

Next Science Limited

ACN: 622 382 549

Appendix 4E

31 December 2020

Company details

Name of entity: Next Science Limited
ABN: 47 622 382 549
Reporting period: For the year ended 31 December 2020
Previous period: For the year ended 31 December 2019

Results for announcement to the market

				USD \$
Revenues from ordinary activities	down	15%	to	3,440,975
Loss from ordinary activities after tax attributable to the owners of Next Science Limited	down	17%	to	(11,912,004)
Loss for the year attributable to the owners of Next Science Limited	down	17%	to	(11,912,004)

Dividends

No dividend was paid or proposed during the year ended 31 December 2020 (2019: 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	<u>8.54</u>	<u>9.52</u>

The net tangible asset/(liability) per ordinary security is calculated based on 194,201,409 ordinary shares on issue at 31 December 2020 and 180,710,358 shares that were in existence at 31 December 2019.

Control gained over entities

Not applicable.

Loss of control over entities

Not applicable.

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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 2020 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



George Savvides
Chair

22nd February 2021
Sydney

Next Science Limited

ACN: 622 382 549

Financial Statements

For the Year Ended 31 December 2020

Next Science Limited

ACN: 622 382 549

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For the Year Ended 31 December 2020

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Next Science Limited

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Directors' Report

31 December 2020

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 2020. 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 (Chair)

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 and sales and marketing functions located in Florida, USA.

Significant changes in the state of affairs and COVID-19 impact

Revenues in the year to 31 December 2020 were impacted by the COVID-19 shutdown in the USA of elective medical procedures and closure of outpatient wound care clinics. Revenue recovered in the fourth quarter of 2020 and this run rate is expected to continue through the first half of 2021 based on the sales of existing products (excluding any additions from new product launches).

During the pandemic, Next Science set up a donations program to service patients who were unable to get to wound care clinics during the COVID-19 shut down. Over the longer term, Next Science expects the increase in awareness around the spread of viruses, infection and the role of biofilm to drive increased demand for its products.

In January 2020, Next Science's XPerience No Rinse Antimicrobial Solution was submitted for regulatory approval to the FDA. Following the FDA's initial review and requested additional information, the dossier was resubmitted to the FDA in December 2020.

In March 2020, Next Science launched its Acne cream via online skincare direct marketer, tbh Skincare (www.tbhskincare.com) to consumers mainly based in Australia.

In April 2020, Next Science received CE Mark for Bactisure, authorising future sales in Europe through Next Science's distribution partner, Zimmer Biomet. Next Science also received notification from the US Environmental Protection Agency (EPA) that its Hospital Cleaner Surface Disinfectant had been accepted for registration with clearance for inclusion on the product labelling of a claim for effectiveness against biofilm. Commercial discussions regarding the licensing of this product are ongoing, although lower in priority to our human health product commercialisations.

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Directors' Report

31 December 2020

Operating and financial review (continued)

Significant changes in the state of affairs and COVID-19 impact (continued)

In June 2020, Next Science received TGA approval for its Bactisure product authorising future sales in Australia through Next Science's distribution partner, Zimmer Biomet.

On 24 September 2020, Next Science raised A\$7,999,999 via a Placement at A\$1.20 per share.

On 19 October 2020, Next Science raised A\$5,000,000 via a Share Purchase Plan at A\$1.18 per share.

On 18 November 2020, Next Science launched its Acne cleanser via online skincare direct marketer, tbh Skincare (www.tbhskincare.com) to consumers based in Australia, New Zealand, the UK and parts of Europe.

On 19 November 2020, Next Science raised A\$2,000,000 via a Placement at A\$1.20 per share, following shareholder approval at a general meeting held on 18 November 2020.

On 23 November 2020, Next Science announced to the ASX that the distribution agreement with 3M for Blast X, would not be renewed at the end of 2021. Discussions are progressing smoothly, and Next Science anticipates the transition will be complete prior to the end of the first half 2021. As a result of this, there has been a change in the time frame for recognition of the milestone payments received from 3M. The payments which previously would have been recognised as revenue over the period until the end of the contract period of 31 Dec 2021, will now be recognised as revenue over a shorter time period ending 1H 2021, when it is anticipated that the full transition of Blast X back to Next Science will be complete.

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.

Shareholder returns

	2020	2019
Revenue	\$3,440,975	\$4,060,800
Loss attributable to owners of the company	(\$11,912,004)	(\$14,351,828)
Basic earnings per share (EPS) (cents)	(\$6.36)	(\$8.65)
Share price as at 31 Dec (A\$)	AUD\$1.25	AUD\$1.88
Return on capital employed	(59.7%)	(59.6%)

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Directors' Report

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Operating and financial review (continued)

Review of operations

The loss for the Group for the financial year to 31 December 2020 after providing for income tax amounted to \$11,912,004 (2019: \$14,351,828).

Revenue decreased by 15% for the period, decreasing from \$4,060,800 in the prior corresponding period to \$3,440,975, primarily due to the impact of the COVID-19 pandemic.

Gross profit was \$2,916,841 compared to \$3,510,320 in the prior corresponding period. Gross margin as a percent of sales was 85% compared with 86% in the prior corresponding period.

Selling and distribution expenses were \$5,670,684, a decrease of \$615,216 compared with \$6,285,900 in the prior corresponding period. In the prior year, \$48,147 of the expenses related to IPO investor relations activity. The decrease in spend in 2020 mainly relates to a reduction in travel expenditure due to Covid travel restrictions as well as a reduction in headcount. Such reductions have been partially offset by increased partner marketing spend and increased donations and sampling efforts.

Administration expenses were \$3,343,044, a decrease of \$1,027,317 compared with \$4,370,361 in the prior corresponding period. \$129,310 of the reduction in the current period is related to reduced travel expenses in 2020 resulting from COVID-19. Prior period administration expenses included \$312,106 related directly to IPO associated expenses and increases in compliance costs associated with becoming a listed entity and \$273,798 of brokerage costs related to the issue of converting notes.

Research and development expenses were \$6,434,414 an increase of \$1,106,839 compared with \$5,327,575 in the prior corresponding period, reflecting an increase in product development activity including associated product validation costs, regulatory spend and two additional staff appointments in the research and development department.

Finance expenses of \$2,129,424 in the prior 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 2020 amounted to \$8,100,416 compared to \$6,556,808 at 31 December 2019. Term deposits at 31 December 2020 amounted to \$7,238,986 compared to \$10,353,797 at 31 December 2019.

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.

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Environmental regulation

The Group's operations are not subject to significant environment regulations under either 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 and lengthy regulatory approval processes that may affect sourcing, supply and pricing of materials used in the Group's products.

