Top 50 ASX listed entity. He is also Chairman of St Luke's Care Limited, a not for profit health and aged care organisation. Mark has held various CEO and managing director roles, including at St Luke's Care Limited, Immune System Therapeutics Limited, Royal Flying Doctor Service of Australia, SciGen Limited and Alpha Healthcare Limited. He is an Adjunct Professor at Macquarie University in healthcare leadership and management (since 2012). |
| Other current directorships: | Chairman and Non-Executive Director of Sonic Healthcare Limited (ASX: SHL). Chairman of the Board of Trustees of St John International and St Luke's Care Limited. |
| Former listed directorships (last 3 years): | None |

| | |
|---|---|
| Name: | **Aileen Stockburger** |
| Title: | Independent Non-Executive Director |
| Special responsibilities: | Member, Audit and Risk Committee |
| Qualifications: | Bachelor of Science and MBA, The Wharton School, University of Pennsylvania, Graduate AICD. |
| Experience and expertise: | Prior to joining Next Science, Aileen was the Worldwide Vice President of Business Development for the DePuy Synthes Group of Johnson & Johnson, where she oversaw the group's merger and acquisition activities, including deal structuring, negotiations, contract design and review, and deal terms. She led Johnson & Johnson's efforts to acquire Synthes for approximately $21 billion, Johnson & Johnson's largest medical device acquisition. She also led the efforts to divest the DePuy Trauma business and acquire Micrus Endovascular. Aileen was also involved in numerous other M&A transactions including Pfizer Consumer Healthcare (US$16.5 billion), Aveeno, BabyCenter, OraPharma, DePuy, DePuy Miket, Kodak Clinical Diagnostics and Neutrogena. |
| Other current directorships: | None |
| Former listed directorships (last 3 years): | None |

# 07 DIRECTORS' REPORT



## COMPANY SECRETARY

Gillian Nairn, BA/LLB, LLM, FGIA, has held the role of Company Secretary since 21 June 2018. Gillian is an experienced corporate governance professional with more than 20 years legal and governance experience gained in private practice and in various company secretarial roles, predominantly with listed entities, in a variety of sectors including manufacturing, oil and gas, professional services and education.

## MEETINGS OF DIRECTORS

The number of meetings held and attended by each of the Directors of the Company during the year ended 31 December 2019 were as follows:

| Name of director | Board meetings | | Remuneration and Nomination Committee | | Audit and Risk Committee | |
|---|---|---|---|---|---|---|
| | A | B | A | B | A | B |
| George Savvides | 17 | 17 | 4 | 4 | 6 | 6 |
| Judith Mitchell | 17 | 17 | - | - | - | - |
| Bruce Hancox | 17 | 15 | - | - | 6 | 6 |
| Daniel Spira | 17 | 16 | 4 | 4 | - | - |
| Mark Compton | 17 | 16 | 4 | 4 | - | - |
| Aileen Stockburger | 17 | 17 | - | - | 6 | 6 |

A – Number of meetings held when director was eligible to attend during the year.
B – Number of meetings attended during the time the director held office during the year.

## DIRECTORS' INTERESTS

The relevant interest of each director in shares and options over such instruments issued by the Group, as notified by the directors to the ASX in accordance with section 205G(1) of the Corporations Act 2001 at the date of this report is as follows:

| Director | Fully paid ordinary shares Number | Share options Number |
|---|---|---|
| George Savvides | 625,000 | 650,000 |
| Judith Mitchell | 4,732,000 | 2,340,000 |
| Bruce Hancox | - | 520,000 |
| Daniel Spira | 36,729 | 1,300,000 |
| Mark Compton | 125,000 | 520,000 |
| Aileen Stockburger | 33,554 | 520,000 |
| **Total** | **5,552,283** | **5,850,000** |

# 07 DIRECTORS' REPORT

## SHARES UNDER OPTION

At the date of this report, and following the share split, there are 9,249,500 options over ordinary shares on issue (2018: 10,985,000 options), representing 5.1% (2018: 8.5%) of the Company's undiluted total share capital, granted to employees and directors under an Equity Incentive Plan.

## INDEMNITY AND INSURANCE OF OFFICERS

The Group has indemnified the directors and executives of the Group for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Group has paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

## INDEMNITY AND INSURANCE OF AUDITOR

The Company and the Group have not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

## PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

## NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 32 to the financial statements.

The directors are satisfied that the provision of non-audit services by the auditor during the financial year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 32 to the financial statements do not compromise the external auditor's independence requirements under the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

## OFFICERS OF THE COMPANY WHO ARE FORMER PARTNERS OF KPMG

No officer of the Company was an audit partner of KPMG, being the auditors during the financial year, at a time when the audit firm undertook an audit of the Company.

## AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is set out on page 27 and forms part of the directors' report for the financial year ended 31 December 2019.

## AUDITOR

KPMG continues in office in accordance with section 327 of the *Corporations Act 2001*.

## REMUNERATION REPORT (AUDITED)

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

The remuneration report is set out under the following main headings:



### REMUNERATION GOVERNANCE

The Remuneration and Nomination Committee currently comprises of:

**Daniel Spira** (Chair)

**George Savvides**

**Mark Compton**

The role and responsibilities, composition, structure and membership requirements of the Remuneration and Nomination Committee are documented in the Remuneration and Nomination Committee Charter available at www.nextscience.com/corp-governance.

The purpose of the Remuneration and Nomination Committee is to assist the Board in ensuring that:

- the Group's remuneration policies and practices enable the Group to fairly and responsibly attract, retain, motivate and reward employees and directors and comply with the law and the ASX Listing Rules;
- the Board has and maintains an appropriate balance of skills, knowledge, experience, expertise, independence, diversity and commitment to enable it to discharge its responsibilities and duties effectively; and
- the Company has in place an appropriate process for periodically evaluating the performance of the Board, its committees, each Director and the Company's senior executives. These reviews were undertaken during the reporting period.

The Remuneration and Nomination Committee Charter provides that the committee should comprise of at least three members, all of whom are Non-Executive Directors and a majority of whom are independent Directors and a Chairman who is an independent Director and is not Chairman of the Board.

The Chair of the Committee should be an independent Director who is not Chairman of the Board.

The Committee will meet at least three times each year.

All of the current members of the Remuneration and Nomination Committee are independent Non-Executive Directors and the Chair of the Committee is not Chairman of the Board.

### KEY MANAGEMENT PERSONNEL

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, including all directors (non-executive and executive) of the consolidated entity.

The directors and other key management personnel (KMP) of the consolidated entity during or since the end of the financial year were:

#### NON-EXECUTIVE DIRECTORS

**George Savvides**

**Bruce Hancox**

**Daniel Spira**

**Mark Compton**

**Aileen Stockburger**

#### MANAGING DIRECTOR

**Judith Mitchell**

#### OTHER KEY MANAGEMENT PERSONNEL

**Jacqueline Butler** (Chief Financial Officer)

**Matthew Myntti** (Chief Technology Officer)

**Jon Swanson** (Chief Operating Officer)

**Byron Darroch** (Executive Vice President, Partnerships: until his engagement ceased on 31 August 2019)

## SERVICE AGREEMENTS AND REMUNERATION POLICY

The Board of Directors, in consultation with the Remuneration and Nomination Committee determines executive remuneration considering competitiveness with the market whilst ensuring acceptability to shareholders. Executive incentives comprise of fixed and variable elements linked to performance as detailed in this report.

During the financial year ended 31 December 2019, the Company engaged Julia Lipski to provide independent advice in relation to the Company's incentive plans for the executive team for a total fee including GST of $17,750. Any advice prepared by Julia Lipski was provided to the Chair of the Remuneration and Nomination Committee, or directly to the Board, as an input to the Board's decision-making process. Julia Lipski did not make any remuneration recommendations in relation to key management personnel.

### SERVICE AGREEMENTS

| | |
|---|---|
| Name: | **Judith Mitchell** |
| Title: | Managing Director |
| Details: | Ongoing service agreement inclusive of superannuation and to be reviewed annually by the Company.<br>The Company may terminate the service agreement:<br>i. by giving a 3-month termination notice; or<br>ii. without notice, in the event of serious misconduct or for any other reason that enables summary dismissal at law.<br>Judith is entitled to participate in the Company's short term and long-term incentive plans. |
| Name: | **Jacqueline Butler** |
| Title: | Chief Financial Officer (CFO) |
| Details: | Ongoing service agreement inclusive of superannuation and to be reviewed annually by the Company.<br>The Company may terminate the service agreement:<br>i. by giving a 3-month termination notice; or<br>ii. without notice, in the event of serious misconduct or for any other reason that enables summary dismissal at law.<br>Jacqueline is entitled to participate in the Company's short term and long-term incentive plans. |

01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16

## EMPLOYMENT AGREEMENTS

| | |
|---|---|
| Name: | **Dr Matthew Myntti** |
| Title: | Chief Technology Officer (CTO) |
| Detail: | Ongoing employment agreement to be reviewed annually by the Company.<br>The Company may terminate the employment agreement:<br>i. by giving 90 days written notice; or<br>ii. without notice, in the event of serious misconduct or for any other reason that enables summary dismissal at law.<br>Matthew is entitled to participate in the Company's short term and long-term incentive plans. |
| Name: | **Jon Swanson** |
| Title: | Chief Operating Officer (COO) |
| Details: | Ongoing employment agreement to be reviewed annually by the Company.<br>The Company may terminate the employment agreement:<br>i. by giving 90 days written notice; or<br>ii. without notice, in the event of serious misconduct or for any other reason that enables summary dismissal at law.<br>Jon is entitled to participate in the Company's short term and long-term incentive plans. |

## SERVICE AGREEMENTS AND REMUNERATION POLICY

| | |
|---|---|
| Name: | **Byron Darroch** |
| Title: | Executive Vice President Partnerships Remuneration |
| Details: | Employment agreement ceased on 31 August 2019. |

### NON-EXECUTIVE REMUNERATION

Each of the Non-Executive Directors has entered into appointment letters with Next Science confirming the terms of their appointment and their roles and responsibilities. The appointment letters are on standard commercial terms.

Under the Constitution, the Board decides the amount paid to each Non-Executive Director as remuneration for their services as a Director. However, under the ASX Listing Rules, the amount of fees paid to all Directors for their services (excluding, for these purposes, the salary of any Executive Director) must not exceed in aggregate in any financial year the amount fixed by the Company's shareholders in general meeting. This amount has been fixed initially in the Company's Constitution at A$750,000 per annum and may only be varied by ordinary resolution in general meeting.

The Chairman, George Savvides receives AUD$250,000 per annum (inclusive of superannuation) and each Non-Executive Director receives AUD$90,000 per annum (inclusive of superannuation), increased from AUD$60,000 on 1 May 2019.

Additionally, from 1 May 2019, Bruce Hancox and Daniel Spira received an additional amount of AUD$10,000 per annum for the performance of their roles as Chairs of the Audit and Risk Committee and Remuneration and Nomination Committee respectively.

## EMPLOYEE INCENTIVE ARRANGEMENTS AND LINK BETWEEN PERFORMANCE AND REWARD

### SHORT TERM INCENTIVE (STI) PLAN FOR EXECUTIVES

The Managing Director, CFO, CTO, COO and Executive Vice President, Partnerships were invited to participate in the STI plan, effective from Admission to the ASX in April 2019. Participants of the plan, must be employed with the Company, or any wholly owned subsidiary of the Company, for at least six months during the plan year and still be employed until after the announcement of Group's results to the ASX following each plan year. Participation is by invitation from the Board and is not automatic. Participants who resign or who are terminated before the end of the plan year are not eligible for any payments.

The STI plan objectives are to:

- reward executives for their contribution in ensuring that the Group achieves its annual financial performance targets;
- enhance the Group's opportunity to attract, motivate and retain high calibre and high performing executives; and
- link part of executive remuneration directly to the achievement of the Group and individual KPIs.

The making of any payment under the STI plan is subject to gateway hurdles relating to Group revenue, EBITDA and individual performance. All payments made under the STI Plan will be paid in cash.

The making of any payment under the STI plan is subject to the achievement of all three gateway hurdles; at least 90% of a base consolidated revenue target; 100% of a base consolidated EBITDA target; and an individual performance rating of a least 3 out of 5.

The maximum STI opportunity is 100% of Total Fixed Remuneration (TRF) for the Managing Director and 80% of TFR for the CFO, CTO, and COO. To receive the maximum STI opportunity, executives must achieve performance targets for consolidated revenue, consolidated EBITDA and individual performance.

As a number of the members of the executive team already have significant security holdings in Next Science Limited, all payments under the STI Plan will be paid in cash to ensure that STI opportunities operate as true incentives.

No STI payments were made in respect of the financial year ended 31 December 2019 as revenue and EBITDA targets were not achieved.

### LONG-TERM INCENTIVE (LTI) PLAN FOR EXECUTIVES

At the time of the Company's IPO in April 2019, the Board of the Company established a long-term incentive plan, to be paid by way of Performance Rights to eligible participants (LTI plan). The Managing Director, CFO, CTO and COO are entitled to participate in the LTI plan.

