

Full Year Results - year ended 31 December 2019

Sydney, Australia, Friday, 28 February 2020: Next Science Limited (ASX:NXS), an Australian medical technology company, provides its Full Year Report for the period ended 31 December 2019.

Summary

- Significant progress in building market awareness and evidence to address infection treatment and prevention
- Increased distribution network servicing the infection prevention and treatment marketplaces
- CE mark delays impacted 2019 revenues
- 22 Patents awarded, with 4 products in market generating revenues
- 2020 plan: launch 5 new products, build a larger evidence base and grow revenue
- Significant scope for long-term growth with expansion of total addressable markets - XPerience Surgical Rinse launch in 2H 2020

Comments:

For Next Science, 2019 was a year of many milestones; listing the Company, launching two additional products to the market, increasing our customer base as well as successfully treating over 130,000 patients with our technology. We gained valuable insights and learnings in partner management and how to bring disruptive technologies to market.

The Company faced challenges encountering delays with our distribution partners in the US, and with delayed regulatory approvals in Europe. These two factors impacted our revenue growth in 2019.

Next Science enters 2020 with a range of significant growth opportunities. Key focus areas in 2020 include: growing and maximising current revenue streams with wider market access; growing our evidence base demonstrating our clinical efficacy; and continuing to introduce new products in new channels.

Judith Mitchell will host an investor conference call and webcast at **10.30am** (AEDT) today, **28 February 2020**.

To access the call, please use the following link:

<https://s1.c-conf.com/diamondpass/10003808-invite.html>

To register to participate via webcast, please use the following link:

<https://webcast.openbriefing.com/5812/>

Approved and authorised by the Board of Directors of Next Science Limited.

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Further information:

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About Next Science

Next Science is a medical technology company headquartered in Sydney, Australia, with a research and development centre in Florida, USA. Established in 2012, the Company's primary focus is on the development and commercialisation of its proprietary Xbio™ technology to reduce the impact of biofilm based infections in human health. Xbio is a unique, non-toxic technology with proven efficacy in eradicating both biofilm based and free-floating bacteria. Next Science owns 100% of the patent protected intellectual property relating to its Xbio technology. Website: www.nextscience.com.

Company details

Name of entity: Next Science Limited
ABN: 47 622 382 549
Reporting period: For the year ended 31 December 2019
Previous period: For the year ended 31 December 2018

Results for announcement to the market

				USD \$
Revenues from ordinary activities	up	43%	to	4,060,800
Loss from ordinary activities after tax attributable to the owners of Next Science Limited	up	4%	to	(14,351,828)
Loss for the year attributable to the owners of Next Science Limited	up	4%	to	(14,351,828)

Dividends

No dividend was paid or proposed during the year ended 31 December 2019 (2018: USD \$nil).

Refer to the Operating and Financial Review within the Directors' Report for further commentary on the year's results, financial position and likely developments in future years.

Net tangible assets

	Reporting period USD Cents	Previous period USD Cents
Net tangible assets/(liabilities) per ordinary security	9.52	(0.60)

The net tangible asset/(liability) per ordinary security is calculated based on 180,710,358 ordinary shares on issue at 31 December 2019 and 130,026,000 shares that were in existence at 31 December 2018 (post share split).

Control gained over entities

Not applicable.

Loss of control over entities

Not applicable.

Next Science Limited
31 December 2019
Appendix 4E

Other information requiring disclosure to comply with ASX listing rule 4.3A is contained in, and should be read in conjunction with the Financial Statements, the notes to the Financial Statements and the Directors' Report for the year ended 31 December 2019 attached to this report.

This report is based on the Consolidated Financial Statements and Notes of Next Science Limited which have been audited by KPMG.

Signed

A handwritten signature in black ink, appearing to read 'George Savvides', with a stylized, cursive script.