Information on Directors

Name:	George Savvides AM
Title:	Chair and Independent Non-Executive Director
Special responsibilities:	Member of the Audit and Risk Committee and Member of the People, Culture and Remuneration 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 Non-Executive Chairman of the public broadcaster, SBS having been appointed a Non-Executive Director in 2017 and Chairman in 2020. He is also a 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

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Information on Directors (continued)

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

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 Mr Langley 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):	Carbonxt Group Limited (ASX:CG1) and BTC Health Limited (ASX: BTC)

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Directors' Report

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Information on Directors (continued)

Name:	Daniel Spira
Title:	Independent Non-Executive Director
Special Responsibilities:	Chair, People, Culture and Remuneration 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

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 of the Australian Institute of Company Directors, Certified Public Accountant (CPA – USA).
Experience and expertise:	<p>Prior to joining Next Science, Aileen was the World wide 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.</p>
Other current directorships:	Non-Executive Director, Microbot Medical Inc. (NASDAQ: MBOT)
Former listed directorships (last 3 years):	None

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Directors' Report

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Information on Directors (continued)

Name:	Mark Compton AM
Title:	Independent Non-Executive Director
Special responsibilities:	Member, People, Culture and Remuneration 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 and Chairman of Integrated Clinical Oncology Network Pty Ltd trading as Icon Cancer Centre. 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, Chairman of St Luke's Care Limited and Integrated Clinical Oncology Network Pty Ltd trading as Icon Cancer Centre.
Former listed directorships (last 3 years):	None

Company Secretary

Gillian Naim, 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.

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Directors' Report

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Meetings of directors

The number of meetings held and attended by each of the Directors of the Company during the year ended 31 December 2020 were as follows:

Name of director	Board meetings		People, Culture & Remuneration Committee		Audit and Risk Committee		Transaction Committee	
	A	B	A	B	A	B	A	B
George Savvides	20	20	3	3	7	7	3	3
Judith Mitchell	20	20	-	-	-	-	-	-
Bruce Hancox	20	19	-	-	7	7	3	3
Daniel Spira	20	20	3	3	-	-	-	-
Mark Compton	20	20	3	3	-	-	3	3
Aileen Stockburger	20	20	-	-	7	7	-	-

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	Number	Number
George Savvides	649,876		650,000	
Judith Mitchell	5,000,000		2,340,000	
Bruce Hancox	530,000		520,000	
Daniel Spira	49,266		1,300,000	
Mark Compton	137,438		520,000	
Aileen Stockburger	44,837		520,000	
Total	6,411,417		5,850,000	

Shares under option

At the date of this report, and following the share split, there are 8,092,500 options over ordinary shares on issue (2019: 9,249,500 options), representing 4.17% (2019: 5.1%) 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.

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Directors' Report

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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 a 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 31 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 31 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 26 and forms part of the Directors' Report for the financial year ended 31 December 2020.

Auditor

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

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Directors' Report

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Remuneration Report (audited)

This Remuneration Report forms part of the Directors' Report for the year ended 31 December 2020. This Report outlines the details of the remuneration arrangements for the key management personnel of the Group, including remuneration strategy, framework and practices, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

For the purposes of this Report, key management personnel (**KMP**) are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any Director of the Company (non-executive or executive).

The information in this Remuneration Report is set out under the following headings:

- Key management personnel (KMP)
- Remuneration governance
- Service agreements and remuneration policy
- Non-Executive Directors' remuneration
- Employee incentive arrangements and link between performance and reward
- Share option plan
- KMP Remuneration
- KMP equity holdings

Key management personnel (KMP)

The KMP of the Group during the financial year and the positions held are summarised below:

Non-Executive Directors

George Savvides

Bruce Hancox

Daniel Spira

Mark Compton

Aileen Stockburger

Managing Director

Judith Mitchell

Other KMP

Jacqueline Butler (Chief Financial Officer)

Matthew Myntti (Chief Technology Officer)

Jon Swanson (Chief Operating Officer)

Dustin Haines (Chief Commercial Officer)

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Directors' Report

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Remuneration governance

The Board established a Remuneration and Nomination Committee (**Committee**) in August 2018 to assist the Board in fulfilling its responsibilities to shareholders and other stakeholders in respect of remuneration policies and practices, succession planning, diversity policies and practices, performance evaluation processes and board composition including mix of skills.

During the financial year, on the recommendation of the Committee and in recognition of the close connection between culture, governance and remuneration highlighted by various stakeholders including the ASX Corporate Governance Council and Australian Securities and Investments Commission (ASIC), the Board:

- (i) extended the scope of the Committee's role to reviewing and overseeing Next Science's key people and organisational culture strategies, talent and succession and their alignment with Next Science's values, mission and strategy; and
- (ii) changed the name of the Committee to 'People, Culture and Remuneration Committee'.

The People, Culture and Remuneration-Committee currently comprises of:

- Daniel Spira (Chair)
- George Savvides
- Mark Compton

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

The People, Culture and Remuneration 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.

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

The Charter requires the Committee to meet at least twice each year.

All of the current members of the People, Culture and Remuneration Committee have been assessed by the Board as being independent Non-Executive Directors and the Chair of the Committee is not Chair of the Board.

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Directors' Report 31 December 2020

Service agreements and remuneration policy

Executives are employed under executive employment agreements with the Group.

In determining remuneration, the Group considers:

- industry based remuneration benchmarking (Australia and USA);
- market developments affecting remuneration practices;
- the remuneration expectations of an executive whom the Company wants to employ;
- future outlook for the Group and market generally;
- the Company's performance over a performance period; and
- the link between remuneration and the successful implementation of the Company's strategy and achievement of strategic objectives.

Executive incentives comprise fixed and variable elements linked to Company and individual performance as detailed in this Report.

Employment 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.

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.

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Service agreements and remuneration policy (continued)

Employment agreements (continued)

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.

Name: Dustin Haines

Title: Chief Commercial Officer (CCO)

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.

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

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Directors' Report

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Service agreements and remuneration policy (continued)

Employment agreements (continued)

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

Non-Executive Directors' Remuneration

Each of the Non-Executive Directors have entered into appointment letters with Next Science confirming the terms of their appointment and their roles and responsibilities.

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 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 annual fee for Non-Executive Directors is AUD\$90,000 per annum (inclusive of superannuation) and for the Chair is AUD\$250,000 per annum (inclusive of superannuation). The Chair's fees reflect the additional responsibilities of the role particularly leading up to, and in the short term after, admission to ASX. An additional fee of AUD\$10,000 per annum is paid for performing the role of Chair of the Audit and Risk Committee and People, Culture and Remuneration Committee.

Employee incentive arrangements and link between performance and reward

Short Term Incentive (STI) Plan for Executives

The Managing Director, CFO, CTO and COO were invited to participate in the Company's short-term incentive plan (STI Plan), effective from the Company's admission to the ASX in April 2019. The CCO was invited to participate in the STI plan following his appointment in June 2020. Participants of the plan, must be employed with the Company, or wholly owned subsidiary of the Company, for at least six months during the plan year and still be employed until after the announcement of the Group's results to the ASX following the relevant plan year. Participation is by invitation from the Board and is not automatic. Participants who resign or are terminated before the end of the plan year are not eligible for any payments under the Plan unless the Board determines otherwise in its sole discretion.

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 the achievement of 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.

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Directors' Report

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

The maximum STI opportunity is 100% of Total Fixed Remuneration (TFR) for the Managing Director and 80% of TFR for the CFO, CTO, COO and CCO. 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, 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 2020 (2019: Nil) 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, CCO and COO are entitled to participate in the LTI plan.

Subject to Group performance hurdles being achieved in the financial year ending 31 December 2021, and thereafter, the Managing Director will be granted performance rights worth 200% of her Total Fixed Remuneration (TFR) and the other participants in the LTI 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 in the Company for the period 1 January until the day before the release on ASX of the Company's relevant preliminary full year results.