There will be no Performance Rights issued in relation to the financial year ending 31 December 2019 due to targets not having been achieved. The LTI plan will operate in future years with grants based on the relevant revenue and/or other Group performance measures. It is not intended to change the size of the grant to participants or the vesting conditions.

Provided Group performance hurdles are met in the financial year ending 31 December 2020, and thereafter, the Managing Director will be granted performance rights worth 200% of her Total Fixed Remuneration (TFR) and the other participants in the plan will be granted performance rights worth 150% of their TFR.

The number of Performance Rights granted will be based on the volume weighted average price (VWAP) of shares for the period 1 January until the day before the release on ASX of the Company's relevant preliminary full year results.

Subject to vesting conditions being satisfied, the Performance Rights will automatically convert to Shares, on a one-for one basis, three years after the date on which they are granted. If the vesting conditions have not been satisfied by this date, the Performance Rights will automatically lapse. Participants must still be employed by the Company or a wholly owned subsidiary at the date of vesting. The number of Performance Rights that vest is dependent on satisfaction of the following vesting conditions:

- if the compound total shareholder return (TSR) is less than 15% per annum, no Performance Right will vest;
- 50% of Performance Rights will vest if the compound annual TSR is at least 15% per annum; and
- 100% of Performance Rights will vest if the compound annual TSR is at least 30% per annum.

## SHARE OPTION PLAN

Prior to the Company being listed on the ASX, the Group had an Equity Incentive Plan (ECP) in place for US employees and an Employee Share Options Plan (ESOP) for Australian employees and directors (see note 29). With the exception of the Managing Director, Judith Mitchell, as described below, the only vesting condition applicable to the options granted under these earlier plans was that the individual be employed by the Company, or any wholly owned subsidiary of the Company at the vesting date.

There were no options over ordinary shares issued as compensation to directors and key management personnel during the year ended 31 December 2019. All remaining options over ordinary shares granted to directors and key management personnel in the previous years and their status are set out below:

IN USD

| KMP | Grant date | Expiry date | Vesting date | Fair value at grant date | | Exercise price |
|---|---|---|---|---|---|---|
| | | | | PRE-SHARE SPLIT | POST-SHARE SPLIT | |
| **EXECUTIVE DIRECTOR** | | | | | | |
| Judith Mitchell | 16 Apr 2018 | 16 April 2021 | Various (i) | 1,284 | 0.20 | 0.42 |
| **NON-EXECUTIVE DIRECTORS** | | | | | | |
| George Savvides | 17 Dec 2018 | 17 Dec 2023 | 17 Dec 2021 | 2,138 | 0.33 | 0.56 |
| Bruce Hancox | 17 Dec 2018 | 17 Dec 2023 | 17 Dec 2021 | 2,138 | 0.33 | 0.56 |
| Daniel Spira (Tranche 1) | 16 Apr 2018 | 16 Apr 2021 | 16 Apr 2018 | 1,284 | 0.20 | 0.42 |
| Daniel Spira (Tranche 2) | 17 Dec 2018 | 17 Dec 2023 | 17 Dec 2021 | 2,138 | 0.33 | 0.56 |
| Mark Compton | 17 Dec 2018 | 17 Dec 2023 | 17 Dec 2021 | 2,138 | 0.33 | 0.56 |
| Aileen Stockburger | 17 Dec 2018 | 17 Dec 2023 | 17 Dec 2021 | 2,138 | 0.33 | 0.56 |
| **OTHER KMP** | | | | | | |
| Matthew Myntti | - | - | - | - | - | - |
| Jon Swanson | 17 Dec 2018 | 17 Dec 2023 | 17 Dec 2020 | 2,138 | 0.33 | 0.56 |
| Jacqueline Butler | 16 Apr 2018 | 16 Apr 2021 | 16 Apr 2019 | 1,284 | 0.20 | 0.42 |
| Byron Darroch | - | - | - | - | - | - |

i. There are various vesting conditions applicable to the options granted to Judith Mitchell as Managing Director, which include financial and non-financial conditions.

The table below provides details of movements in share options for key management personnel for the year ended 31 December 2019. As the Company listed in April 2019 with no remuneration report required for the prior year, comparatives for the year ended 31 December 2018 have not been provided.

| KMP | Balance as at 1 Jan 2019 No. | Post share split No. (i) (ii) | Granted/ exercised No. | Balance as at 31 Dec 2019 No. | Vested and exercisable No. | Unvested No. |
|---|---|---|---|---|---|---|
| **EXECUTIVE DIRECTOR** | | | | | | |
| Judith Mitchell | 360 | 2,340,000 | - | 2,340,000 | 1,560,000 | 780,000 |
| **NON-EXECUTIVE DIRECTORS** | | | | | | |
| George Savvides | 100 | 650,000 | - | 650,000 | - | 650,000 |
| Bruce Hancox | 80 | 520,000 | - | 520,000 | - | 520,000 |
| Daniel Spira | 200 | 1,300,000 | - | 1,300,000 | 1,040,000 | 260,000 |
| Mark Compton | 80 | 520,000 | - | 520,000 | - | 520,000 |
| Aileen Stockburger | 80 | 520,000 | - | 520,000 | - | 520,000 |
| **OTHER KMP** | | | | | | |
| Matthew Myntti | - | - | - | - | - | - |
| Jon Swanson | 100 | 650,000 | - | 650,000 | - | 650,000 |
| Jacqueline Butler | 100 | 650,000 | - | 650,000 | 650,000 | - |
| Byron Darroch | - | - | - | - | - | - |

i. On 24 January 2019, a share split was completed on the basis that every one ordinary share option on issue in the Company be divided into 6,500 ordinary options.

ii. There were no share options granted or exercised from 1 January 2019 until the share split on 24 January 2019.

## REMUNERATION OF KEY MANAGEMENT PERSONNEL

The table below details remuneration for key management personnel based on the policies discussed in this report for the year ended 31 December 2019. As the Company listed in April 2019 with no remuneration report required for the prior year, comparatives for the year ended 31 December 2018 have not been provided.

### YEAR ENDED 31 DECEMBER 2019

IN USD

| KMP | Cash salary and fees | Other cash benefits (i), (ii), (iii) | Long Service Leave | Super-annuation | Share-based payments | | Total | Performance Related (vi) |
|---|---|---|---|---|---|---|---|---|
| | | | | | Other (iv) | Shares in lieu of fees (v) | | |
| | $ | $ | $ | $ | $ | $ | $ | % |
| **EXECUTIVE DIRECTOR** | | | | | | | | |
| Judith Mitchell | 254,461 | - | - | 14,467 | 162,985 | - | 431,913 | - |
| **NON-EXECUTIVE DIRECTORS** | | | | | | | | |
| George Savvides | 159,577 | - | - | 14,454 | 52,022 | - | 226,053 | - |
| Bruce Hancox | 56,216 | - | - | 3,982 | 41,618 | - | 101,816 | - |
| Daniel Spira | 10,751 | - | - | - | 20,809 | 49,326 | 80,886 | - |
| Mark Compton | 50,685 | - | - | 4,815 | 41,618 | - | 97,118 | - |
| Aileen Stockburger | 10,751 | - | - | - | 41,618 | 44,749 | 97,118 | - |
| **OTHER KMP** | | | | | | | | |
| Matthew Myntti | 304,911 | 44,665 | - | - | - | - | 349,576 | 13% |
| Jon Swanson | 250,000 | - | - | - | 91,736 | - | 341,736 | - |
| Jacqueline Butler | 166,817 | - | - | 14,453 | 29,022 | - | 210,292 | - |
| Byron Darroch | 120,447 | 69,057 | - | 14,649 | - | - | 204,153 | - |
| | **1,384,616** | **113,722** | **-** | **66,820** | **481,428** | **94,075** | **2,140,661** | |

i. For the year ended 31 December 2019 threshold Group performance targets were not met and hence no amounts were awarded to key management personnel under the STI plan or the LTI plan.

ii. Other cash benefits include an amount of $69,057 paid to Byron Darroch as part of the arrangements agreed in respect of the termination of his engagement on 31 August 2019.

iii. Prior to the existence of the STI plan, Matthew Myntti was awarded a discretionary bonus of $44,665 during the year, paid in November 2019.

iv. The value of the share options granted to key management personnel is calculated at the grant date using the Black-Scholes formula. This value is allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised as an expense in each reporting period.

v. Amounts included under share-based payments for Daniel Spira and Aileen Stockburger are in relation to shares paid in lieu of their Directors' fees. The Company received confirmation from the ASX that a waiver of ASX Listing Rule 10.11 had been given to allow Aileen and Daniel, as Non-Executive Directors, to elect to be issued shares in lieu of their fees for the first 12 months after the Company's admission to the ASX.

vi. Disclosed above are the relative proportions of each individual's remuneration that are related to performance; the remaining proportion being fixed remuneration.

# 07 DIRECTORS' REPORT

## KEY MANAGEMENT PERSONNEL EQUITY HOLDINGS

The table below details movements in equity holdings for KMP for the year ended 31 December 2019.
As the Company listed in April 2019 with no remuneration report required for the prior year, comparatives for the year ended 31 December 2018 have not been provided.

### YEAR ENDED 31 DECEMBER 2019

IN USD

| KMP | Balance as at 1 Jan 2019 No. | Post share-split No. (i) (ii) | Purchased/other changes during the year No. | Balance as at 31 Dec 2019 No. |
|---|---|---|---|---|
| **EXECUTIVE DIRECTOR** | | | | |
| Judith Mitchell | 728 | 4,732,000 | - | 4,732,000 |
| **NON-EXECUTIVE DIRECTORS** | | | | |
| George Savvides (iii) | - | - | 625,000 | 625,000 |
| Bruce Hancox | - | - | - | - |
| Daniel Spira (iv) | - | - | 36,729 | 36,729 |
| Mark Compton (iii) | - | - | 125,000 | 125,000 |
| Aileen Stockburger (iv) | - | - | 33,554 | 33,554 |
| **OTHER KMP** | | | | |
| Matthew Myntti | 3,178 | 20,657,000 | - | 20,657,000 |
| Jon Swanson | - | - | - | - |
| Jacqueline Butler | - | - | - | - |
| Byron Darroch (v) | 100 | 650,000 | - | 650,000 |

i. On 24 January 2019, a share split was completed on the basis that every one ordinary share on issue in the Company be divided into 6,500 ordinary shares.

ii. There were no other movements in equity holdings from 1 January 2019 until the share split on 24 January 2019.

iii. George Savvides and Mark Compton received shares on the conversion of their converting notes (see note 20) post the share-split.

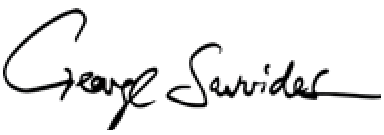
iv. The Company has been granted a waiver from Listing Rule 10.11 to the extent necessary to permit the Company to issue shares without shareholder approval to non-executive directors, Aileen Stockburger and Daniel Spira, in lieu of directors' fees for the first 12 months after the Company's admission to the official list of the ASX. The shares issued are fully paid ordinary shares in the capital of the Company on the same terms and conditions as the Company's existing shares and issued at the Offer Price of AUD $1 for the first quarter after admission. For later quarters, the shares are being issued at the 10 day Volume Weighted Average Price (VWAP) for the first 10 trading days of the relevant quarter.

v. Byron Darroch holds 650,000 ordinary shares which are funded through a shareholder loan. The balance of $180,357 was outstanding as at 31 December 2019 (see note 13), due for payment in April 2020.

### THIS CONCLUDES THE REMUNERATION REPORT (AUDITED).

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the directors:



**George Savvides** *Chairman* – Dated at Sydney this 28th day of February 2020


07

# 07 LEAD AUDITOR'S INDEPENDENCE DECLARATION

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KPMG

## Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Next Science Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Next Science Limited for the financial year ended 31 December 2019 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Tony Nimac

*Partner*

Sydney

28 February 2020

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

# 08 CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME



## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

IN USD

| | Note | 2019 | 2018 |
|---|---|---|---|
| Revenue | *6* | 4,060,800 | 2,844,502 |
| Cost of sales | | (550,480) | (370,489) |
| **Gross profit** | | 3,510,320 | 2,474,013 |
| Other income | *7* | 35,365 | - |
| Employee expenses | *8(a)* | (7,906,151) | (10,380,125) |
| Research and development | | (1,731,653) | (1,242,452) |
| Sales and marketing | | (650,318) | (499,050) |
| Consultancy and regulatory | | (2,137,717) | (1,401,416) |
| General and administration expenses | *8(b)* | (3,055,729) | (2,521,018) |
| Depreciation and amortisation expenses | *8(c)* | (565,239) | (244,466) |
| **Results from operating activities** | | (12,501,122) | (13,814,514) |
| Finance income | *9* | 278,718 | 145,180 |
| Finance costs | *10* | (2,129,424) | (78,170) |
| **Net finance income/(expense)** | | (1,850,706) | 67,010 |
| **Loss before income tax** | | (14,351,828) | (13,747,504) |
| Income tax expense | *11* | - | - |
| **Loss for the year** | | (14,351,828) | (13,747,504) |
| Other comprehensive income | | | |
| Foreign currency translation differences for foreign operations | | (971,282) | (249,730) |
| **Total comprehensive income for the year** | | (15,323,110) | (13,997,234) |
| **Earnings per share** | | | |
| From continuing operations | | Cents | Cents |
| . Basic earnings | *33* | (8.65) | (11.16) |
| . Diluted earnings | *33* | (8.65) | (11.16) |

The notes on pages 34 to 64 are an integral part of these financial statements.