George Savvides
Chairman

28 February 2020
Sydney

Next Science Limited

ABN 47 622 382 549

Annual Financial Report

31 December 2019

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Next Science Limited
31 December 2019
Corporate Directory

Directors

Independent Non-Executive Chairman:

Managing Director:

Non-Executive Directors:

George Savvides

Judith Mitchell

Bruce Hancox

Daniel Spira

Mark Compton

Aileen Stockburger

Company Secretary

Gillian Nairn

Registered office

Suite 1902

Level 19

Tower A

The Zenith Building

821 Pacific Highway

Chatswood

NSW 2067

Share register

Link Market Services Limited

Level 12

680 George Street

Sydney

NSW 2000

Auditor

KPMG Australia

300 Barangaroo Avenue

Sydney

NSW 2000

Solicitors

HWL Ebsworth Lawyers

Level 14

Australia Square

264-278 George Street

Sydney

NSW 2000

Stock exchange listing

Next Science Limited shares are listed on the Australian Securities Exchange (ASX code: NXS)

Website

www.nextscience.com

Corporate governance statement

<https://www.nextscience.com/corp-governance/>

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.

Directors

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

George Savvides
Judith Mitchell
Bruce Hancox
Daniel Spira
Mark Compton
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 on 18 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. 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. 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 large residential aged care provider in New Zealand (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 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. 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

Information on directors (continued)

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:	<p>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.</p> <p>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.</p>
Other current directorships:	Director of Walker Group Holdings Pty Limited.
Former listed directorships (last 3 years):	<p>Carbonxt Group Limited (ASX:CG1)</p> <p>Neuren Pharmaceuticals Limited (ASX: NEU)</p> <p>BTC Health Limited (ASX:BTC)</p>

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:	<p>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.</p> <p>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.</p>
Other current directorships:	None
Former listed directorships (last 3 years)	None

Information on directors (continued)

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. 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. 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

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	Share options
	Number	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

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 20 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
- Key management personnel
- Service agreements and remuneration policy
- Employee incentive arrangements and link between performance and reward
- Share option plan
- Remuneration of key management personnel
- Key management personnel equity holdings

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.

The Company may terminate the service agreement:

- (i) by giving a 3-month termination notice; or
- (ii) without notice, in the event of serious misconduct or for any other reason that enables summary dismissal at law.

Judith is entitled to participate in the Company's short term and long-term incentive plans.

Service agreements and remuneration policy

Service agreements (continued)

Name: Jacqueline Butler

Title: Chief Financial Officer (CFO)

Details: Ongoing service agreement inclusive of superannuation and to be reviewed annually by the Company.

The Company may terminate the service agreement:

- (i) by giving a 3-month termination notice; or
- (ii) without notice, in the event of serious misconduct or for any other reason that enables summary dismissal at law.

Jacqueline is entitled to participate in the Company's short term and long-term incentive plans.

Employment agreements

Name: Dr Matthew Myntti

Title: Chief Technology Officer (CTO)

Detail: Ongoing employment agreement to be reviewed annually by the Company.

The Company may terminate the employment agreement:

- (i) by giving 90 days written notice; or
- (ii) without notice, in the event of serious misconduct or for any other reason that enables summary dismissal at law.

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.

The Company may terminate the employment agreement:

- (i) by giving 90 days written notice; or
- (ii) without notice, in the event of serious misconduct or for any other reason that enables summary dismissal at law.

Jon is entitled to participate in the Company's short term and long-term incentive plans.

Service agreements and remuneration policy

Employment agreements (continued)

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.

Employee incentive arrangements and link between performance and reward (continued)

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:

KMP	Grant date	Expiry date	Vesting date	Fair value at grant date		Exercise price (USD)
				Pre-share split (USD)	Post-share split (USD)	
<i>Executive Director</i>						
Judith Mitchell	16 Apr 2018	16 April 2021	Various (i)	1,284	0.20	0.42
<i>Non-Executive Directors</i>						
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
<i>Other KMP</i>						
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.

Share option plan (continued)

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.
<i>Executive</i>						
<i>Director</i>						
Judith Mitchell	360	2,340,000	-	2,340,000	1,560,000	780,000
<i>Non-Executive</i>						
<i>Directors</i>						
<i>George</i>						
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
<i>Aileen</i>						
Stockburger	80	520,000	-	520,000	-	520,000
<i>Other KMP</i>						
<i>Matthew</i>						
Myntti	-	-	-	-	-	-
Jon Swanson	100	650,000	-	650,000	-	650,000
<i>Jacqueline</i>						
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

KMP (USD)	Cash salary and fees	Other cash benefits (i), (ii), (iii)	Long Service Leave	Super- annuation	Share-based payments		Total	Performa nce Related (vi)
					Other (iv)	Shares in lieu of fees (v)		
	\$	\$	\$	\$	\$	\$	\$	%
<i>Executive Director</i>								
Judith Mitchell	254,461	-	-	14,467	162,985	-	431,913	-
<i>Non- Executive Directors</i>								
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	-
<i>Other KMP</i>								
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	

Remuneration of key management personnel (continued)

- (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.