The vesting of Performance Rights issued under the LTI Plan 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.

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.

There will be no Performance Rights issued in relation to the financial year ending 31 December 2020 (2019: Nil) 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.

In recognition of the CCO's extensive work in 2020 to prepare the Company for the launch of XPerience in 2021, and to provide longer term upside opportunity to the CCO similar to that available to other key management personnel from the options awarded to them prior to the Company's admission to ASX, the Company granted the CCO USD\$315,000 worth of performance rights in February 2021. The vesting of the performance rights is subject to continued tenure and the rights will vest over three years with 1/3 vesting in 1 year, 1/3 in 2 years and 1/3 in 3 years from the grant date.

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Directors' Report

31 December 2020

Share option plan

Prior to the Company being admitted to the ASX, the Group established an Equity Incentive Plan (ECP) for US employees and an Employee Share Option Plan (ESOP) for Australian employees and directors (see note 28). 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 KMP during the year ended 31 December 2020. All remaining options over ordinary shares granted to KMP 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
Dustin Haines	-	-	-	-	-	-

(i) There are various vesting conditions, financial and non-financial, applicable to the options granted to Judith Mitchell as Managing Director, under the Group's pre-IPO share option plan.

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Directors' Report 31 December 2020

Share option plan (continued)

The table below provides details of movements in share options for KMP for the year ended 31 December 2020.

KMP	Balance as at 1 Jan 2020 No.	Granted No.	Exercised No.	Lapsed No.	Balance as at 31 Dec 2020 No.	Vested during the year	Vested and exercisable No.	Un-vested No.
<i>Executive Director</i>								
Judith Mitchell	2,340,000	-	-	-	2,340,000	1,560,000	-	780,000
<i>Non-Executive Directors</i>								
George Savvides	650,000	-	-	-	650,000	-	-	650,000
Bruce Hancox	520,000	-	-	-	520,000	-	-	520,000
Daniel Spira	1,300,000	-	-	-	1,300,000	-	1,040,000	260,000
Mark Compton	520,000	-	-	-	520,000	-	-	520,000
Aileen Stockburger	520,000	-	-	-	520,000	-	-	520,000
<i>Other KMP</i>								
Matthew Myntti	-	-	-	-	-	-	-	-
Jon Swanson	650,000	-	-	-	650,000	-	650,000	-
Jacqueline Butler	650,000	-	-	-	650,000	-	650,000	-
Dustin Haines	-	-	-	-	-	-	-	-

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Directors' Report 31 December 2020

Share option plan (continued)

The table below provides details of movements in share options for KMP for the year ended 31 December 2019.

KMP	Balance as at 1 Jan 2019 No.	Post share split No. (i) (ii)	Granted/ Exercised/Lapsed No.	Balance as at 31 Dec 2019 No.	Vested and exercisable No.	Unvested No.
<i>Executive Director</i>						
Judith Mitchell	360	2,340,000	-	2,340,000	1,560,000	780,000
<i>Non-Executive Directors</i>						
George Savvides	100	650,000	-	650,000	-	650,000
Bruce Hancox	80	520,000	-	520,000	-	520,000
Daniel Spira	200	1,300,000	-	1,300,000	1,040,000	260,000
Mark Compton	80	520,000	-	520,000	-	520,000
Aileen Stockburger	80	520,000	-	520,000	-	520,000
<i>Other KMP</i>						
Matthew Myntti	-	-	-	-	-	-
Jon Swanson	100	650,000	-	650,000	-	650,000
Jacqueline Butler	100	650,000	-	650,000	650,000	-
Byron Darroch	-	-	-	-	-	-

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

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

Exercise of options granted as compensation

During the reporting period, there were no shares issued on the exercise of options previously granted as compensation, to KMP.

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Directors' Report

31 December 2020

KMP Remuneration

The table below details remuneration for KMP based on the policies discussed in this report for the year ended 31 December 2020.

Year ended 31 December 2020

KMP (USD)	Cash salary and fees (i)	Other cash service (ii), (iii)	Long service Leave	Super -annuation	Share-based payments		Total	Performance Related (vi)
					Options (iv)	Shares in lieu of fees (v)		
	\$	\$	\$	\$	\$	\$	\$	%
<i>Executive</i>								
<i>Director</i>								
Judith Mitchell	261,606	-	-	14,676	960	-	277,242	-
<i>Non-Executive</i>								
<i>Directors</i>								
George Savvides	161,960	-	-	10,771	69,878	-	242,609	-
Bruce Hancox	63,098	-	-	5,994	55,902	-	124,994	-
Daniel Spira	51,302	-	-	1,421	27,951	15,547	96,221	-
Mark Compton	62,183	-	-	-	55,902	-	118,085	-
Aileen Stockburger	48,810	-	-	-	55,902	13,992	118,704	-
<i>Other KMP</i>								
Matthew Myntti	350,000	-	-	-	-	-	350,000	-
Jon Swanson	250,000	-	-	-	115,338	-	365,338	-
Jacqueline Butler	171,124	-	-	14,751	-	-	185,875	-
Dustin Haines	173,250	20,879	-	-	-	-	194,129	-
	1,593,333	20,879	-	47,613	381,833	29,539	2,073,197	

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Directors' Report

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KMP Remuneration (continued)

- (i) Dustin Haines was appointed Chief Commercial Officer and commenced employment on 10 June 2020.
- (ii) For the year ended 31 December 2020 threshold Group performance targets were not met and hence no amounts were awarded to KMP under the STI plan or the LTI plan.
- (iii) Other cash benefits include an amount of \$20,879 for relocation expenses paid to Dustin Haines as part of the arrangements agreed in respect of his engagement.
- (iv) The value of the share options granted to KMP 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.

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Directors' Report

31 December 2020

KMP Remuneration (continued)

The table below details remuneration for KMP based on the policies discussed in this report for the year ended 31 December 2019.

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	Performance Related (vi)
					Options (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	

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Directors' Report

31 December 2020

KMP Remuneration (continued)

- (i) For the year ended 31 December 2019 threshold Group performance targets were not met and hence no amounts were awarded to KMP 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 KMP 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.

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Directors' Report

31 December 2020

KMP equity holdings

The movement during the reporting period in the number of shares in Next Science Limited held directly, indirectly or beneficially, by each KMP, including their related parties, is as follows:

Year ended 31 December 2020

KMP

	Balance as at 1 Jan 2020 No.	Received on exercise of options No.	Shares received in lieu of Directors fees No. (i)	Other changes during the year No.*	Balance as at 31 Dec 2020 No.
<i>Executive Director</i>					
Judith Mitchell	4,732,000	-	-	268,000	5,000,000
<i>Non-Executive Directors</i>					
George Savvides	625,000	-	-	24,876	649,876
Bruce Hancox	-	-	-	530,000	530,000
Daniel Spira	36,729	-	12,537	-	49,266
Mark Compton	125,000	-	-	12,438	137,438
Aileen Stockburger	33,554	-	11,283	-	44,837
<i>Other KMP</i>					
Matthew Myntti	20,657,000	-	-	-	20,657,000
Jon Swanson	70,000	-	-	-	70,000
Jacqueline Butler	-	-	-	-	-
Dustin Haines	-	-	-	-	-

*Other changes represent shares that were purchased during the year.