# 09 CONSOLIDATED STATEMENT OF FINANCIAL POSITION



## AS AT 31 DECEMBER 2019

IN USD

| | Note | 2019 | 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | *12(a)* | 16,910,605 | 7,211,102 |
| Trade and other receivables | *13* | 1,640,382 | 784,358 |
| Inventories | *14* | 400,360 | 308,957 |
| Other current assets | *15* | 332,504 | 379,404 |
| **Total current assets** | | 19,283,851 | 8,683,821 |
| **Non-current assets** | | | |
| Trade and other receivables | *13* | 36,656 | 124,129 |
| Property, plant and equipment | *16* | 812,587 | 638,634 |
| Intangible assets | *17* | 2,164,345 | 1,183,490 |
| Right of use asset | *18* | 402,291 | - |
| **Total non-current assets** | | 3,415,879 | 1,946,253 |
| **Total assets** | | 22,699,730 | 10,630,074 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | *19* | 1,076,672 | 1,152,916 |
| Loans and borrowings | *20* | - | 7,069,417 |
| Contract liabilities | *21* | 375,106 | 222,130 |
| Lease liabilities | *22* | 196,442 | - |
| Employee benefits | *24* | 69,552 | 108,835 |
| **Total current liabilities** | | 1,717,772 | 8,553,298 |
| **Non-current liabilities** | | | |
| Contract liabilities | *21* | 1,328,809 | 1,670,896 |
| Lease liabilities | *22* | 286,012 | - |
| Employee benefits | *24* | 3,691 | 2,143 |
| **Total non-current liabilities** | | 1,618,512 | 1,673,039 |
| **Total liabilities** | | 3,336,284 | 10,226,337 |
| **Net assets** | | **19,363,446** | **403,737** |
| **EQUITY** | | | |
| Share capital | *25(a)* | 90,693,590 | 56,589,405 |
| Common control reserve | *25(b)* | (42,596,715) | (42,596,715) |
| Foreign currency translation reserve | *25(b)* | (1,198,574) | (227,292) |
| Share option reserve | *25(b)* | 1,648,704 | 968,831 |
| Converting notes reserve | *25(b)* | - | 415,562 |
| Accumulated losses | | (29,183,559) | (14,746,054) |
| **Total equity** | | **19,363,446** | **403,737** |

The notes on pages 34 to 64 are an integral part of these financial statements.

# 10 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

IN USD

| | Share capital | Common control reserve | Foreign currency translation reserve | Share option reserve | Converting notes reserve | Accumulated losses | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2019** | 56,589,405 | (42,596,715) | (227,292) | 968,831 | 415,562 | (14,746,054) | 403,737 |
| AASB 16 adjustment (net of tax (Note 5) | - | - | - | - | - | (85,677) | (85,677) |
| Restated total at the beginning of the year | 56,589,405 | (42,596,715) | (227,292) | 968,831 | 415,562 | (14,831,731) | 318,060 |
| Loss for the year | - | - | - | - | - | (14,351,828) | (14,351,828) |
| **OTHER COMPREHENSIVE INCOME** | | | | | | | |
| Foreign currency translation differences | - | - | (971,282) | - | - | - | (971,282) |
| Total other comprehensive income | - | - | (971,282) | - | - | - | (971,282) |
| Total comprehensive income for the year | - | - | (971,282) | - | - | (14,351,828) | (15,323,110) |
| **TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY** | | | | | | | |
| Share-based payment | - | - | - | 652,826 | - | - | 652,826 |
| FX impact | - | - | - | 27,047 | - | - | 27,047 |
| Converting notes issued | - | - | - | - | (415,562) | - | (415,562) |
| Issue of ordinary shares | 35,626,554 | - | - | - | - | - | 35,626,554 |
| Capital raising costs | (1,522,369) | - | - | - | - | - | (1,522,369) |
| Total transactions with owners | 34,104,185 | - | - | 679,873 | (415,562) | - | 34,368,496 |
| **Balance at 31 December 2019** | **90,693,590** | **(42,596,715)** | **(1,198,574)** | **1,648,704** | **-** | **(29,183,559)** | **19,363,446** |

The notes on pages 34 to 64 are an integral part of these financial statements.

# 10 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

IN USD

| | Share capital | Common control reserve | Foreign currency translation reserve | Share option reserve | Converting notes reserve | Accumulated losses | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2018** | 46,064,500 | (42,596,715) | 22,438 | 224,734 | - | (48,550) | 3,666,407 |
| AASB 15 adjustment | - | - | - | - | - | (950,000) | (950,000) |
| Restated total at the beginning of the year | 46,064,500 | (42,596,715) | 22,438 | 224,734 | - | (998,550) | 2,716,407 |
| Loss for the year | - | - | - | - | - | (13,747,504) | (13,747,504) |
| **OTHER COMPREHENSIVE INCOME** | | | | | | | |
| Foreign currency translation differences | - | - | (249,730) | - | - | - | (249,730) |
| Total other comprehensive income | - | - | (249,730) | - | - | - | (249,730) |
| Total comprehensive income for the year | - | - | (249,730) | - | - | (13,747,504) | (13,997,234) |
| **TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY** | | | | | | | |
| Issue of share options | - | - | - | 734,865 | - | - | 734,865 |
| FX impact | - | - | - | 9,232 | - | - | 9,232 |
| Converting notes issued | - | - | - | - | 415,562 | - | 415,562 |
| Issue of ordinary shares | 10,792,100 | - | - | - | - | - | 10,792,100 |
| Capital raising costs | (267,195) | - | - | - | - | - | (267,195) |
| Total transactions with owners | 10,524,905 | - | - | 744,097 | 415,562 | - | 11,684,564 |
| **Balance at 31 December 2018** | **56,589,405** | **(42,596,715)** | **(227,292)** | **968,831** | **415,562** | **(14,746,054)** | **403,737** |

The notes on pages 34 to 64 are an integral part of these financial statements.

# 11 CONSOLIDATED STATEMENT OF CASH FLOWS

### FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

IN USD

| | Note | 2019 | 2018 |
|---|---|---|---|
| CASH FLOWS USED IN OPERATING ACTIVITIES | | | |
| Receipts from customers | | 3,262,752 | 3,133,314 |
| Payments to suppliers and employees | | (13,202,785) | (14,156,348) |
| Payments for research and development | | (2,651,188) | (1,242,452) |
| Interest received | | 224,299 | 12,573 |
| Grant income | | 35,365 | - |
| **Net cash used in operating activities** | *12(b)* | (12,331,556) | (12,252,913) |
| CASH FLOWS USED IN INVESTING ACTIVITIES | | | |
| Payments for intangible assets | *17* | (1,233,341) | (647,926) |
| Payments for property, plant and equipment | *16* | (374,683) | (344,849) |
| **Net cash used in investing activities** | | (1,608,024) | (992,775) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of ordinary shares | *25(a)* | 25,541,869 | 10,792,100 |
| Proceeds from issue of converting notes | *20* | 70,798 | 7,743,581 |
| Capital raising costs | | (1,717,999) | (556,689) |
| Repayment of lease liabilities | | (210,334) | - |
| **Net cash from financing activities** | | 23,684,334 | 17,978,992 |
| Net increase in cash and cash equivalents | | 9,744,754 | 4,733,304 |
| Cash and cash equivalents at beginning of the year | *12(a)* | 7,211,102 | 2,597,767 |
| Effect of exchange rate changes on cash and cash equivalents | | (45,251) | (119,969) |
| **Cash and cash equivalents at end of the year** | **12(a)** | **16,910,605** | **7,211,102** |

The notes on pages 34 to 64 are an integral part of these financial statements.

# 12

## 1. CORPORATE INFORMATION

Next Science Limited (the 'Company') is a company domiciled in Australia.

The Group is a for-profit entity and primarily involved in the research, development and commercialisation of technologies which solve bacterial related issues.

These consolidated financial statements comprise the Company and its subsidiaries (collectively the 'Group' and individually 'Group companies') for the year ended 31 December 2019 and comparative information for the year ended 31 December 2018.

## 2. BASIS OF PREPARATION

### 2a. STATEMENT OF COMPLIANCE

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with AASBs adopted by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards ('IFRS') adopted by the International Accounting Standards Board ('IASB').

The financial statements were approved by the Board of Directors and authorised for issue on 28 February 2020.

### 2b. BASIS OF MEASUREMENT

The financial statements have been prepared on a historical cost basis.

### 2c. FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in United States Dollars, which is the Group's presentation currency. Entities within the Group hold functional currencies of AUD or USD as appropriate to the individual entity.

### 2d. USE OF JUDGEMENTS AND ESTIMATES

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income, expenses and disclosure of contingent liabilities. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

The key judgements, estimates and assumptions are discussed below:

**Impairment of non-financial assets**

The consolidated entity assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Recoverable amount being the net amount of discounted future cash flows materially exceeds the carrying value of non-current assets. The recoverable amount of this business, at balance date, was estimated based on its value in use.

Value in use for the cash-generating units ('CGU') was determined by discounting the future cashflows to be generated from the CGUs and is based on the following key assumptions:

- Cashflows were projected based on forecast operating results over a 5 year period.
- Average annual revenue growth rates agreed in revenue contracts with customers and approved budgets were used for revenue projections. This growth was referenced against the average annual historical growth rates.
- Discount rate of 10% based on the weighted average cost of capital

**Estimation of useful lives of assets**

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

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#### Leases

For the purpose of measuring the right-of-use asset lease term, duration is estimated. This requires judgement and is based on an assessment as to whether an option to extend or terminate a lease will be exercised. The Group must also consider each contract held to assess whether a contract includes a lease under AASB 16.

#### Recovery of deferred tax assets

Deferred tax assets for tax losses are only recognised if the Group considers it is probable that future taxable amounts will be available to utilise those tax losses against.

### 2e. GOING CONCERN

The financial report has been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business for a period of at least twelve months from the date this financial report is approved.

For the financial year ended 31 December 2019, the Group incurred a loss of $14,351,828 and had net cash outflows from operations of $12,331,556. As at 31 December 2019, the Group had net current asset and net asset positions of $17,566,079 and $19,363,446 respectively.

The Group raised AUD$35 million after successfully completing an Initial Public Offering ('IPO') in April 2019. As at 31 December 2019, the Group has cash of $16.9m which is expected to be sufficient to fund its operations and activities for a period of at least twelve months from the date of signing this financial report.

After considering the above, the Directors have concluded that the Group will be able to fulfil all obligations as and when they fall due for the foreseeable future, being at least twelve months from the date of signing this financial report.

## 3. SIGNIFICANT ACCOUNTING POLICIES

This is the first set of the Group's annual financial statements in which AASB 16 *Leases* has been applied. Changes to accounting policies are described in note 5.

The Group has consistently applied the following accounting policies to all periods in these financial statements.

### 3a. BASIS OF CONSOLIDATION

#### i. BUSINESS COMBINATIONS

The Group accounts for business combinations using the acquisition method when control is transferred to the Group, unless it is a combination involving entities or businesses under common control. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Common control transactions record assets and liabilities acquired at their book value at the date of acquisition, rather than their fair value. The difference between the fair value of the consideration given and the carrying value of the assets and liabilities acquired is recognised as a common control reserve.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

#### ii. SUBSIDIARIES

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

#### iii. LOSS OF CONTROL

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

#### iv. TRANSACTIONS ELIMINATED ON CONSOLIDATION

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

## 3b. FOREIGN CURRENCY

### i. FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss and presented within finance costs.

### ii. FOREIGN CURRENCY OPERATIONS

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into the functional currency 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 transaction are used.

Foreign currency differences are recognised in OCI and accumulated in the translation reserve.

## 3c. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers is recognised when a customer obtains control of the goods or services and when performance obligations have been satisfied assessing the following criteria:

### i. IDENTIFICATION OF DISTINCT ELEMENTS AND SEPARATE PERFORMANCE OBLIGATIONS

In the case where there the customer contract includes a sublicense and transfer of goods the assessment must be made as to whether a separate performance obligation exists for each element. For current contracts held, whilst a license to specific IP has been given related to the Group's product, this only includes rights to distribute, not to use, the IP to manufacture the product.

Therefore, the licence transferred is not deemed to be a distinct element of the contract and only one performance obligation exists to transfer product to the distributor.