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

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.
<i>Executive Director</i>				
Judith Mitchell	728	4,732,000	-	4,732,000
<i>Non-Executive Directors</i>				
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
<i>Other KMP</i>				
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).

Next Science Limited
31 December 2019
Directors' report

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



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.

A small, stylized KPMG logo.

KPMG

A handwritten signature in black ink, appearing to read 'Tony Nimac'.

Tony Nimac

Partner

Sydney

28 February 2020

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		<u>3,510,320</u>	<u>2,474,013</u>
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		<u>(12,501,122)</u>	<u>(13,814,514)</u>
Finance income	9	278,718	145,180
Finance costs	10	(2,129,424)	(78,170)
Net finance income/(expense)		<u>(1,850,706)</u>	<u>67,010</u>
Loss before income tax		<u>(14,351,828)</u>	<u>(13,747,504)</u>
Income tax expense	11	-	-
Loss for the year		<u>(14,351,828)</u>	<u>(13,747,504)</u>
Other comprehensive income			
Foreign currency translation differences for foreign operations		(971,282)	(249,730)
Total comprehensive income for the year		<u>(15,323,110)</u>	<u>(13,997,234)</u>
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 26 to 58 are an integral part of these financial statements.

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		<u>19,283,851</u>	<u>8,683,821</u>
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		<u>3,415,879</u>	<u>1,946,253</u>
Total assets		<u>22,699,730</u>	<u>10,630,074</u>
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		<u>1,717,772</u>	<u>8,553,298</u>
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		<u>1,618,512</u>	<u>1,673,039</u>
Total liabilities		<u>3,336,284</u>	<u>10,226,337</u>
Net assets		<u>19,363,446</u>	<u>403,737</u>
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		<u>19,363,446</u>	<u>403,737</u>

The notes on pages 26 to 58 are an integral part of these financial statements.

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)
<i>Other comprehensive income</i>							
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)
<i>Transactions with owners, recorded directly in equity</i>							
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 26 to 58 are an integral part of these financial statements.

Consolidated statement of changes in equity (continued)

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)
<i>Other comprehensive income</i>							
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)
<i>Transactions with owners, recorded directly in equity</i>							
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 26 to 58 are an integral part of these financial statements.

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)	<u>(12,331,556)</u>	<u>(12,252,913)</u>
Cash flows used in investing activities			
Payments for intangible assets	17	(1,233,341)	(647,926)
Payments for property, plant and equipment	16	<u>(374,683)</u>	<u>(344,849)</u>
Net cash used in investing activities		<u>(1,608,024)</u>	<u>(992,775)</u>
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		<u>(210,334)</u>	<u>-</u>
Net cash from financing activities		<u>23,684,334</u>	<u>17,978,992</u>
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		<u>(45,251)</u>	<u>(119,969)</u>
Cash and cash equivalents at end of the year	12(a)	<u>16,910,605</u>	<u>7,211,102</u>

The notes on pages 26 to 58 are an integral part of these financial statements.

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

(a) 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.

(b) Basis of measurement

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

(c) 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.

(d) 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

2 Basis of preparation (continued)

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.

(d) Use of judgements and estimates (continued)

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.

(e) 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.

3 Significant accounting policies (continued)

(a) 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.

(b) 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.

3 Significant accounting policies (continued)

(b) Foreign currency (continued)

(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.

(c) 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.

(d) 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.

3 Significant accounting policies (continued)

(d) Employee benefits (continued)

(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.

(e) 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.

3 Significant accounting policies (continued)

(e) Finance income and finance costs (continued)

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.

(f) 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.

3 Significant accounting policies (continued)

(f) Income tax (continued)

(ii) *Deferred tax (continued)*

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.

(g) 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.

(h) 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.

(i) 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.

3 Significant accounting policies (continued)

(j) 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.

3 Significant accounting policies (continued)

(k) 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.