- (i) 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.

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Directors' Report

31 December 2020

KMP equity holdings (continued)

Year ended 31 December 2019

KMP	Balance as at 1 Jan 2019 No.	Post share-split No. (i) (ii)	Shares received in lieu of Directors fees No. (iv)	Other changes during the year No. (iii)	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	-	-	-	625,000	625,000
Bruce Hancox	-	-	-	-	-
Daniel Spira (iv)	-	-	36,729	-	36,729
Mark Compton	-	-	-	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	-	-	-	70,000	70,000
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.

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Directors' Report 31 December 2020

KMP equity holdings (continued)

(v) Byron Darroch held 650,000 ordinary shares which were funded through a shareholder loan. The balance of \$180,357 outstanding as at 31 December 2019 (see note 13) was paid in April 2020. Byron Darroch employment ceased on 31 August 2019.

This concludes the remuneration report (audited).

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

On behalf of the directors:



George Savvides

Chair

Dated at Sydney this 22nd day of February 2021



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 2020 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Tony Nimac
Partner
Sydney
22 February 2021

Next Science Limited

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2020

In USD

		2020	2019
	Notes	\$	\$
Revenue	5	3,440,975	4,060,800
Cost of sales		<u>(524,134)</u>	<u>(550,480)</u>
Gross profit		2,916,841	3,510,320
Other income	5	356,574	35,365
Selling and distribution expenses		<u>(5,670,684)</u>	<u>(6,285,900)</u>
Research and development expenses		<u>(6,434,414)</u>	<u>(5,327,575)</u>
Administration expenses		<u>(3,343,044)</u>	<u>(4,370,361)</u>
Other expenses	7	<u>(13,352)</u>	<u>(62,971)</u>
Operating loss		(12,188,079)	(12,501,122)
Finance income	9	297,254	278,718
Finance costs	10	<u>(21,179)</u>	<u>(2,129,424)</u>
Net finance income / (costs)		276,075	(1,850,706)
Loss before income tax		(11,912,004)	(14,351,828)
Income tax expense	11	<u>-</u>	<u>-</u>
Loss for the year		(11,912,004)	(14,351,828)
Other comprehensive income, net of income tax			
Foreign currency translation differences for foreign operations		<u>396,838</u>	<u>(971,282)</u>
Total comprehensive loss for the year		(11,515,166)	(15,323,110)
Earnings per share			
From continuing operations		Cents	Cents
Basic earnings	32	<u>(6.36)</u>	<u>(8.65)</u>
Diluted earnings	32	<u>(6.36)</u>	<u>(8.65)</u>

The accompanying notes form part of these financial statements.

Next Science Limited

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Consolidated Statement of Financial Position As At 31 December 2020

In USD

	Notes	2020 \$	2019 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	12	8,100,416	6,556,808
Trade and other receivables	13	3,388,045	1,640,382
Inventories	14	1,071,979	400,360
Other current assets - term deposits	15	7,238,986	10,353,797
Other current assets - other	15	452,458	332,504
TOTAL CURRENT ASSETS		<u>20,251,884</u>	<u>19,283,851</u>
NON-CURRENT ASSETS			
Trade and other receivables	13	36,656	36,656
Property, plant and equipment	16	788,133	812,587
Intangible assets	17	2,334,936	2,164,345
Right-of-use assets	18	227,265	402,291
TOTAL NON-CURRENT ASSETS		<u>3,386,990</u>	<u>3,415,879</u>
TOTAL ASSETS		<u>23,638,874</u>	<u>22,699,730</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	19	1,064,365	1,076,672
Contract liabilities	21	1,909,554	375,106
Lease liabilities	22	170,946	196,442
Employee benefits	23	81,231	69,552
TOTAL CURRENT LIABILITIES		<u>3,226,096</u>	<u>1,717,772</u>
NON-CURRENT LIABILITIES			
Contract liabilities	21	1,374,510	1,328,809
Lease liabilities	22	115,889	286,012
Employee benefits	23	9,385	3,691
TOTAL NON-CURRENT LIABILITIES		<u>1,499,784</u>	<u>1,618,512</u>
TOTAL LIABILITIES		<u>4,725,880</u>	<u>3,336,284</u>
NET ASSETS		<u>18,912,994</u>	<u>19,363,446</u>
EQUITY			
Share capital	24	101,281,467	90,693,590
Common control reserve	24	(42,596,715)	(42,596,715)
Foreign currency translation reserve	24	(801,736)	(1,198,574)
Share option reserve	24	2,125,541	1,648,704
Accumulated losses		(41,095,563)	(29,183,559)
TOTAL EQUITY		<u>18,912,994</u>	<u>19,363,446</u>

The accompanying notes form part of these financial statements.

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Consolidated Statement of Changes in Equity For the Year Ended 31 December 2020

2020 In USD

	Share capital	Common control reserve	Foreign currency translation reserve	Share option reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$	\$
Balance at 1 January 2020	90,693,590	(42,596,715)	(1,198,574)	1,648,704	(29,183,559)	19,363,446
Loss for the year	-	-	-	-	(11,912,004)	(11,912,004)
<i>Other comprehensive income</i>						
Foreign currency translation differences	-	-	396,838	-	-	396,838
Total other comprehensive income	-	-	396,838	-	-	396,838
Total comprehensive loss for the year	-	-	396,838	-	(11,912,004)	(11,515,166)
<i>Transactions with owners in their capacity as owners</i>						
Share-based payments	-	-	-	482,973	-	482,973
Foreign exchange impact	-	-	-	(6,136)	-	(6,136)
Issue of ordinary shares	11,175,615	-	-	-	-	11,175,615
Conversion of partly paid shares to ordinary shares	(199,999)	-	-	-	-	(199,999)
Capital raising costs	(387,739)	-	-	-	-	(387,739)
Total transactions with owners	10,587,877	-	-	476,837	-	11,064,714
Balance at 31 December 2020	101,281,467	(42,596,715)	(801,736)	2,125,541	(41,095,563)	18,912,994

The accompanying notes form part of these financial statements.

Next Science Limited

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Consolidated Statement of Changes in Equity For the Year Ended 31 December 2020

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)	-	-	-	-	-	(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 loss	-	-	(971,282)	-	-	-	(971,282)
Total comprehensive loss for the year	-	-	(971,282)	-	-	(14,351,828)	(15,323,110)
<i>Transactions with owners in their capacity as owners</i>							
Share-based payment	-	-	-	652,826	-	-	652,826
Foreign exchange impact	-	-	-	27,047	-	-	27,047
Converting notes converted to equity	-	-	-	-	(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 accompanying notes form part of these financial statements.