### ii. TRANSFER OF GOODS

Title and control pass to the customer at the point when the Group fulfils its obligation to deliver and goods are available at the customer's premises. As such, the performance obligation (including the license) transfers at the point in time when each good is delivered.

Therefore, revenue is recognised at the point in time when the product is delivered.

### iii. MEASUREMENT OF TRANSACTION PRICE

Consideration of the contract can comprise a fixed element (upfront payment plus minimum annual purchase amounts) and variable elements (milestone payments).

Under AASB 15 the variable consideration is only included in the transaction price if it is 'highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur'.

In the case where milestone payments are received upon signing the contract and are not subject to regulatory approval, these amounts will be initially recognised as contract liabilities to be recognised over the life of the contract once product sales have commenced. However, where the milestone payments are subject to regulatory approval, for the variable consideration to be deemed 'most likely', this will only be included once regulatory approval has been received and recognised over the remaining life of the contract.

## 3d. EMPLOYEE BENEFITS

### i. SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled within 12 months of the end of the financial year in which employees render the related service. Short-term employee benefits include salaries and wages plus related on-costs such as payroll tax, superannuation and workers compensation insurance and are measured at the undiscounted amounts expected to be paid when the obligation is settled.

### ii. LONG-TERM EMPLOYEE BENEFITS

Long-term employee benefits include employees' long service leave and annual leave entitlements not expected to be settled within 12 months of the end of the financial year in which employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, duration of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on corporate bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

#### iii. DEFINED CONTRIBUTION PLANS

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to employees' defined contribution plans are recognised as an expense as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

#### iv. SHARE-BASED PAYMENT ARRANGEMENTS

The grant date fair value of options granted to employees (equity-settled) is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become entitled to the options. The amount recognised as an expense is adjusted to reflect the number of options for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of options that meet the related service and non-market performance conditions at the vesting date.

### 3e. FINANCE INCOME AND FINANCE COSTS

Finance income comprises interest income, dividend income and foreign currency gains. Interest income is recognised in profit or loss as it accrues using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments to the gross carrying amount of the financial asset or the amortised cost of the financial asset.

In calculating income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit impaired, then the calculation of interest income reverts to the gross basis.

Finance costs comprise interest expense on borrowings, lease liabilities and converting notes, foreign currency losses and impairment losses recognised on financial assets. Foreign exchange gains and losses on intercompany assets and liabilities that are not eliminated upon consolidation are recognised in OCI. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Interest expenses includes interest in relation to lease liabilities and is calculated based on the bank borrowing rate as appropriate for the lease contract, with a range of 5.4% to 5.5% on current leases held.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

### 3f. INCOME TAX

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received.

#### i. CURRENT TAX

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax liability arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

#### ii. DEFERRED TAX

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, or on taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that could follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

## 3g. INVENTORIES

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first in, first out principle.

## 3h. PROVISIONS

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and if it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

## 3i. PROPERTY, PLANT AND EQUIPMENT

### i. RECOGNITION AND MEASUREMENT

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Any gain and loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

### ii. SUBSEQUENT EXPENDITURE

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group.

### iii. DEPRECIATION

Depreciation is calculated based on the cost of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives, and is generally recognised in profit or loss. Right-of-use assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of property, plant and equipment are as follows:

| | |
|---|---|
| **Leasehold improvements** | 5-15 years |
| **Plant and equipment** | 5 years |
| **Furniture and fittings** | 5 years |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

## 3j. INTANGIBLE ASSETS

### i. RECOGNITION AND MEASUREMENT

**Research and development expenditure**

Expenditure on research activities is recognised in profit or loss as incurred. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

**Patents**

Expenditure is capitalised in relation to patent application costs and amortised over the remaining life of the base patent as relevant. Costs will be no longer capitalised in the event that a patent application is no longer being pursued with any existing capitalised costs being impaired as an expense in the profit or loss.

**Computer software**

Computer software comprises computer application system software and licenses. Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to computer software. Costs capitalised include external direct costs of materials and services, direct payroll and payroll-related costs.

#### ii. SUBSEQUENT EXPENDITURE

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

#### iii. AMORTISATION

Amortisation is calculated based on the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives of intangible assets are as follows:

| | |
|---|---|
| **Research and development expenditure** | 8 years |
| **Computer software** | 2-3 years |
| **Patents** | 8-15 years |

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible assets, other than goodwill, have finite useful lives.

### 3k. FINANCIAL INSTRUMENTS

#### i. RECOGNITION AND INITIAL MEASUREMENT

The Group initially recognises trade receivables issued on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date.

#### ii. CLASSIFICATION AND SUBSEQUENT MEASUREMENT

**Financial assets**

On initial recognition, a financial asset is classified as measured at amortised cost or fair value through profit or loss ('FVTPL').

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial assets at FVTPL are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

**Financial liabilities**

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

#### iii. DERECOGNITION

**Financial assets**

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

**Financial liabilities**

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

#### iv. OFFSETTING

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

### 3l. IMPAIRMENT

#### i. NON-DERIVATIVE FINANCIAL ASSETS

The Group recognises loss allowances for expected credit losses ('ECL') on financial assets and contract assets. Loss allowances where relevant are measured at an amount equal to a 12 month ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL's, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

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The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when the borrower is unlikely to pay its obligations to the Group in full or the financial asset is more than 130 days past due.

ECLs are a probability-weighted estimate of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate. Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount.

Financial assets not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired can include:

- default or delinquency by a debtor,
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise,
- indications that a debtor or issuer will enter bankruptcy or economic conditions that correlate with defaults,
- adverse changes in the payment status of borrowers or issuers,
- the disappearance of an active market for a security, or
- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

## 3m. SHARE CAPITAL

### ORDINARY SHARES

Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity.

## 3n. CONVERTING NOTES

Converting notes issued by the Company were converted to ordinary shares in accordance with the terms detailed in note 20.

The liability component of the converting notes is initially recognised at fair value. Any directly attributable transaction costs are allocated against the liability.

Subsequent to initial recognition, the liability component of a converting note is measured at amortised cost using the effective interest method.

Interest related to the financial liability is recognised in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognised.

## 3o. FAIR VALUE MEASUREMENT

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When one is available, the Group measures the fair value using the quoted price in an active market. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

### 3p. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker ('CODM'). The CODM is responsible for allocating resources and assessing performance of the operating segments.

### 3q. EARNINGS PER SHARE

#### BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit or loss attributable to the owners of the Company excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

#### DILUTED EARNINGS PER SHARE

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## 4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements:

- Amendments to References to Conceptual Framework in Australian Accounting Standards;
- Definition of a Business (Amendments to AASB 3); and
- Definition of material (Amendments to AASB 101 and AASB 108).

## 5. CHANGES TO SIGNIFICANT ACCOUNTING POLICIES

The Group has initially adopted AASB 16 *Leases* from 1 January 2019.

### 5a. AASB 16 LEASES

#### GENERAL IMPACT OF APPLICATION OF AASB 16 LEASES

The Group has applied AASB 16 initially from 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting AASB 16 has been recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

AASB 16 introduces new requirements with respect to lease accounting by removing the distinction between operating and finance leases, requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases except for short-term leases, being those less than 12 months and leases of low-value assets.

AASB 16 replaces existing leases guidance, including AASB 117, Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluation the Substance of Transactions Involving the Legal Form of a Lease.*

#### IMPACT OF THE DEFINITION OF A NEW LEASE

The change in definition of a lease mainly relates to the concept of control. AASB 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. The Group has applied this definition to all lease contracts currently held.

#### LEASES IN WHICH THE GROUP IS A LESSEE

Previously, under AASB 117 for the comparative period, all leases were classified as operating leases and were not recognised in the Group's statement of financial position. The Group recognised operating lease expenses on a straight-line basis over the term of the lease.

Under AASB 16, the Group recognises new right-of-use assets and lease liabilities for its operating leases of rented premises. The nature of expenses related to those leases has changed because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Lease incentives, if relevant, are recognised as part of the measurement of the right-of-use assets and lease liabilities.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group has opted to recognise a lease expense on a straight-line basis as permitted by AASB 16. This expense is presented within other expenses in the consolidated statement of profit or loss.

### FINANCIAL IMPACT OF INITIAL APPLICATION OF AASB 16

Upon adoption of AASB 16, on initial application as at 1 January 2019, the Group has recognised additional lease liabilities of $668,181 and corresponding right of use assets of $582,504 with the balance being recognised in retained earnings.

When measuring these lease liabilities, the Group discounted lease payments using a borrowing rate of 5.4-5.5%.

IN USD

| | As at 1 Jan 2019 |
|---|---|
| Operating lease commitment as at 31 Dec 2018 as disclosed in the Group's financial statements | 731,687 |
| Discounted using the borrowing rate as at 1 January 2019 | 666,891 |
| Adjustments to variable lease payments | 1,290 |
| **Lease liabilities recognised as at 1 January 2019** | **668,181** |

## 6. REVENUE

IN USD

| | 2019 | 2018 |
|---|---|---|
| **Revenue from contracts with customers** | **4,060,800** | **2,844,502** |

### IDENTIFICATION OF REPORTING OPERATING SEGMENTS

The Group operates in one segment, based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers (CODM)) in assessing performance and in determining the allocation of resources. The geographical non-current assets below are exclusive of, where applicable, financial instruments, deferred tax assets and post-employment benefits assets.

IN USD

| Country | Revenue from contracts with customers | | Geographical non-current assets | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| United States of America | 3,973,254 | 2,844,502 | 1,681,987 | 1,223,307 |
| Australia | 87,546 | - | 1,733,892 | 722,946 |
| | **4,060,800** | **2,844,502** | **3,415,879** | **1,946,253** |

### MAJOR CUSTOMERS

Revenues from two major customers of the Group represented 97% of the Group's total revenue.

## 7. OTHER INCOME

IN USD

| | As at 31 Dec 2019 | As at 31 Dec 2018 |
|---|---|---|
| Grant income | 35,365 | - |
| | **35,365** | **-** |

Income received in relation to grants will only be recognised when there is reasonable assurance when all conditions attaching to the grant have been complied with and upon receipt of cash.

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## 8. EXPENSES

IN USD

| | Note | 2019 | 2018 |
|---|---|---|---|
| **a. Employee expenses** | | | |
| Salaries and wages | | 7,186,191 | 9,571,671 |
| Contributions to defined contribution funds | | 67,134 | 73,589 |
| Share-based payments | | 652,826 | 734,865 |
| | | **7,906,151** | **10,380,125** |
| **b. General and administration expenses** | | | |
| Insurance | | 284,493 | 96,574 |
| Rent and utilities | | 135,878 | 323,823 |
| Travel and entertainment | | 975,658 | 987,652 |
| Accounting fees | | 303,275 | 205,838 |
| Directors' fees | | 405,186 | 128,710 |
| Product scrap | | 205,218 | 104,713 |
| Telecommunications and software license fees | | 87,821 | 154,161 |
| Other expenses | | 658,200 | 519,547 |
| | | **3,055,729** | **2,521,018** |
| **c. Depreciation and amortisation expenses** | | | |
| Depreciation expense: Property, plant and equipment | *16* | 198,171 | 146,259 |
| Depreciation: right of use asset | *18* | 175,443 | - |
| Amortisation expense | *17* | 191,625 | 98,207 |
| | | **565,239** | **244,466** |

## 9. FINANCE INCOME

IN USD

| | 2019 | 2018 |
|---|---|---|
| Interest income | 235,821 | 12,583 |
| Interest income (loan to shareholder) | 4,567 | 4,145 |
| Net foreign exchange gain | 38,330 | 128,452 |
| **Finance income** | **278,718** | **145,180** |

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## 10. FINANCE COSTS

IN USD

| | 2019 | 2018 |
|---|---|---|
| Interest on lease liabilities | 28,280 | - |
| Interest on converting note | 183,275 | 78,170 |
| Notional interest expense – converting notes | 1,917,869 | - |
| **Finance costs** | **2,129,424** | **78,170** |

## 11. INCOME TAX EXPENSE

Income tax expense comprises current and deferred tax expense and is recognised in profit or loss, except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income. The components of tax expense comprise:

IN USD

| | 2019 | 2018 |
|---|---|---|
| Income tax (expense)/benefit | | |
| Current tax | - | - |
| Deferred tax | - | - |
| **Aggregate income tax (expense)/benefit** | **-** | **-** |

The prima facie tax on loss before income tax is reconciled to the income tax expense as follows:

IN USD

| | 2019 | 2018 |
|---|---|---|
| Loss before income tax | (14,351,828) | (13,747,504) |
| Tax using the Company's domestic Australian tax rate of 27.5% | (3,946,753) | (3,780,564) |
| Add back: permanent differences | 993,799 | 115,344 |
| Effect of tax rate in foreign jurisdictions | 68,203 | (493,648) |
| Tax losses not brought to account | 2,884,751 | 4,158,868 |
| **Total income tax expense** | **-** | **-** |

The unused tax losses as at 31 December were as follows:

IN USD

| | 2019 | 2018 |
|---|---|---|
| Australia unused tax losses (in AUD) | 22,594,311 | 6,142,859 |
| USD unused tax losses (in USD) | 17,635,432 | 18,684,706 |

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## AUSTRALIAN ENTITIES

Movement in deferred tax assets and liabilities using the Company's domestic Australian tax rate of 27.5%

IN USD

| | Opening balance | Recognised in profit or loss | Closing balance |
|---|---|---|---|
| **2019** | | | |
| **Cost** | | | |
| Intangibles | (169,542) | (290,291) | (459,833) |
| Employee benefits | 11,563 | 4,327 | 15,890 |
| Accrued expenses | 42,004 | (23,492) | 18,512 |
| Deferred revenue | 520,582 | (52,005) | 468,577 |
| Unused tax losses carried forward | 1,323,725 | 3,295,843 | 4,619,568 |
| Other items | (48,596) | 20,411 | (28,185) |
| Tax losses not recognised | (1,679,736) | (2,954,793) | (4,634,529) |
| **Deferred tax assets/(liabilities)** | - | - | - |
| **2018** | | | |
| **Cost** | | | |
| Intangibles | - | (169,542) | (169,542) |
| Employee benefits | 4,579 | 6,985 | 11,564 |
| Accrued expenses | - | 42,004 | 42,004 |
| Deferred revenue | 261,250 | 259,332 | 520,582 |
| Unused tax losses carried forward | 673 | 1,323,052 | 1,323,725 |
| Other items | (76,778) | 28,182 | (48,596) |
| Tax losses not recognised | (189,724) | (1,490,013) | (1,679,737) |
| **Deferred tax assets/(liabilities)** | - | - | - |

## US ENTITIES

Movement in deferred tax assets and liabilities using the US tax rate of 26.5%

IN USD

| | Opening balance | Recognised in profit or loss | Closing balance |
|---|---|---|---|
| **2019** | | | |
| **Cost** | | | |
| Intangibles | (150,248) | 19,809 | (130,439) |
| Employee benefits | 18,267 | (14,170) | 4,097 |
| Accrued expenses | 86,627 | (9,320) | 77,307 |
| Deferred revenue | - | - | - |
| Unused tax losses carried forward | 4,951,447 | (278,058) | 4,673,389 |
| Other items | (29,259) | 20,367 | (8,892) |
| Tax losses not recognised | (4,876,834) | 261,372 | (4,615,462) |
| **Deferred tax assets/(liabilities)** | - | - | - |

IN USD

| | Opening balance | Recognised in profit or loss | Closing balance |
|---|---|---|---|
| 2018 | | | |
| **Cost** | | | |
| Intangibles | - | (150,248) | (150,248) |
| Employee benefits | - | 18,267 | 18,267 |
| Accrued expenses | 46,610 | 40,018 | 86,628 |
| Deferred revenue | - | - | - |
| Unused tax losses carried forward | 2,938,883 | 2,012,564 | 4,951,447 |
| Other items | (73,986) | 44,728 | (29,258) |
| Tax losses not recognised | (2,911,507) | (1,965,329) | (4,876,836) |
| **Deferred tax assets/(liabilities)** | **-** | **-** | **-** |

## 12. CASH AND CASH EQUIVALENTS

### 12a. CASH AND CASH EQUIVALENTS IN STATEMENT OF CASH FLOW

IN USD

| | 2019 | 2018 |
|---|---|---|
| Cash at bank | 16,910,605 | 7,211,102 |
| | **16,910,605** | **7,211,102** |

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## 12b. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

IN USD

| | Note | 2019 | 2018 |
|---|---|---|---|
| Loss for the year | | (14,351,828) | (13,747,504) |
| **Adjustments for:** | | | |
| Depreciation and amortisation | | 565,239 | 244,466 |
| Interest income | *9* | (4,567) | (4,145) |
| Accrued interest on converting notes | *10* | 183,275 | 78,170 |
| Share based payments | *8(a)* | 652,826 | 734,865 |
| Unrealised foreign currency translation (gain)/loss | | 8,612 | (35,134) |
| Directors fees paid as shares | *25* | 93,096 | - |
| Notional interest expense on converting notes | *20* | 1,917,869 | - |
| Interest expense on right-of-use assets | *18* | 28,281 | - |
| Gain on sale of fixed asset | *16* | 2,367 | - |
| Impairment of intangible assets | *17* | 60,603 | - |
| Amortisation element of capital raising fee | | 273,798 | - |
| **Operating profit before changes in working capital and provisions** | | (10,570,429) | (12,729,282) |
| CHANGE IN OPERATING ASSETS AND LIABILITIES | | | |
| Change in trade and other receivables | | (578,351) | (692,536) |
| Change in inventories | | (223,094) | (228,817) |
| Change in other current assets | | (833,790) | (195,584) |
| Change in trade and other payables | | (30,736) | 552,288 |
| Change in employee benefits | | 93,955 | 97,992 |
| Change in contract liabilities | | (189,111) | 943,026 |
| | | (1,761,127) | 476,369 |
| **Net cash from operating activities** | | **(12,331,556)** | **(12,252,913)** |

## 13. TRADE AND OTHER RECEIVABLES

IN USD

| | 2019 | 2018 |
|---|---|---|
| CURRENT | | |
| Trade and other receivables | 1,460,025 | 694,847 |
| Loan to shareholders | 180,357 | 89,511 |
| | **1,640,382** | **784,358** |
| NON-CURRENT | | |
| Loan to shareholders | - | 87,473 |
| Security deposit | 36,656 | 36,656 |
| | **36,656** | **124,129** |

The carrying value of receivables is considered a reasonable approximation of fair value due to the short-term nature of the balances. The Group has assessed any potential credit risk associated with these counterparties and deemed ECL to be insignificant.

## 14. INVENTORIES

IN USD

| | 2019 | 2018 |
|---|---|---|
| Raw materials – at cost | 161,939 | 77,550 |
| Finished goods – at cost | 380,112 | 241,407 |
| | 542,051 | 318,957 |
| Less provision for obsolete stock | (141,691) | (10,000) |
| | **400,360** | **308,957** |

## 15. OTHER CURRENT ASSETS

IN USD

| | 2019 | 2018 |
|---|---|---|
| CURRENT | | |
| **Prepayments and other assets** | **332,504** | **379,404** |

## 16. PROPERTY, PLANT AND EQUIPMENT

IN USD

| | 2019 | 2018 |
|---|---|---|
| Leasehold improvements, at cost | 198,975 | 200,124 |
| Accumulated depreciation | (40,061) | (20,092) |
| Net book value | 158,914 | 180,032 |
| Plant and equipment, at cost | 954,375 | 649,963 |
| Accumulated depreciation | (412,124) | (297,641) |
| Net book value | 542,251 | 352,322 |
| Furniture and fittings, at cost | 207,025 | 172,434 |
| Accumulated depreciation | (95,603) | (66,154) |
| Net book value | 111,422 | 106,280 |
| **Total** | **812,587** | **638,634** |

Reconciliations of the written down values at the beginning and end of the current financial year and previous financial period are set out below.

IN USD

| | Leasehold improvements | Plant and equipment | Furniture and fittings | Totals |
|---|---|---|---|---|
| Balance at 1 January 2018 | 154,423 | 183,622 | 101,878 | 439,923 |
| Additions | 40,109 | 273,728 | 31,012 | 344,849 |
| Depreciation expense | (14,580) | (105,069) | (26,610) | (146,259) |
| Foreign exchange | 80 | 41 | - | 121 |
| **Balance at 31 December 2018** | **180,032** | **352,322** | **106,280** | **638,634** |
| Additions | - | 332,422 | 42,261 | 374,683 |
| Disposals | (400) | (1,967) | - | (2,367) |
| Depreciation expense | (20,528) | (140,524) | (37,119) | (198,171) |
| Foreign exchange | (190) | (2) | - | (192) |
| **Balance at 31 December 2019** | **158,914** | **542,251** | **111,422** | **812,587** |

## 17. INTANGIBLE ASSETS

IN USD

| | 2019 | 2018 |
|---|---|---|
| Research and development expenditure, at cost | 1,369,252 | 393,180 |
| Accumulated amortisation | (81,388) | (14,201) |
| Net book value | 1,287,864 | 378,979 |
| Patents, at cost | 1,078,679 | 892,878 |
| Accumulated amortisation | (231,058) | (153,934) |
| Net book value | 847,621 | 738,944 |
| Computer software, at cost | 121,276 | 119,987 |
| Accumulated amortisation | (92,416) | (54,420) |
| Net book value | 28,860 | 65,567 |
| **Total** | **2,164,345** | **1,183,490** |

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IN USD

| | R&D | Patents | Computer software | Totals |
|---|---|---|---|---|
| Balance at 1 January 2018 | - | 603,453 | 29,229 | 632,682 |
| Additions | 393,180 | 191,634 | 63,112 | 647,926 |
| Amortisation expense | (14,714) | (56,483) | (27,010) | (98,207) |
| Foreign exchange | 513 | 340 | 236 | 1,089 |
| **Balance at 31 December 2018** | **378,979** | **738,944** | **65,567** | **1,183,490** |
| Additions | 976,072 | 254,269 | 3,000 | 1,233,341 |
| Impairment loss | - | (60,603) | - | (60,603) |
| Amortisation expense | (67,395) | (85,122) | (39,108) | (191,625) |
| Foreign exchange | 208 | 133 | (599) | (258) |
| **Balance at 31 December 2019** | **1,287,864** | **847,621** | **28,860** | **2,164,345** |

An impairment loss of $60,603 was recognised during the financial year in relation to legal costs previously capitalised for patents under application now no longer being pursued.

## 18. RIGHT-OF-USE ASSETS

The Group holds leases for properties with lease terms ranging from 3 to 4.5 years. AASB 16, *Leases*, has been adopted with a modified retrospective transition approach so there are no right-of-use assets recognised for the comparative year to 31 December 2018.

IN USD

| | As at 31 Dec 2019 | As at 31 Dec 2018 |
|---|---|---|
| Right-of-use assets: property – cost | 577,734 | - |
| Less: depreciation | (175,443) | - |
| **Net carrying value** | **402,291** | **-** |

IN USD

| Amounts recognised in profit or loss | As at 31 Dec 2019 | As at 31 Dec 2018 |
|---|---|---|
| Depreciation expensed | 175,443 | - |
| Interest expense | 28,281 | - |
| Expense relating to variable lease payments not included in the measurement of the lease liability | 84,290 | - |
| | **288,014** | **-** |

The total cash outflow in relation to lease payments amounted to USD $210,334.

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## 19. TRADE AND OTHER PAYABLES

IN USD

| | 2019 | 2018 |
|---|---|---|
| CURRENT | | |
| Trade payables | 628,035 | 522,141 |
| Other payables and accrued expenses | 448,637 | 630,775 |
| | **1,076,672** | **1,152,916** |

All amounts are short term and the carrying values are considered to be a reasonable approximation of fair value.

## 20. LOANS AND BORROWINGS

### CONVERTING NOTES

IN USD

| | 2018 |
|---|---|
| Proceeds from issue of convertible notes | 7,743,581 |
| Less: transaction costs | (289,493) |
| Net proceeds at the date of issue | 7,454,088 |
| Interest expense accrued | 30,891 |
| | 7,484,979 |
| Amount classified as equity (net of transaction costs) | (415,562) |
| **Carrying amount of liability at 31 December 2018** | **7,069,417** |

IN USD

| | 2019 |
|---|---|
| Balance as at 1 January 2019 | 7,069,417 |
| Proceeds from issue of convertible notes | 70,798 |
| Interest expense accrued | 183,275 |
| Transaction costs recognised in profit or loss | 289,493 |
| Notional interest on converting notes | 1,917,869 |
| Effect of movement in exchange rates | 285,433 |
| Issue of ordinary shares upon conversion in April 2019 | (9,816,285) |
| **Carrying amount of liability at 31 December 2019** | **-** |

On 8 April 2019, the non-redeemable converting notes converted to ordinary shares following the Initial Public Offering (IPO). The conversion price of converting notes to ordinary shares was AUD$0.80.

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## 21. CONTRACT LIABILITIES

IN USD

| | 2019 | 2018 |
|---|---|---|
| DEFERRED REVENUE ARISING FROM CONTRACTS WITH CUSTOMERS | | |
| Current | 375,106 | 222,130 |
| Non-current | 1,328,809 | 1,670,896 |
| **Total** | **1,703,915** | **1,893,026** |

Contract liabilities relate to consideration received in advance from customers for which revenue will be recognised as and when products are delivered.

## 22. LEASE LIABILITIES

AASB 16 *Leases* has been adopted with a modified retrospective transition approach so there are no disclosures for the comparative period.