(iii) Derecognition

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.

3 Significant accounting policies (continued)

(I) 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.

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.

3 Significant accounting policies (continued)

(l) Impairment (continued)

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.

(m) 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.

(n) 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.

(o) 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.

3 Significant accounting policies (continued)

(p) 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.

(q) 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.

(a) 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.

5 Changes to significant accounting policies (continued)

(a) AASB 16 Leases (continued)

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%.

<i>In USD</i>	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

<i>In USD</i>	2019	2018
Revenue from contracts with customers	<u>4,060,800</u>	<u>2,844,502</u>

6 Revenue (continued)

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
	<u>4,060,800</u>	<u>2,844,502</u>	<u>3,415,879</u>	<u>1,946,253</u>

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	-
	<u>35,365</u>	<u>-</u>

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.

8 Expenses

In USD

	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
	<u>7,906,151</u>	<u>10,380,125</u>
(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
	<u>3,055,729</u>	<u>2,521,018</u>

8 Expenses (continued)

In USD

	Note	2019	2018
(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
		<u>565,239</u>	<u>244,466</u>

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	<u>278,718</u>	<u>145,180</u>

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	<u>2,129,424</u>	<u>78,170</u>

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
<i>Income tax (expense)/benefit</i>		
Current tax	-	-
Deferred tax	-	-
Aggregate income tax (expense)/benefit	<u>-</u>	<u>-</u>

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

<i>In USD</i>	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	<u>-</u>	<u>-</u>

11 Income tax expense (continued)

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

<i>In USD</i>	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

Australian Entities

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

<i>In USD</i>	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%

<i>In USD</i>	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)	-	-	-

11 Income tax expense (continued)

<i>In USD</i>	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

(a) Cash and cash equivalents in statement of cash flows

<i>In USD</i>	2019	2018
Cash at bank	16,910,605	7,211,102
	<u>16,910,605</u>	<u>7,211,102</u>

(b) Reconciliation of cash flows from operating activities

<i>In USD</i>	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
		<u>(1,761,127)</u>	<u>476,369</u>
Net cash from operating activities		(12,331,556)	(12,252,913)

Next Science Limited
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Notes to the consolidated financial statements

13 Trade and other receivables

<i>In USD</i>	2019	2018
Current		
Trade and other receivables	1,460,025	694,847
Loan to shareholders	180,357	89,511
	<u>1,640,382</u>	<u>784,358</u>
Non-current		
Loan to shareholders	-	87,473
Security deposit	36,656	36,656
	<u>36,656</u>	<u>124,129</u>

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

<i>In USD</i>	2019	2018
Raw materials – at cost	161,939	77,550
Finished goods – at cost	380,112	241,407
	<u>542,051</u>	<u>318,957</u>
Less provision for obsolete stock	(141,691)	(10,000)
	<u>400,360</u>	<u>308,957</u>

15 Other current assets

<i>In USD</i>	2019	2018
Current		
Prepayments and other assets	<u>332,504</u>	<u>379,404</u>

16 Property, plant and equipment

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

16 Property, plant and equipment (continued)

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

<i>In USD</i>	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

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

	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.

<i>In USD</i>	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	<u>402,291</u>	<u>-</u>
 <i>Amounts recognised in profit or loss</i>	 As at 31 Dec 2019	 As at 31 Dec 2018
<i>In USD</i>		
Depreciation expensed	175,443	-
Interest expense	28,281	-
Expense relating to variable lease payments not included in the measurement of the lease liability	<u>84,290</u>	<u>-</u>
	<u>288,014</u>	<u>-</u>

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

19 Trade and other payables

<i>In USD</i>	2019	2018
Current		
Trade payables	628,035	522,141
Other payables and accrued expenses	<u>448,637</u>	<u>630,775</u>
	<u>1,076,672</u>	<u>1,152,916</u>

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

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

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20 Loans and borrowings (continued)

Converting notes (continued)

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.

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.