Next Science Limited

ACN: 622 382 549

Consolidated Statement of Cash Flows For the Year Ended 31 December 2020

In USD

	Notes	2020 \$	2019 \$
OPERATING ACTIVITIES:			
Receipts from customers		2,950,430	3,262,752
Payments to suppliers and employees		(12,210,609)	(13,202,785)
Payments for research and development		(3,119,907)	(2,651,188)
Interest received		117,735	224,299
Grant income and COVID-19 government assistance		355,707	35,365
Net cash used in operating activities	12	<u>(11,906,644)</u>	<u>(12,331,557)</u>
INVESTING ACTIVITIES:			
Payments for property, plant and equipment	16	(213,244)	(374,683)
Payments for intangible assets	17	<u>(473,555)</u>	<u>(1,233,341)</u>
Net cash used in investing activities		<u>(686,799)</u>	<u>(1,608,024)</u>
FINANCING ACTIVITIES:			
Proceeds from issue of ordinary shares	24	10,831,275	25,231,169
Proceeds from issue of converting notes	20	-	70,798
Proceeds from conversion of options to ordinary shares		489,125	310,700
Capital raising costs		(387,740)	(1,717,999)
Payment of lease liabilities		<u>(222,609)</u>	<u>(210,334)</u>
Net cash provided by financing activities		<u>10,710,051</u>	<u>23,684,334</u>
Net (decrease) / increase in cash and cash equivalents held		(1,883,392)	9,744,753
Cash and cash equivalents at beginning of year		16,910,605	7,211,102
Effects of exchange rate changes on cash and cash equivalents		312,189	(45,251)
Cash and cash equivalents at end of the year (including bank term deposits)		<u>15,339,402</u>	<u>16,910,605</u>
Less bank term deposits classified as other current assets	15	<u>(7,238,986)</u>	<u>(10,353,797)</u>
Cash and cash equivalents at end of the year	12	<u>8,100,416</u>	<u>6,556,808</u>

The accompanying notes form part of these financial statements.

Next Science Limited

ACN: 622 382 549

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

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 2020 and comparative information for the year ended 31 December 2019.

2 Basis of Preparation

(a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with accounting standards 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 22nd February 2021.

(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.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2020

2 Basis of Preparation (continued)

(d) Use of judgements and estimates (continued)

The key judgements, estimates and assumptions are discussed below:

Impairment of non-financial assets

The Group assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists at balance date, the recoverable amount of the asset is determined. This involves 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 these cash generating units, 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 plus a terminal value.
- Average annual revenue growth rates agreed in revenue contracts with customers and approved budgets were used for revenue projections.
- Discount rate of 12% based on the weighted average cost of capital.

Estimation of useful lives of assets

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

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 and the incremental borrowing rate is estimated.

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.

Management has considered all the facts and circumstances and believe there is no material uncertainty over the availability of the tax losses.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2020

2 Basis of Preparation (continued)

(e) Comparative Amounts

The presentation of the consolidated statement of profit or loss and other comprehensive has been changed such that expenses are now classified based on their function, as this provides information that is more relevant to the Group. When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current year.

(f) 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 2020, the Group incurred a loss of \$11,912,004 and had net cash outflows from operations of \$11,906,644. As at 31 December 2020, the Group had net current asset and net asset positions of \$17,025,788 and \$18,912,994 respectively.

The Group raised \$25,052,313 (AUD \$35 million) after successfully completing an Initial Public Offering ('IPO') in April 2019. The Group raised a further \$10,631,274 (AUD \$15 million) million over the period September to November 2020 completing two Placements and a Share Purchase plan. As at 31 December 2020, the Group has cash and cash equivalents of \$8,100,000 and term deposits of \$7,238,986 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.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2020

3 Significant Accounting Policies

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

(a) Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 25.

(b) 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.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2020

3 Significant Accounting Policies (continued)

(c) Foreign currency

(i) Foreign currency transactions

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

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

(ii) Foreign currency operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into the functional currency at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transaction are used.

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

(d) 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 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 distribution 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. For product sold directly to hospitals, title and control pass when the product is delivered to the courier, with revenue being recognised at this point in time.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2020

3 Significant Accounting Policies (continued)

(d) Revenue from contracts with customers (continued)

(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.

(iv) Change in estimate

On 23rd November 2020, Next Science announced to the ASX that the distribution agreement with 3M for Blast X, would not be renewed at the end of 2021 and that Blast X would be transitioned back to Next Science in the first half of 2021. Discussions are progressing smoothly, and Next Science anticipates the transition will be complete prior to the end of the first half 2021.

As a result of this, there has been a change in the time frame for recognition of the performance obligation in relation to the milestone payments received from 3M. The milestone payments which previously would have been recognised as revenue over the period until the end of the contract period of 31 December 2021, will now be recognised as revenue over a shorter time period ending 1H 2021, when it is anticipated that the full transition of Blast X back to Next Science will be complete.

(e) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

(f) 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.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2020

3 Significant Accounting Policies (continued)

(f) 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.

(g) Income tax

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

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

(i) Current tax

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

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

(ii) Deferred tax

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

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

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2020

3 Significant Accounting Policies (continued)

(g) Income tax (continued)

(ii) *Deferred tax (continued)*

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.

(h) Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

(i) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

(j) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

(k) 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.

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

3 Significant Accounting Policies (continued)

(l) 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.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

(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:

Fixed asset class	Useful life
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.

(m) Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

3 Significant Accounting Policies (continued)

(m) Right-of-use assets (continued)

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

(n) Intangibles

(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:

- | | |
|---------------------------|------------|
| • Development expenditure | 8 years |
| • Computer software | 2-3 years |
| • Patents | 8-15 years |

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2020

3 Significant Accounting Policies (continued)

(n) Intangibles (continued)

(iii) Amortisation (continued)

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.

(o) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

(p) Contract liabilities

Contract liabilities represent the consolidated entity's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Group recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Group has transferred the goods or services to the customer.

(q) Leases

(i) Definition of a new lease

The determination of whether a contract contains a lease is 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.

(ii) Lessee accounting

For all contracts determined to constitute a lease, right-of-use assets and lease liabilities are recognised in the consolidated statement of financial position, initially measured at the present value of future lease payments. When measuring these lease liabilities, the Group discounted lease payments using the interest rate implicit in the lease contract.

Right-of-use assets are tested for impairment in accordance with AASB 136 Impairment of assets. Lease incentives, if relevant, are recognised as part of the measurement of the right-of-use assets and lease liabilities. Depreciation is expensed on right-of-use assets and interest on lease liabilities, both recognised in the consolidated statement of profit or loss.

For presentation purposes, the total amount of cash paid in relation to leases is separated into a principal portion (presented within financial activities) and interest on lease liabilities, both recognised in the consolidated statement of profit or loss.

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. This expense is presented within other expenses in the consolidated statement of profit or loss.

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

3 Significant Accounting Policies (continued)

(r) 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.

(s) Employee benefits

(i) *Short-term employee benefits*

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

(ii) *Long-term employee benefits*

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

(iii) *Defined contribution plans*

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

(iv) *Share-based payment arrangements*

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

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

3 Significant Accounting Policies (continued)

(t) Financial instruments

(i) *Recognition and initial measurement*

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

(ii) *Classification and subsequent measurement*

Financial assets

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

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

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

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as

such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) *Derecognition*

Financial assets

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

Financial liabilities

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

(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.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2020

3 Significant Accounting Policies (continued)

(u) Impairment

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.

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.

(v) 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.

(w) 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.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2020

3 Significant Accounting Policies (continued)

(x) 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.

(y) 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.

(z) Earnings per share

(i) 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.