IN USD

| | As at 31 Dec 2019 | As at 31 Dec 2018 |
|---|---|---|
| Amounts due for settlement within less than 12 months (current liabilities) | 196,442 | - |
| Amounts due for settlement in more than 12 months (non-current liabilities) | 286,012 | - |
| | **482,454** | **-** |

IN USD

| Maturity analysis In USD | As at 31 Dec 2019 | As at 31 Dec 2018 |
|---|---|---|
| Not later than 1 year | 196,442 | - |
| Later than 1 year but not later than 5 years | 286,012 | - |
| Later than 5 years | - | - |
| | **482,454** | **-** |

## 23. LEASE COMMITMENT

IN USD

| | 2019 | 2018 |
|---|---|---|
| Within one year | - | 212,519 |
| Later than one year but not later than five years | - | 519,168 |
| | **-** | **731,687** |

Following the adoption of AASB 16, *Leases* (see note 5), significant property leases reporting as operating leases are now recognised as finance leases. The maturity analysis for lease liabilities as at 31 December 2019 is detailed in note 22.

Operating lease commitments for the year ended 31 December 2018 included contracted amounts for rented premises under operating leases. Leases have various terms, including some options to extend the terms. A lease expense of $285,616 was recognised in other expenses in the profit and loss statement for the year ended 31 December 2018.

## 24. EMPLOYEE BENEFITS

IN USD

| | 2019 | 2018 |
|---|---|---|
| **CURRENT** | | |
| Liability for annual leave | 69,552 | 108,835 |
| | **69,552** | **108,835** |
| **NON-CURRENT** | | |
| Liability for long service leave | 3,691 | 2,143 |
| | **3,691** | **2,143** |

## 25. CAPITAL AND RESERVES

### 25a. SHARE CAPITAL

IN USD

| | Note | Fully paid | Partly paid | Total |
|---|---|---|---|---|
| **IN NUMBER OF SHARES** | | | | |
| Balance as at 1 January 2018 | | 16,678 | 100 | 16,778 |
| Shares issued 2 February 2018 | | 364 | - | 364 |
| Shares issued 28 February 2018 | | 728 | - | 728 |
| Shares issued 25 May 2018 | | 1,587 | - | 1,587 |
| Shares issued 26 June 2018 | | 497 | - | 497 |
| Shares issued 25 September 2018 | | 50 | - | 50 |
| **Balance at 31 December 2018** | | **19,904** | **100** | **20,004** |
| Share split on 24 January 2019 | *(i)* | 129,376,000 | 650,000 | 130,026,000 |
| Shares issued in February 2019 (on conversion of employee share options) | *(ii)* | 314,502 | - | 314,502 |
| Shares issued in April 2019 on conversion of converting notes to shares | *(iii)* | 13,824,063 | - | 13,824,063 |
| Shares issued in April 2019 upon IPO | *(iv)* | 35,000,010 | - | 35,000,010 |
| Shares issued in September 2019 (on conversion of employee share options) | *(v)* | 650,000 | - | 650,000 |
| Shares issued in September 2019 in lieu of Non-Executive Director fees | *(vi)* | 53,441 | - | 53,441 |
| Shares issued in December 2019 (on conversion of employee share options) | *(vii)* | 565,500 | - | 565,500 |
| Shares issued in December 2019 in lieu of Non-Executive Director fees | *(viii)* | 16,842 | - | 16,842 |
| Shares issued in December 2019 (on conversion of employee share options) | *(ix)* | 260,000 | - | 260,000 |
| **Balance as at 31 December 2019** | | **180,060,358** | **650,000** | **180,710,358** |

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## 25a. SHARE CAPITAL (CONTINUED)

IN USD

| | Note | Fully paid | Partly paid | Total |
|---|---|---|---|---|
| Balance at 1 January 2018 | | 45,864,501 | 199,999 | 46,064,500 |
| Shares issued 2 February 2018 | | 1,001,000 | - | 1,001,000 |
| Shares issued 28 February 2018 | | 2,002,000 | - | 2,002,000 |
| Shares issued 25 May 2018 | | 5,792,550 | - | 5,792,550 |
| Shares issued 26 June 2018 | | 1,814,050 | - | 1,814,050 |
| Shares issued 25 September 2018 | | 182,500 | - | 182,500 |
| **Balance at 31 December 2018, pre-costs** | | 56,656,601 | 199,999 | 56,856,600 |
| Capital raising costs | | (267,195) | - | (267,195) |
| **Balance at 31 December 2018** | | 56,389,406 | 199,999 | 56,589,405 |
| Shares issued in February 2019 (on conversion of employee share options) | *(ii)* | 178,856 | - | 178,856 |
| Shares issued in April 2019 on conversion of converting notes to shares | *(iii)* | 9,816,285 | - | 9,816,285 |
| Shares issued in April 2019 upon IPO | *(iv)* | 25,052,313 | - | 25,052,313 |
| Shares issued in September 2019 (on conversion of employee share options) | *(v)* | 201,500 | - | 201,500 |
| Shares issued in September 2019 in lieu of Non-Executive Director fees | *(vi)* | 60,443 | - | 60,443 |
| Shares issued in December 2019 (on conversion of employee share options) | *(vii)* | 175,305 | - | 175,305 |
| Shares issued in December 2019 in lieu of Non-Executive Director fees | *(viii)* | 32,652 | - | 32,652 |
| Shares issued in December 2019 (on conversion of employee share options) | *(ix)* | 109,200 | - | 109,200 |
| Capital raising costs | | (1,522,369) | - | (1,522,369) |
| **Balance at 31 December 2019** | | **90,493,591** | **199,999** | **90,693,590** |

i. On 24 January 2019, a share split was completed on the basis that every one ordinary share on issue in the Company be divided into 6,500 ordinary shares.

ii. During February 2019 the following employee share options were converted into ordinary shares:
- On 22 February 2019, part A of round 5 Equity Incentive Plan (ECP) options converted to 173,299 ordinary shares at a price of AUD $0.80;
- On 25 February 2019, part B of round 5 ECP options converted to 134,784 ordinary shares at a price of AUD $0.80; and
- On 26 February 2019, part C of round 5 ECP options converted to 6,419 ordinary shares at a price of AUD $0.80.

iii. On 8 April 2019, the non-redeemable converting notes converted to ordinary shares on th. occurrence of an Initial Public Offering event. The conversion price of converting notes to ordinary shares was AUD$0.80

iv. On 16 April 2019, Next Science Limited was admitted to the Official List of the ASX Limited ('ASX') and commenced trading on 18 April 2019 after successfully completing an Initial Public Offering ('IPO') of 35 million shares to raise AUD$35 million.

v. On 25 September 2019, 325,000 round 1 ECP employee share options converted to 325,000 ordinary shares at a price of AUD$0.46 and 325,000 round 2 ECP employee share options converted to 325,000 ordinary shares at a price of AUD$0.46

vi. On 25 September 2019, the following ordinary shares were issued in lieu of non-executive directors fees:
- 21,666 ordinary shares were issued at a price of AUD$1.00 to Daniel Spira
- 20,000 ordinary shares were issued at a price of AUD$1.00 to Aileen Stockburger
- 6,198 ordinary shares were issued at a price of AUD$4.03 to Daniel Spira
- 5,577 ordinary shares were issued at a price of AUD$4.03 to Aileen Stockburger

vii. On 19 December 2019, 565,500 round 1 ECP employee shares options converted to 565,500 ordinary shares at a price of AUD$0.45

viii. On 19 December 2019, the following ordinary shares were issued in lieu of non-executive directors fees:

- 8,865 ordinary shares were issued at a price of AUD$2.82 to Daniel Spira
- 7,977 ordinary shares were issued at a price of AUD$2.82 to Aileen Stockburger

ix. On 19 December 2019 260,000 round 3 Employee Share Option Plan (ESOP) options converted to 260,000 ordinary shares at a price of AUD$0.61

### ORDINARY SHARES

#### Fully paid ordinary shares

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholders' meetings, each ordinary share is entitled to one vote when a poll is called.

#### Partly paid ordinary shares

The partly paid ordinary shares are called on in accordance with their underlying arrangements (due for payment April 2020) and as required by the Company. In any case, on winding up the company, the balance of partly paid shares, if any, may be called up. The proceeds on winding up are proportional to the amounts paid on partly paid shares. Partly paid shares carry equal dividend participation and voting rights as fully paid shares, although any dividends must be first be applied to the unpaid balance on the shares.

## 25b. RESERVES

IN USD

| | 2019 | 2018 |
|---|---|---|
| Foreign currency translation reserve | (1,198,574) | (227,292) |
| Common control reserve | (42,596,715) | (42,596,715) |
| Share option reserve | 1,648,704 | 968,831 |
| Converting notes reserve | - | 415,562 |
| | **(42,146,585)** | **(41,439,614)** |

### FOREIGN CURRENCY TRANSLATION RESERVE

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the Group's presentation currency.

### COMMON CONTROL RESERVE

The acquisition of the share capital of Microbial Defense Systems Holdings Inc ('MDS') by the Company on 22 December 2017 was accounted for as a common control transaction. As a consequence, the difference between the fair value of the consideration paid ($43,862,500) and the existing book values of assets and liabilities of MDS ($1,265,785) were debited to a common control reserve, directly within equity.

### SHARE OPTION RESERVE

The share option reserve comprises the value of the share-based payment arrangements recognised in equity.

### CONVERTING NOTES RESERVE

The reserve for converting notes comprises the amount allocated to the equity component for the converting notes issued by the Group for the year ended 31 December 2018. The converting notes converted in April 2019 (see note 20).

## 25c. DIVIDENDS

No dividends were paid or declared by the Company during the period.

## 25d. DIVIDEND FRANKING ACCOUNT

The Company has franking credits available to shareholders of Nil.

## 25e. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, maintain sufficient financial flexibility to pursue its growth objectives and maintain an optimal capital structure to reduce the cost of capital.

## 26. PARENT ENTITY INFORMATION

As at, and throughout, the financial year to 31 December 2019 the parent entity of the Group was Next Science Limited.

### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

IN USD

| | Parent | |
|---|---|---|
| | 2019 | 2018 |
| Loss after income tax | (11,904,021) | (13,965,244) |
| Other comprehensive income | (1,042,968) | (73,943) |
| **Total comprehensive income** | **(12,946,989)** | **(14,039,187)** |

### STATEMENT OF FINANCIAL POSITION

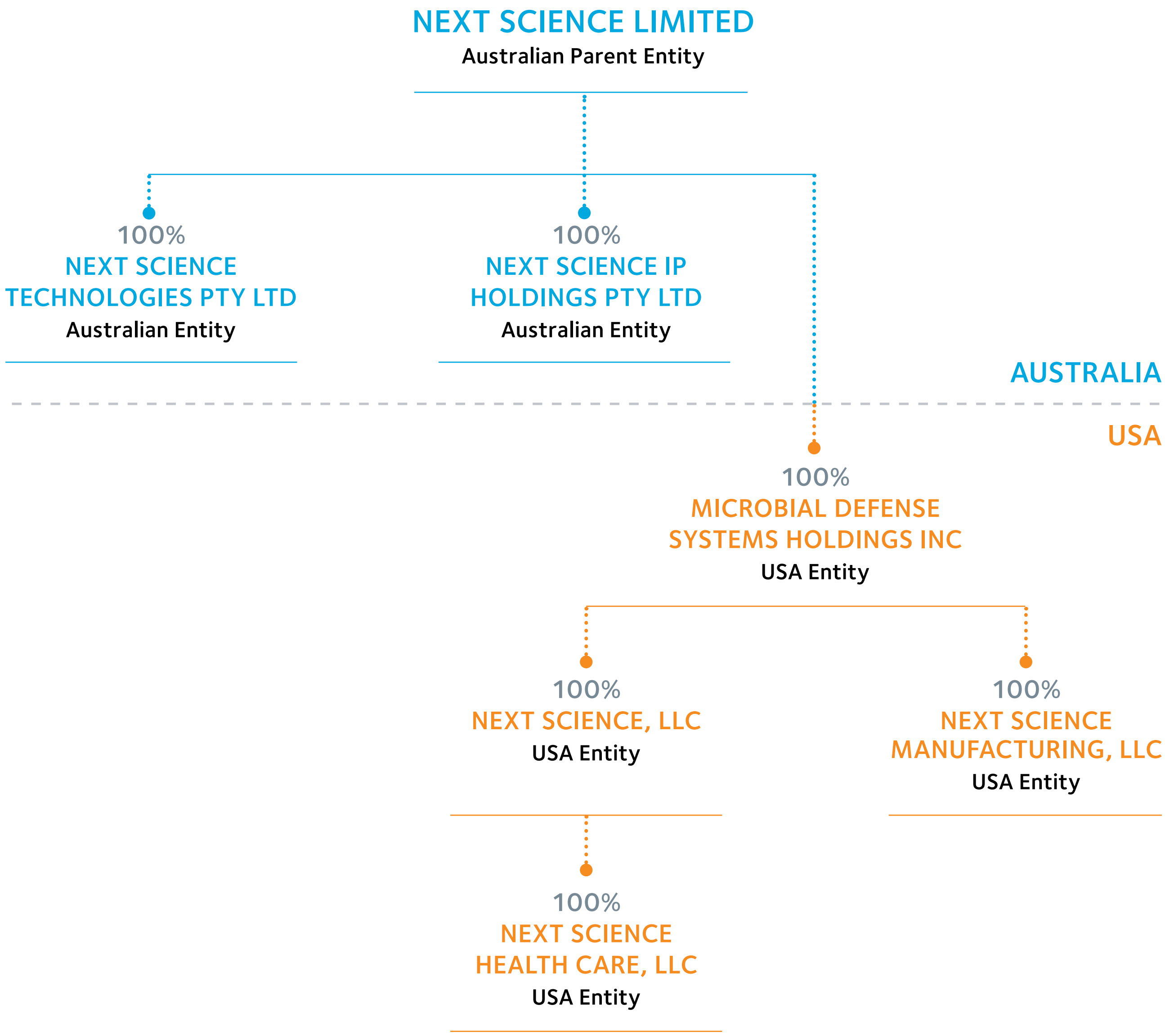
IN USD

| | 2019 | 2018 |
|---|---|---|
| ASSETS | | |
| Total current assets | 1,407,127 | 934,834 |
| Total non-current assets | 19,363,446 | 8,227,347 |
| **Total assets** | **20,770,573** | **9,162,181** |
| LIABILITIES | | |
| Total current liabilities | (70) | (7,852,288) |
| Total non-current liabilities | - | - |
| **Total liabilities** | (70) | (7,852,288) |
| **Total net assets** | **20,770,503** | **1,309,893** |
| EQUITY | | |
| Share capital | 90,693,590 | 56,589,406 |
| Common control reserve | (27,257,549) | (27,257,549) |
| Foreign currency translation reserve | (1,116,913) | (73,947) |
| Share option reserve | 1,648,704 | 968,830 |
| Converting notes reserve | - | 415,562 |
| Accumulated losses | (43,197,329) | (29,332,409) |
| **Total equity** | **20,770,503** | **1,309,893** |

The parent entity did not have any contingent liabilities or capital commitments as at 31 December 2019.
The parent entity had not entered into a deed of cross guarantee as at 31 December 2019.