<i>In USD</i>	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	-
<i>Maturity analysis</i>		
<i>In USD</i>	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	-

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23 Lease commitments

In USD

	2019	2018
Within one year	-	212,519
Later than one year but not later than five years	-	519,168
	<u>-</u>	<u>731,687</u>

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

Current

	2019	2018
Liability for annual leave	69,552	108,835
	<u>69,552</u>	<u>108,835</u>

Non-current

	2019	2018
Liability for long service leave	3,691	2,143
	<u>3,691</u>	<u>2,143</u>

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25 Capital and reserves
(a) Share capital

	Note	Fully paid	Partly paid	Total
<i>In number of shares</i>				
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

25 Capital and reserves (continued)
(a) Share capital (continued)

In USD

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 the occurrence of an Initial Public Offering event. The conversion price of converting notes to ordinary shares was AUD\$0.80

25 Capital and reserves (continued)

(a) Share capital (continued)

- (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.

(b) 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
	<u>(42,146,585)</u>	<u>(41,439,614)</u>

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.

25 Capital and reserves (continued)
(b) Reserves (continued)

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).

(c) Dividends

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

(d) Dividend franking account

The Company has franking credits available to shareholders of Nil.

(e) 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.

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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

<i>In USD</i>	Parent	
	2019	2018
Loss after income tax	(11,904,021)	(13,965,244)
Other comprehensive income	(1,042,968)	(73,943)
Total comprehensive income	<u>(12,946,989)</u>	<u>(14,039,187)</u>

Statement of financial position

In USD

Assets

Total current assets	1,407,127	934,834
Total non-current assets	19,363,446	8,227,347
Total assets	<u>20,770,573</u>	<u>9,162,181</u>

Liabilities

Total current liabilities	(70)	(7,852,288)
Total non-current liabilities	-	-
Total liabilities	<u>(70)</u>	<u>(7,852,288)</u>
Total net assets	<u>20,770,503</u>	<u>1,309,893</u>

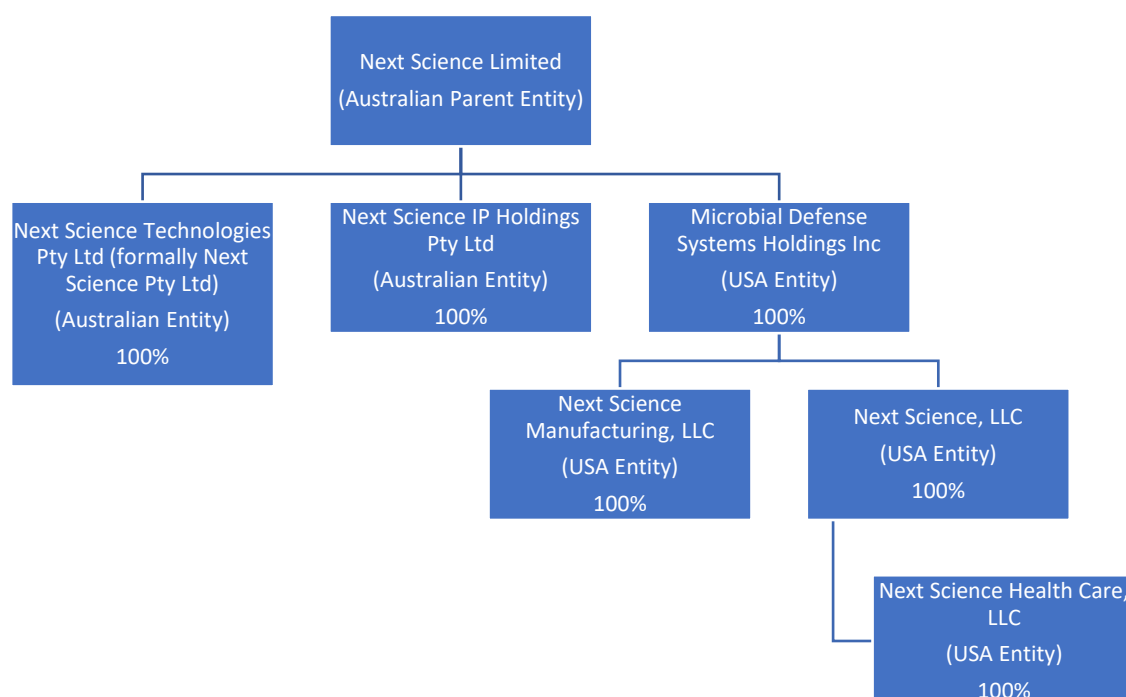
Equity

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	<u>20,770,503</u>	<u>1,309,893</u>

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.