(ii) 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.

(aa) Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

4 Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The Group plans to apply the amendments when they become effective and they are not expected to have a significant impact on the Group's consolidated financial statements:

- 1) Interest Rate Benchmark Reform – Phase 2 (Amendments to AASB 9, IAS 39, AASB 7, AASB 4 and AASB 16)
- 2) COVID-19 – Related rent concessions (Amendment to AASB 16)
- 3) Property, plant and equipment: proceeds before intended use (Amendments to IAS 16)
- 4) Reference to Conceptual Framework (Amendments to AASB 3)
- 5) Classification of liabilities as current or non-current (Amendments to IAS 1)

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

5 Revenue and Other Income

	2020	2019
	\$	\$
In USD		
Revenue from contracts with customers	<u>3,440,975</u>	<u>4,060,800</u>

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.

	Revenue from contracts with customers		Geographical non-current assets	
	2020	2019	2020	2019
In USD	\$	\$	\$	\$
Country				
United States of America	3,353,331	3,973,254	1,486,004	1,681,987
Australia	87,644	87,546	1,900,986	1,733,892
	<u>3,440,975</u>	<u>4,060,800</u>	<u>3,386,990</u>	<u>3,415,879</u>

Major customers

Revenues from two major customers of the Group represented 91% (2019: 97%) of the Group's total revenue.

Other income

	2020	2019
	\$	\$
In USD		
Grant income	-	35,365
Government assistance – Covid-19	318,077	-
Other income	38,497	-
	<u>356,574</u>	<u>35,365</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.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

6 Individually Significant Items

The loss from ordinary activities before income tax includes the following expenses:

	2020	2019
In USD	\$	\$
Included in selling and distribution expenses		
Depreciation and amortisation	22,735	31,119
Included in research and development expenses		
Depreciation and amortisation	480,139	336,697
Included in administrative expenses		
Depreciation and amortisation	198,726	197,424

7 Other Expenses

	2020	2019
In USD	\$	\$
Loss on sale of fixed asset	2,796	2,368
Impairment loss on intangibles	7,605	60,603
Impairment loss on property, plant and equipment	2,951	-
	<u>13,352</u>	<u>62,971</u>

8 Employee Expenses

	2020	2019
In USD	\$	\$
Salaries and wages	7,034,911	7,186,191
Contributions to defined contribution funds	41,157	67,134
Share-based payments	482,973	652,826
	<u>7,559,041</u>	<u>7,906,151</u>

9 Finance Income

	2020	2019
In USD	\$	\$
Interest income	105,983	235,821
Interest income (loan to shareholder)	1,266	4,567
Net foreign exchange gain	190,005	38,330
	<u>297,254</u>	<u>278,718</u>

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Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2020

10 Finance Costs

	2020	2019
In USD	\$	\$
Interest expense on converting note	-	183,275
Notional interest expense – converting notes	-	1,917,869
Interest expense on lease liabilities	21,179	28,280
	<u>21,179</u>	<u>2,129,424</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:

	2020	2019
In USD	\$	\$
Current tax	-	-
Deferred tax	-	-
	<u>-</u>	<u>-</u>
Reconciliation of income tax to accounting profit:		
Loss before income tax	(11,912,004)	(14,351,828)
Prima facie tax benefit on profit from ordinary activities before income tax at 27.5% (2019: 27.5%)	(3,275,801)	(3,946,753)
Tax effect of:		
Permanent differences	242,329	993,799
Effect of tax rate in foreign jurisdictions	(251,448)	68,203
Tax losses not brought to account	3,284,920	2,884,751
Total income tax expense	<u>-</u>	<u>-</u>

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

	2020	2019
	\$	\$
Australia unused tax losses (in AUD)	30,652,663	22,594,311
USD unused tax losses (in USD)	21,503,856	17,653,432

Tax losses are recognised only to the extent that it is probable that the future taxable profit will be available against which the benefits can be utilised. Management has considered all the facts and circumstances and believe there is no material uncertainty over the availability of the tax losses.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

11 Income Tax Expense (continued)

Australian entities

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

	Opening balance	Recognised in profit or loss	Closing balance
In USD	\$	\$	\$
2020 cost			
Intangibles	(459,833)	(60,272)	(520,105)
Employee benefits	15,890	7,913	23,803
Accrued expenses	18,512	(9,257)	9,255
Deferred revenue	468,577	434,541	903,118
Unused tax losses carried forward	4,619,568	1,530,402	6,149,970
Other items	(28,185)	(11,299)	(39,484)
Deferred tax assets not recognised	(4,634,529)	(1,892,028)	(6,526,557)
Deferred tax assets/(liabilities)	-	-	-
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)
Deferred tax assets not recognised	(1,679,736)	(2,954,793)	(4,634,529)
Deferred tax assets/(liabilities)	-	-	-

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

11 Income Tax Expense (continued)

US entities

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

	Opening balance	Recognised in profit or loss	Closing balance
	\$	\$	\$
In USD			
2020 cost			
Intangibles	(130,439)	12,873	(117,566)
Employee benefits	4,097	(3,022)	1,075
Accrued expenses	77,307	26,811	104,118
Unused tax losses carried forward	4,673,389	1,025,132	5,698,521
Other items	(8,892)	(31,397)	(40,289)
Deferred tax asset not recognised	(4,615,462)	(1,030,397)	(5,645,859)
Deferred tax assets/(liabilities)	<u>-</u>	<u>-</u>	<u>-</u>
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
Unused tax losses carried forward	4,951,447	(278,058)	4,673,389
Other items	(29,259)	20,367	(8,892)
Deferred tax asset not recognised	(4,876,834)	261,372	(4,615,462)
Deferred tax assets/(liabilities)	<u>-</u>	<u>-</u>	<u>-</u>

12 Cash and Cash Equivalents

	2020	2019
	\$	\$
In USD		
Cash at bank	8,100,416	6,556,808
	<u>8,100,416</u>	<u>6,556,808</u>

Term deposits have been reclassified from cash to other current assets for the prior financial year. Refer to note 15.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

12 Cash and Cash Equivalents (continued)

Reconciliation of cash flows from operating activities

In USD	2020 \$	2019 \$
Loss for the year	(11,912,004)	(14,351,828)
Adjustments for:		
Depreciation and amortisation	701,600	565,239
Interest income (Note 9)	(1,266)	(4,567)
Accrued interest on converting notes (Note 10)	-	183,275
Share based payments (Note 8)	482,973	652,826
Unrealised foreign currency translation (gain)/loss	(72,143)	8,612
Directors fees paid as shares (Note 24)	30,520	93,096
Notional interest expense on converting notes (Note 20)	-	1,917,869
Interest expense on right-of-use assets (Note 18)	21,179	28,281
Loss on sale of fixed asset (Note 16)	2,796	2,367
Impairment of intangible assets (Note 17)	7,606	60,603
Impairment of property, plant and equipment (Note 16)	2,951	-
Amortisation element of capital raising fee	-	273,798
Operating loss before changes in working capital and provisions	(10,735,788)	(10,570,429)
Change in operating assets and liabilities		
Change in trade and other receivables	(2,097,048)	(578,351)
Change in inventories	(629,516)	(223,094)
Change in other current assets	28,300	(833,790)
Change in trade and other payables	(28,011)	(30,736)
Change in employee benefits	(24,730)	93,955
Change in contract liabilities	1,580,149	(189,111)
	(1,170,856)	(1,761,127)
Net cash from operating activities	(11,906,644)	(12,331,556)