## 27. GROUP ENTITIES

Set out below is the Group structure listing all subsidiaries as at 31 December 2019.

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## 28. RELATED PARTIES

### 28a. KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel ('KMP') are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly and indirectly, and include the Directors, executive and non-executive, as well as certain other senior executives. The totals of remuneration of the KMP of the Company included within employee expenses are as follows:

IN USD

| | 2019 | 2018 |
|---|---|---|
| Short term employee benefits | 1,498,338 | 1,304,446 |
| Post employment benefits | 66,820 | 46,041 |
| Share-based payment benefits | 575,503 | 548,908 |
| **Total KMP remuneration** | **2,140,661** | **1,899,395** |

#### SHORT TERM EMPLOYEE BENEFITS

Short term employee benefits include fees and benefits paid to the executive directors and other KMP as well as salary, fringe benefits and cash bonuses awarded to the non-executive directors.

#### POST-EMPLOYMENT BENEFITS

Post-employment benefits are the cost of superannuation contributions made during the year.

### 28b. KEY MANAGEMENT PERSONNEL TRANSACTIONS

Directors of the Company hold 3.1% of the issued capital of the Company as at 31 December 2019.

## 29. SHARE-BASED EMPLOYEE INCENTIVE ARRANGEMENTS

### EQUITY INCENTIVE PLAN (EQUITY-SETTLED)

Prior to listing on the ASX, the Group established an Equity Incentive Plan (ECP) and an Employee Share Option Plan (ESOP). The purpose of the Plans is to attract and retain the types of employees, consultants and directors who will contribute to the Company's long term success; provide incentives that align the interests of Employees, Consultants and Directors with those of the shareholders of the Company; and promote the success of the Company's business. As at 31 December 2019, there are 9,249,500 options over ordinary shares on issue (2018: 1,690 options), representing 5.12% (2018: 8.45%) of the Company's total share capital, granted to the employees of the Company.

The grant dates, vesting dates and exercise prices vary and are as follows:

| Grant date and vesting conditions (i) | Expiry date | No of options as at 31 Dec 2018 | No of options post share split | Granted | Exercised (ii) | Lapsed | No of options as at 31 Dec 2019 | Vested as at 31 Dec 2019 |
|---|---|---|---|---|---|---|---|---|
| 9-Nov-16 (1) | 9-Nov-19 | 87 | 565,500 | - | (565,500) | - | - | - |
| 9-Nov-16 (2) | 9-Nov-20 | 88 | 572,000 | - | (325,000) | - | 247,000 | 247,000 |
| 1-Mar-17 (1) | 1 Mar-20 | 50 | 325,000 | - | (325,000) | - | - | - |
| 1 Mar-17 (2) | 1-Mar-21 | 50 | 325,000 | - | - | - | 325,000 | 325,000 |
| 1-Sep-17 (1) | 1-Sep-20 | 25 | 162,500 | - | - | - | 162,500 | 162,500 |
| 1-Sep-17 (2) | 1-Sep-21 | 25 | 162,500 | - | - | - | 162,500 | 162,500 |
| 16-Apr-18 (1) | 16-Apr-21 | 153 | 994,500 | - | (260,000) | - | 734,500 | 734,500 |
| 16-Apr-18 (5) | 16-Apr-21 | 360 | 2,340,000 | - | - | - | 2,340,000 | 1,560,000 |
| 16-Apr-18 (4) | 16-Apr-21 | 160 | 1,040,000 | - | - | - | 1,040,000 | 1,040,000 |
| 16-Apr-18 (2) | 16-Apr-22 | 12 | 78,000 | - | - | - | 78,000 | - |
| 17-Dec-18 (3) | 17-Dec-23 | 380 | 2,470,000 | - | - | - | 2,470,000 | - |
| 17-Dec-18 (2) | 17-Dec-23 | 300 | 1,950,000 | - | | (260,000) | 1,690,000 | - |
| 19-Feb-19 (4) | 26-Feb-19 | N/A | N/A | 314,502 | (314,502) | - | - | - |
| **Totals** | | **1,690** | **10,985,000** | **314,502** | **(1,790,002)** | **(260,000)** | **9,249,500** | **4,231,500** |

i. Vesting conditions are as follows:
   1. 1 year service from grant date
   2. 2 years service from grant date
   3. 3 years service from grant date
   4. Immediately upon grant
   5. Various, including financial and non-financial conditions; relating to Judith Mitchell's share options

ii. The weighted average share price for the options exercised during the year was USD$0.37.

As at 31 December 2019, 4,231,500 options have vested (2018: 2,665,000 post share split).

The fair value has been measured using the Black-Scholes formula. Service and non-market performance conditions attached to the arrangements were not taken into account in measuring fair value.

The inputs used in the measurement of the fair values at grant date and measurement date were as follows:

| | Grant date | | | | | |
|---|---|---|---|---|---|---|
| | 9-NOV-16 | 1-MAR-17 | 1-SEP-17 | 16-APR-18 | 17-DEC-18 | 19-FEB-19 |
| FV at grant date (USD) | 0.14-0.16 | 0.14-0.16 | 0.20-0.22 | 0.20-0.22 | 0.33 | 0.02 |
| Share price at grant (USD) | 0.31 | 0.31 | 0.42 | 0.42 | 0.56 | 0.57 |
| Exercise price (USD) | 0.31 | 0.31 | 0.42 | 0.42 | 0.56 | 0.57 |
| Expected volatility | 91% | | | | | |
| Expected life | 3-4 years | | | | | 7 days |
| Expected dividends | 0% | | | | | |
| Risk-free interest rate | 2.25%-5.50% | | | | | 2.13% |

Expected volatility is measured based on peer companies and expected life is the number of days until expiry.

## 30. COMMITMENTS AND CONTINGENCIES

The Group has no capital commitments or contingencies as at 31 December 2019 (2018: nil).

## 31. EVENTS AFTER THE REPORTING PERIOD

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Group, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

## 32. AUDITOR'S REMUNERATION

IN USD

| | 2019 | 2018 |
|---|---|---|
| AUDIT AND ASSURANCE RELATED SERVICES | | |
| **KPMG Australia** | | |
| Audit of financial statements | 72,825 | 73,958 |
| Total audit and assurance services | 72,825 | 73,958 |
| OTHER SERVICES | | |
| **KPMG Australia** | | |
| Taxation services | 43,335 | 33,228 |
| Other services | 95,829 | 151,305 |
| Total other services | 139,164 | 184,533 |
| **Total auditor's remuneration** | **211,989** | **258,491** |

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## 33. EARNINGS PER SHARE

IN USD

| | 2019 | 2018 |
|---|---|---|
| *Loss after tax* | (14,351,828) | (13,747,504) |
| Basic and diluted earnings per share (USD cents) | (8.65) | (11.16) |
| **Weighted average number of shares** | **165,978,735** | **123,188,000** |

The weighted average number of ordinary shares used in the calculation for earnings per share for 2018 has been amended to reflect the share split as detailed in note 25.

## 34. FINANCIAL RISK MANAGEMENT

### 34a. OVERVIEW

The Group's activities expose it to various financial risks including: credit risk, liquidity risk and market risk.

This note presents information about the Group's exposure to each of these risks, its objectives, policies and processes for measuring and managing risk.

### 34b. RISK MANAGEMENT FRAMEWORK

The Company's board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework with advice from the Audit and Risk Committee (as detailed below). The Group's risk management policies have been established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its standards and procedures, aims to maintain an effective control environment in which all employees understand their roles and obligations.

#### AUDIT AND RISK COMMITTEE

The purpose of the Audit and Risk Committee is to assist the Board with:

- oversight of financial reporting and internal and external audit functions;
- oversight of accounting, business, clinical and patient risk policies and practices;
- oversight of legal and regulatory compliance;
- oversight of internal control structure and risk management procedures;
- promoting a culture of compliance across the Group companies; and
- providing a forum of communication between the Board and the Company's external auditor, internal auditor (if any) and Company's management in relation to audit and risk matters.

The Audit and Risk Committee Charter has responsibility pursuant to its Charter for oversight of the Company's financial and risk management procedures. The Board currently considers these processes appropriate for the size and level of operations of the Company.

### 34c. CREDIT RISK CASH AND CASH EQUIVALENTS

The Group held cash and cash equivalents of USD $16,910,605 at 31 December 2019 (2018: USD $7,211,102). The cash and cash equivalents are held with credit worthy bank and financial institution counterparties. The ECL of each of these banks and counterparties are considered to be extremely low; accordingly any expected credit losses are deemed to be insignificant.

## 34d. LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group manages liquidity risk by monitoring net cash balances, actual and forecast operating cash flows.

### EXPOSURE TO LIQUIDITY RISK

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted and include estimated interest payments and exclude the impact of netting agreements.

IN USD

| At 31 December 2019 | Less than 6 months | Between 6 and 12 months | Between 1 and 5 years | Total contracted amounts |
|---|---|---|---|---|
| Trade and other payables | 1,076,672 | - | - | 1,076,672 |
| | **1,076,672** | **-** | **-** | **1,076,672** |

IN USD

| At 31 December 2018 | Less than 6 months | Between 6 and 12 months | Between 1 and 5 years | Total contracted amounts |
|---|---|---|---|---|
| Trade and other payables | 1,152,916 | - | - | 1,152,916 |
| Loans and borrowings | 7,069,417 | - | - | 7,069,417 |
| | **8,222,333** | **-** | **-** | **8,222,333** |

The cash flows in the maturity analysis are not expected to occur significantly earlier or be for a significantly different amount than contractually disclosed above.

## 34e. MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

### INTEREST RATE RISK

The Group is not exposed to any significant interest rate risk. There is minimal exposure to the impact of adverse changes in benchmark interest rates. The Group is exposed to variable interest rate risks at the reporting date on the cash and short-term deposits. A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased or decreased profit after tax by $166,849 (2018: $66,336). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

### CURRENCY RISK

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The source and nature of this risk arise from operations and translation risks. The Group's reporting currency is United States Dollars ('USD'). However, the international operations give rise to an exposure to changes in foreign exchange rates as amounts of expenditure are from Australia and denominated in currencies other than USD.

The carrying amounts of the Group's foreign currency denominated financial assets (trade and other receivables including accrued income) and financial liabilities (trade and other payables) at the reporting date were as follows:

IN USD

| | 2019 | 2018 |
|---|---|---|
| AUD financial assets converted to USD | 3,160,154 | 6,633,702 |
| AUD financial liabilities converted to USD | (229,180) | (7,635,423) |
| **Net exposure in statement of financial position** | **2,930,974** | **(1,001,721)** |

A reasonably possible strengthening (weakening) of the Unites States Dollar against all other currencies at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected profit or loss and equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

IN USD

| | % | Profit before tax | | Equity | |
|---|---|---|---|---|---|
| | Change | Strengthen | Weaken | Strengthen | Weaken |
| **2019** | | | | | |
| Australian Dollars | 10% | (293,097) | 293,097 | (293,097) | 293,097 |
| **2018** | | | | | |
| Australian Dollars | 10% | (100,172) | 100,172 | (100,172) | 100,172 |

The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 12 months and the spot rate at each reporting date.