28 Related parties

(a) 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:

<i>In USD</i>	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	<u>2,140,661</u>	<u>1,899,395</u>

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.

(b) 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).

29 Share-based payment arrangement (continued)

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.

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32 Auditor's remuneration

<i>In USD</i>	2019	2018
<i>Audit and assurance related services</i>		
<i>KPMG Australia</i>		
Audit of financial statements	<u>72,825</u>	<u>73,958</u>
Total audit and assurance services	<u>72,825</u>	<u>73,958</u>
<i>Other services</i>		
<i>KPMG Australia</i>		
Taxation services	43,335	33,228
Other services	<u>95,829</u>	<u>151,305</u>
Total other services	<u>139,164</u>	<u>184,533</u>
Total auditor's remuneration	<u>211,989</u>	<u>258,491</u>

33 Earnings per share

<i>In USD</i>	2019	2018
<i>Loss after tax</i>	(14,351,828)	(13,747,504)
Basic and diluted earnings per share (USD cents)	<u>(8.65)</u>	<u>(11.16)</u>
Weighted average number of shares	<u>165,978,735</u>	<u>123,188,000</u>

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

(a) 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.

(b) 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.

34 Financial risk management (continued)

(b) Risk management framework (continued)

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.

(c) 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.

(d) 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.

At 31 December 2019	Less than 6 months	Between 6 and 12 months	Between 1 and 5 years	Total contracted amounts
<i>In USD</i>				
Trade and other payables	1,076,672	-	-	1,076,672
	1,076,672	-	-	1,076,672
At 31 December 2018	Less than 6 months	Between 6 and 12 months	Between 1 and 5 years	Total contracted amounts
<i>In USD</i>				
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.

34 Financial risk management (continued)

(e) 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:

<i>In USD</i>	2019	2018
AUD financial assets converted to USD	3,160,154	6,633,702
AUD financial liabilities converted to USD	<u>(229,180)</u>	<u>(7,635,423)</u>
Net exposure in statement of financial position	<u>2,930,974</u>	<u>(1,001,721)</u>

A reasonably possible strengthening (weakening) of the United 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.

<i>In USD</i>	% change	Profit before tax		Equity	
		Strengthen	Weaken	Strengthen	Weaken
2019					
Australian Dollars	10%	<u>(293,097)</u>	<u>293,097</u>	<u>(293,097)</u>	<u>293,097</u>
2018					
Australian Dollars	10%	<u>(100,172)</u>	<u>100,172</u>	<u>(100,172)</u>	<u>100,172</u>

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.

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 21 to 58 and the Remuneration report on pages 9 to 18 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:



George Savvides
Chairman

Dated at Sydney this 28th day of February 2020



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.

Key Audit Matters

The **Key Audit Matters** we identified are:

- Revenue recognition from sale of products
- 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.

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
<p>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:</p> <ul style="list-style-type: none"> • significance of revenue to the financial statements; • 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. • 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. 	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Evaluated the appropriateness of the Group's revenue recognition policies against the requirements of AASB 15 Revenue from Contracts with Customers. • For a sample of transactions, across each product line, we: <ul style="list-style-type: none"> - checked the terms and conditions of the customer contract for consistency to the Group's policy for timing and measurement of revenue recognition; - checked the amount, nature and date of revenue recognition to the underlying sales invoices and bank statement cash receipts. • 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: <ul style="list-style-type: none"> - 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
<p>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:</p> <ul style="list-style-type: none"> • forecast cash flows including the growth rates in light of current market conditions and historical results. • 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. <p>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.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • 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. • we assessed the integrity of the value in use models used, including the accuracy of the underlying calculation formulas. • in relation to the key assumptions in the Group's value in use model, we: <ul style="list-style-type: none"> - challenged the Group's forecast cash flow and growth rate assumptions in light of current customer demand and against historical results of the group; - applied increased scepticism to assumptions in areas where previous forecasts were not achieved; - compared forecast growth rates to the Board approved plan and strategy and historical growth rates; • we considered the sensitivity of the models by varying key assumptions, such as forecast growth rates and discount rates, within a reasonably possible range. • 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. • we assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

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.

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*.



KPMG

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*.



Tony Nimac

Partner

Sydney

28 February 2020