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13 Trade and Other Receivables

	2020	2019
	\$	\$
In USD		
CURRENT		
Trade receivables	3,388,045	1,460,025
Loan to shareholders	-	180,357
	<u>3,388,045</u>	<u>1,640,382</u>
NON-CURRENT		
Security deposit	<u>36,656</u>	36,656
	<u>36,656</u>	<u>36,656</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

	2020	2019
	\$	\$
In USD		
Finished goods - at cost	631,644	380,112
Raw materials – at cost	539,923	161,939
	<u>1,171,567</u>	542,051
Less: provision for obsolete stock	(99,588)	(141,691)
	<u>1,071,979</u>	<u>400,360</u>

15 Other Current Assets

	2020	2019
	\$	\$
In USD		
CURRENT		
Prepayments and other assets	452,458	332,504
Term deposits (i)	7,238,986	10,353,797
	<u>7,691,444</u>	<u>10,686,301</u>

(i) Term deposits with a maturity of greater than 3 months have been reclassified from cash to other current assets for the prior financial year.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

16 Property, Plant and Equipment

	2020	2019
	\$	\$
In USD		
Plant and equipment		
At cost	1,120,117	954,375
Accumulated depreciation	<u>(572,261)</u>	<u>(412,124)</u>
Total plant and equipment	<u>547,856</u>	<u>542,251</u>
Furniture, fixtures and fittings		
At cost	236,866	207,025
Accumulated depreciation	<u>(135,140)</u>	<u>(95,603)</u>
Total furniture, fixtures and fittings	<u>101,726</u>	<u>111,422</u>
Leasehold Improvements		
At cost	201,121	198,975
Accumulated amortisation	<u>(62,570)</u>	<u>(40,061)</u>
Total leasehold improvements	<u>138,551</u>	<u>158,914</u>
Total property, plant and equipment	<u>788,133</u>	<u>812,587</u>

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

	Plant and equipment	Furniture and fittings	Leasehold improvements	Total
	\$	\$	\$	\$
In USD				
Balance at 1 January 2020	542,251	111,422	158,914	812,587
Additions	174,056	39,188	-	213,244
Disposals	(1,144)	(1,652)	-	(2,796)
Depreciation expense	(167,307)	(44,281)	(20,381)	(231,969)
Impairment loss	-	(2,951)	-	(2,951)
Foreign exchange movements	-	-	18	18
Balance at the end of the year	<u>547,856</u>	<u>101,726</u>	<u>138,551</u>	<u>788,133</u>
Balance at 1 January 2019	352,322	106,280	180,032	638,634
Additions	332,422	42,261	-	374,683
Disposals	(1,967)	-	(400)	(2,367)
Depreciation expense	(140,524)	(37,119)	(20,528)	(198,171)
Foreign exchange movements	(2)	-	(190)	(192)
Balance at the end of the year	<u>542,251</u>	<u>111,422</u>	<u>158,914</u>	<u>812,587</u>

An impairment loss of \$2,951 (2019:Nil) was recognised during the financial year in relation to water damage of cabinet countertops in Jacksonville office, Florida USA.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

17 Intangible Assets

	2020	2019
	\$	\$
In USD		
Patents and trade marks		
Cost	1,288,497	1,078,679
Accumulated amortisation	<u>(326,387)</u>	<u>(231,058)</u>
Net book value	<u>962,110</u>	<u>847,621</u>
Research and development expenditure		
Cost	1,623,330	1,369,252
Accumulated amortisation	<u>(252,141)</u>	<u>(81,388)</u>
Net book value	<u>1,371,189</u>	<u>1,287,864</u>
Computer software		
Cost	125,646	121,276
Accumulated amortisation	<u>(124,009)</u>	<u>(92,416)</u>
Net book value	<u>1,637</u>	<u>28,860</u>
Total Intangibles	<u><u>2,334,936</u></u>	<u><u>2,164,345</u></u>

	Patents and trade marks	Research and development	Computer software	Total
	\$	\$	\$	\$
In USD				
Balance at 1 January 2020	847,621	1,287,864	28,860	2,164,345
Additions	219,477	254,078	-	473,555
Impairment loss	(7,605)	-	-	(7,605)
Amortisation expense	(97,383)	(170,753)	(26,379)	(294,515)
Foreign exchange movements	-	-	(844)	(844)
Closing value at 31 December 2020	<u>962,110</u>	<u>1,371,189</u>	<u>1,637</u>	<u>2,334,936</u>
Balance at 1 January 2019	738,944	378,979	65,567	1,183,490
Additions	254,269	976,072	3,000	1,233,341
Impairment loss	(60,603)	-	-	(60,603)
Amortisation expense	(85,122)	(67,395)	(39,108)	(191,625)
Foreign exchange movements	133	208	(599)	(258)
Closing value at 31 December 2019	<u>847,621</u>	<u>1,287,864</u>	<u>28,860</u>	<u>2,164,345</u>

An impairment loss of \$7,606 (2019: \$60,603) was recognised during the financial year in relation to legal costs previously capitalised for patents under application now no longer being pursued

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

18 Right-of-use Assets

The Group holds leases for properties with lease terms ranging from 3 to 4.6 years. AASB 16, Leases, has been adopted with a modified retrospective transition approach.

	2020	2019
In USD	\$	\$
Property - right-of-use asset	587,668	577,734
Accumulated depreciation	(360,403)	(175,443)
	<u>227,265</u>	<u>402,291</u>
<i>Amounts recognised in profit or loss</i>		
Depreciation expensed	175,116	175,443
Interest expense	21,179	28,281
Expense relating to variable lease payments not included in the measurement of the lease liability	89,390	84,290
	<u>285,685</u>	<u>288,014</u>

The total cash outflow in relation to lease payments amounted to USD \$222,609 (2019: USD \$210,334).

Movement

	Property
In USD	\$
Balance at 1 January 2020	402,291
Additions	-
Depreciation expense	(175,116)
Foreign exchange movements	90
Closing value at 31 December 2020	<u>227,265</u>
Balance at 1 January 2019	-
Additions	577,734
Depreciation expense	(175,443)
Foreign exchange movements	-
Closing value at 31 December 2019	<u>402,291</u>

19 Trade and Other Payables

	2020	2019
In USD	\$	\$
CURRENT		
Trade payables	571,460	628,035
Other payables and accrued expenses	492,905	448,637
	<u>1,064,365</u>	<u>1,076,672</u>

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

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

20 Loans and Borrowings

Converting notes

	2019
In USD	\$
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	<u>(9,816,285)</u>
Carrying amount of liability at 31 December 2019	<u><u>-</u></u>

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

	2020	2019
In USD	\$	\$
CURRENT		
Contract liabilities	<u>1,909,554</u>	<u>375,106</u>
NON-CURRENT		
Contract Liabilities	<u>1,374,510</u>	<u>1,328,809</u>