# 13 DIRECTORS' DECLARATION

## DIRECTORS' DECLARATION

1. In the opinion of the directors of Next Science Limited (the 'Company'):
    a. The consolidated financial statements and notes that are set out on pages 28 to 63 and the Remuneration report on pages page 18 to page 25 in the Directors' report, are in accordance with the *Corporations Act 2001*, including:
        i. giving a true and fair view of the financial position of the Group as at 31 December 2019 and of its performance for the financial year ended on that date; and
        ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
    b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the chief executive officer and chief financial officer for the financial year ended 31 December 2019.
3. The directors draw attention to Note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of directors:

**SIGNED**

**George Savvides** *Chairman* – Dated at Sydney this 28th day of February 2020

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KPMG

# Independent Auditor's Report

To the shareholders of Next Science Limited

## Report on the audit of the Financial Report

### Opinion

We have audited the ***Financial Report*** of Next Science Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group***'s financial position as at 31 December 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 31 December 2019
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of Next Science Limited (the Company) and the entities it controlled at the year end or from time to time during the financial year.

### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code)* that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

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| Key Audit Matters | |
|---|---|
| The ***Key Audit Matters*** we identified are:<br>• Revenue recognition from sale of products<br>• Carrying value of non-current assets | ***Key Audit Matters*** are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.<br>These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. |

| Revenue recognition from sale of products | |
|---|---|
| Refer to Note 6 of the Financial Report (USD 4.06m) | |
| **The key audit matter** | **How the matter was addressed in our audit** |
| We focused on revenue recognition as a key audit matter due to the significant audit effort required by us to test the Group's revenue given the:<br>• significance of revenue to the financial statements;<br>• varying terms and conditions within each contract such as product sales, advance deposits and milestone payments which increases the complexity of appropriately recording the timing and measurement of revenue recognised by the Group.<br>• Group has manual processes and controls which may increase the risk of bias in the recognition of revenue, in particular in the last two weeks of the reporting period and the first two weeks of the next reporting period. | Our procedures included:<br>• Evaluated the appropriateness of the Group's revenue recognition policies against the requirements of AASB 15 Revenue from Contracts with Customers.<br>• For a sample of transactions, across each product line, we:<br>- checked the terms and conditions of the customer contract for consistency to the Group's policy for timing and measurement of revenue recognition;<br>- checked the amount, nature and date of revenue recognition to the underlying sales invoices and bank statement cash receipts.<br>• Selected a sample of revenue transactions for the last two weeks of the reporting period and the first two weeks of the next reporting period. For each sample selected, we:<br>- checked the amount of revenue recorded to the underlying sales invoice and to freight documents, confirming the date control of the goods passes to the customer. |

| Carrying value of non-current assets | |
|---|---|
| Refer to Notes 16, 17 and 18 of the Financial Report (USD 3.38m) | |
| **The key audit matter** | **How the matter was addressed in our audit** |
| A key audit matter for us was the Group's annual testing of non-current assets for impairment. We focused on the significant forward-looking assumptions the Group applied in their value in use models including:<br>• forecast cash flows including the growth rates in light of current market conditions and historical results.<br>• discount rates are complicated in nature and vary according to the conditions and environment the specific Cash Generating Unit (CGU) is subject to from time to time.<br>The Group uses complex models to perform their annual impairment testing of non-current assets. Complex modelling, particularly those containing judgemental forward-looking assumptions tend to be prone to greater risk of potential bias, error and inconsistent application. Such conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used to derive assumptions, and their consistent application. | Our procedures included:<br>• we considered the appropriateness of the value in use method applied by the Group to perform the annual test of impairment for non-current assets against the requirements of the accounting standards.<br>• we assessed the integrity of the value in use models used, including the accuracy of the underlying calculation formulas.<br>• in relation to the key assumptions in the Group's value in use model, we:<br>- challenged the Group's forecast cash flow and growth rate assumptions in light of current customer demand and against historical results of the group;<br>- applied increased scepticism to assumptions in areas where previous forecasts were not achieved;<br>- compared forecast growth rates to the Board approved plan and strategy and historical growth rates;<br>• we considered the sensitivity of the models by varying key assumptions, such as forecast growth rates and discount rates, within a reasonably possible range.<br>• we independently assessed the discount rate applied, across the different CGUs which are based on product lines. We did this using publicly available market data for comparable entities, adjusted by risk factors specific to the Group.<br>• we assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards. |

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## Other Information

Other Information is financial and non-financial information in Next Science Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

## Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

KPMG

## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Next Science Limited for the year ended 31 December 2019, complies with *Section 300A of the Corporations Act 2001*.

### Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

### Our responsibilities

We have audited the Remuneration Report included on pages 9 to 18 of the Directors' report for the year ended 31 December 2019.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Tony Nimac

*Partner*

Sydney

28 February 2020


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# 15 INVESTOR INFORMATION



## INVESTOR INFORMATION AS AT 28 FEBRUARY 2020

### NUMBER OF SECURITYHOLDERS

At the specified date, there were 5,035 holders of ordinary shares (quoted and unquoted) and 16 holders of options (unquoted) over ordinary shares. These were the only classes of equity securities on issue.

### SHAREHOLDING DISTRIBUTION

| Size of shareholding | Number of holders | Number of shares | % of Issued Capital |
|---|---:|---:|---:|
| 1-1,000 | 1,450 | 804,222 | 0.45 |
| 1,001 – 5,000 | 1,918 | 5,620,492 | 3.11 |
| 5,001 – 10,000 | 850 | 7,021,931 | 3.89 |
| 10,001 – 100,000 | 731 | 18,826,029 | 10.42 |
| 100,000 and above | 86 | 148,437,684 | 82.14 |
| **Total** | **5,035** | **180,710,358** | **100** |

### TWENTY LARGEST HOLDERS OF ORDINARY SHARES

| Name | Shares held | % of issued capital |
|---|---:|---:|
| Auckland Trust Company Ltd <Second Pacific Master Superannuation Fund> | 46,507,500 | 25.74 |
| Walker Group Holdings Pty Ltd | 29,553,000 | 16.05 |
| Matthew Myntti | 20,657,000 | 11.43 |
| HSBC Custody Nominees (Australia) Limited | 5,543,626 | 3.07 |
| James Mozley | 5,000,000 | 2.77 |
| Christopher Samuel | 5,000,000 | 2.77 |
| Judith Mitchell | 4,732,000 | 2.62 |
| National Nominees Limited | 2,715,373 | 1.5 |
| UBS Nominees Pty Ltd | 1,940,157 | 1.07 |
| Citicorp Nominees Pty Limited | 1,528,062 | 0.85 |
| Charles Robert Dirck Wittenoom | 2,145,833 | 0.84 |
| HSBC Custody Nominees (Australia) Limited - A/C 2 | 1,351,033 | 0.75 |
| Scone Investments Pty Ltd | 1,333,803 | 0.74 |
| Merrill Lynch (Australia) Nominees Pty Limited | 1,189,999 | 0.66 |
| Mr Yong Cao | 1,151,000 | 0.64 |
| G & N Lord Superannuation Pty Ltd <GNR Superannuation Fund A/C> | 1,000,000 | 0.55 |
| Ka-tet Pty Ltd <The Rosenrot Trust> | 890,500 | 0.49 |
| Byron James Darroch | 1,262,500* | 0.36 |
| Insync Investments Pty Ltd <Weekley Super Fund No 1 A/C> | 625,000 | 0.35 |
| **Total** | **134,126,386** | **74.24** |

* This number includes 650,000 partly paid shares issued to Byron Darroch as part of employee remuneration arrangements. The partly paid shares have US$200,000 unpaid, due and payable on 30 April 2020.The Company will not apply for quotation of the partly paid shares unless and until the shares are fully paid up.

# 15 INVESTOR INFORMATION



## SUBSTANTIAL HOLDERS

Substantial holders as disclosed in substantial holding notices given to the Company were as follows:

| Name of substantial holder | Number of shares over which relevant interest is held | % of issued capital |
|---|---|---|
| Auckland Trust Company Ltd | 46,507,500 | 25.96% |
| Walker Group Holdings Pty Ltd | 29,003,000 | 16.19% |
| Matthew Myntti | 20,657,000 | 11.53% |

## QUOTED SHARES SUBJECT TO VOLUNTARY ESCROW

There were 39,173,525 quoted ordinary shares subject to a voluntary escrow period (excluding shares subject to ASX restrictions) as follows:

| Voluntary escrow period | Number of shares | Date escrow period ends |
|---|---|---|
| 12 months from date of admission to official list | 39,173,525 | 20 April 2020 |
| **Total** | | |

## UNQUOTED RESTRICTED SECURITIES

There were 73,497,807 unquoted ordinary shares and 5,850,000 options over ordinary shares subject to a restriction period or voluntary escrow period as follows:

| Restriction period | Class of security | Number | Number of holders | Date escrow period ends |
|---|---|---|---|---|
| 24 months ASX restriction from date of official quotation | ORD | 72,847,807 | 7 | 18 April 2021 |
| 24 months ASX restriction from date of official quotation | Options | 5,850,000 | 7 | 18 April 2021 |
| 12 months voluntary escrow from date of admission to official list | ORD | 650,000 | 1 | 16 April 2020 |

## OPTION HOLDING DISTRIBUTION

| Size of optionholding | Number of holders | Number of options | % of Issued Options |
|---|---|---|---|
| 1-1,000 | 0 | 0 | 0 |
| 1,001 – 5,000 | 0 | 0 | 0 |
| 5,001 – 10,000 | 0 | 0 | 0 |
| 10,001 – 100,000 | 1 | 84,500 | 0.91 |
| 100,000 and above | 15 | 9,165,000 | 99.09 |
| **Total** | **16** | **9,249,500** | **100** |

# 15 INVESTOR INFORMATION

## UNQUOTED OPTIONS OVER ORDINARY SHARES

There were 9,249,500 unquoted options over ordinary shares on issue, 5,850,000 of which were restricted securities as follows:

| Unquoted options – description | Number of options | Number of holders |
|---|---|---|
| Options exercisable at US$0.56 per option expiring 17 December 2023 (subject to 24 month ASX escrow restriction ending 18 April 2021) | 2,470,000 | 5 |
| Options exercisable at US$0.56 per option expiring 17 December 2023 | 1,690,000 | 5 |
| Options exercisable at US$0.42 per option expiring 16 April 2022 | 78,000 | 1 |
| Options exercisable at US$0.42 per option expiring 1 November 2021 | 162,500 | 1 |
| Options exercisable at US$0.42 per option expiring on 16 April 2021 (includes 3,380,000 securities subject to 24 month ASX escrow restriction ending 18 April 2021) | 4,114,500 | 4 |
| Options exercisable at US$0.31 per option expiring 1 March 2021 | 325,000 | 1 |
| Options exercisable at US$0.31 per option expiring 9 November 2020 | 247,000 | 2 |
| Options exercisable at US$0.42 per option expiring 1 September 2020 | 162,500 | 1 |
| Total options on issue | 9,249,500 | 20 |

The Managing Director of the Company is the only person who holds 20% or more of the unquoted options on issue and the options issued to her were issued under an employee incentive scheme.

## VOTING RIGHTS

Ordinary shares (including partly paid shares) carry voting rights on a one for one basis and unlisted options do not carry voting rights.

## UNMARKETABLE PARCELS

There no holders of an unmarketable parcel of shares based on the closing market price of $1.84 at the specified date.

## OTHER ASX REQUIRED INFORMATION

During the period between admission to the Official List of ASX and the end of the reporting period, the Company used the cash and assets in a form readily convertible to cash that it had at the time of admission to the ASX, in a way consistent with its business objectives. This statement is made pursuant to ASX Listing Rule 4.10.19.

# 16 CORPORATE DIRECTORY

| Corporate Directory | |
|---|---|
| Board of Directors: | Independent Non-Executive Chairman<br>George Savvides<br><br>Managing Director<br>Judith Mitchell<br><br>Non-Executive Directors<br>Bruce Hancox<br>Daniel Spira<br>Mark Compton<br>Aileen Stockburger |
| Company Secretary: | Gillian Nairn |
| Registered office: | Tower A, The Zenith Building<br>Suite 1902, Level 19<br>821 Pacific Highway<br>Chatswood NSW 2067<br><br>Tel: +61 2 8607 5124 |
| Share Registry: | Link Market Services Limited<br>Level 12, 680 George Street<br>Sydney, NSW 2000<br><br>Tel: 1300 554 474 |
| Auditor: | KPMG Australia<br>300 Barangaroo Avenue<br>Sydney NSW 2000 |
| Solicitors: | HWL Ebsworth Lawyers<br>Level 14, Australia Square<br>264-278 George Street<br>Sydney, NSW 2000 |
| Stock exchange listing: | Next Science Limited shares are listed on the Australian Securities Exchange (ASX code:NXS) |
| Website: | www.nextscience.com |

NEXT SCIENCE®

**JUDITH MITCHELL** MANAGING DIRECTOR

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