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

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

22 Lease Liabilities

	2020	2019
In USD	\$	\$
CURRENT		
Lease liabilities	170,946	196,442
NON-CURRENT		
Lease liabilities	115,889	286,012
	<u>286,835</u>	<u>482,454</u>
<i>Maturity analysis</i>		
Not later than 1 year	170,946	196,442
Later than 1 year but not later than 5 years	115,889	286,012
Later than 5 years	-	-
	<u>286,835</u>	<u>482,454</u>

23 Employee Benefits

	2020	2019
In USD	\$	\$
CURRENT		
Liability for annual leave	81,231	69,552
NON-CURRENT		
Liability for long service leave	9,385	3,691

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

24 Capital and Reserves

(a) Share capital

In number of shares	Fully paid	Partly paid	Total
Share split on 24 January 2019	129,376,000	650,000	130,026,000
Shares issued in February 2019 (on conversion of employee share options)	314,502	-	314,502
Shares issued in April 2019 on conversion of converting notes to shares	13,824,063	-	13,824,063
Shares issued in April 2019 upon IPO	35,000,010	-	35,000,010
Shares issued in September 2019 (on conversion of employee share options)	650,000	-	650,000
Shares issued in September 2019 in lieu of Non-Executive Director fees	53,441	-	53,441
Shares issued in December 2019 (on conversion of employee share options)	565,500	-	565,500
Shares issued in December 2019 in lieu of Non-Executive Director fees	16,842	-	16,842
Shares issued in December 2019 (on conversion of employee share options)	260,000	-	260,000
Balance as at 31 December 2019	180,060,358	650,000	180,710,358
Shares issued in March 2020 (on conversion of employee share options) (i)	162,500	-	162,500
Partly paid shares converted into fully paid shares in April 2020	650,000	(650,000)	-
Shares issued in May 2020 in lieu of Non-Executive Director fees (ii)	23,820	-	23,820
Shares issued in July 2020 (on conversion of employee share options) (iii)	325,000	-	325,000
Shares issued in July 2020 (on conversion of employee share options) (iv)	325,000	-	325,000
Placement in September 2020 (v)	6,666,666	-	6,666,666
Share purchase plan in October 2020 (vi)	4,236,898	-	4,236,898
Shares issued in October 2020 (on conversion of employee share options) (vii)	84,500	-	84,500
Placement in November 2020 (viii)	1,666,667	-	1,666,667
Balance as at 31 December 2020	194,201,409	-	194,201,409

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

24 Capital and Reserves (continued)

In USD	Fully paid \$	Partly paid \$	Total \$
Balance at 1 January 2019	56,389,406	199,999	56,589,405
Shares issued in February 2019 (on conversion of employee share options)	178,856	-	178,856
Shares issued in April 2019 on conversion of converting notes to shares	9,816,285	-	9,816,285
Shares issued in April 2019 upon IPO	25,052,313	-	25,052,313
Shares issued in September 2019 (on conversion of employee share options)	201,500	-	201,500
Shares issued in September 2019 in lieu of Non-Executive Director fees	60,443	-	60,443
Shares issued in December 2019 (on conversion of employee share options)	175,305	-	175,305
Shares issued in December 2019 in lieu of Non-Executive Director fees	32,652	-	32,652
Shares issued in December 2019 (on conversion of employee share options)	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
Shares issued in March 2020 (on conversion of employee share options) (i)	50,377	-	50,377
Partly paid shares converted into fully paid shares in April 2020	199,999	(199,999)	-
Shares issued in May 2020 in lieu of Non-Executive Director fees (ii)	30,520	-	30,520
Shares issued in July 2020 (on conversion of employee share options) (iii)	100,750	-	100,750
Shares issued in July 2020 (on conversion of employee share options) (iv)	136,500	-	136,500
Placement in September 2020 (v)	5,627,879	-	5,627,879
Share purchase plan in October 2020 (vi)	3,550,085	-	3,550,085
Shares issued in October 2020 (on conversion of employee share options) (vii)	26,195	-	26,195
Placement in November 2020 (viii)	1,453,310	-	1,453,310
Capital raising costs	(387,739)	-	(387,739)
Balance at 31 December 2020	101,281,467	-	101,281,467

Next Science Limited

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

24 Capital and Reserves (continued)

(i) On 2 March 2020, 162,500 round 2 Equity Incentive Plan (ECP) employee share options converted to 162,500 ordinary shares at a price of AUD\$0.47.

(ii) On 6 May 2020, the following ordinary shares were issued in lieu of non-executive directors fees:

- 12,537 ordinary shares were issued at a price of AUD\$1.99 to Daniel Spira
- 11,283 ordinary shares were issued at a price of AUD\$1.99 to Aileen Stockburger

(iii) On 2 July 2020, 325,000 round 2 Equity Incentive Plan (ECP) employee share options converted to 325,000 ordinary shares at a price of AUD\$0.45.

(iv) On 2 July 2020, 325,000 round 2 Equity Incentive Plan (ECP) employee share options converted to 325,000 ordinary shares at a price of AUD\$0.61.

(v) On 24 September 2020, Next Science raised A\$7,999,999 via a Placement at A\$1.20 per share.

(vi) On 19 October 2020, Next Science raised A\$4,999,663 via a Share Purchase Plan at A\$1.18 per share.

(vii) On 23 October 2020, 84,500 round 2 Equity Incentive Plan (ECP) employee share options converted to 84,500 ordinary shares at a price of AUD\$0.44.

(viii) On 19 November 2020, Next Science raised A\$2,000,000 via a Placement at A\$1.20, approved by shareholders at a general meeting held on 18 November 2020.

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.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

24 Capital and Reserves (continued)

(b) Reserves

In USD	2020	2019
	\$	\$
Foreign currency translation reserve	(801,736)	(1,198,574)
Common control reserve	(42,596,715)	(42,596,715)
Share option reserve	2,125,541	1,648,704
	<u>(41,272,910)</u>	<u>(42,146,585)</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.

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.

(c) Dividends

No dividends were paid or declared by the Company during the financial year.

(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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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

25 Parent Entity Information

As at, and throughout, the financial year to 31 December 2020 the parent entity of the Group was Next Science Limited.

Statement of profit or loss and other comprehensive income

In USD	Parent	
	2020	2019
	\$	\$
Loss after income tax	(6,081,965)	(13,864,920)
Other comprehensive income / (loss)	598,176	(1,042,968)
Total comprehensive loss	(5,483,789)	(14,907,888)

Statement of financial position

In USD	Parent	
	2020	2019
	\$	\$
<i>Assets</i>		
Total current assets	2,469,478	1,407,127
Total non-current assets	24,305,150	19,363,446
Total assets	26,774,628	20,770,573
<i>Liabilities</i>		
Total current liabilities	(423,201)	(70)
Total non-current liabilities	-	-
Total liabilities	(423,201)	(70)
Total net assets	26,351,427	20,770,503
<i>Equity</i>		
Share capital	101,281,467	90,693,590
Common control reserve	(27,257,549)	(27,257,549)
Foreign currency translation reserve	(518,738)	(1,116,913)
Share option reserve	2,125,541	1,648,704
Accumulated losses	(49,279,294)	(43,197,329)
Total equity	26,351,427	20,770,503

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees as at 31 December 2020 and 31 December 2019.

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2020 and 31 December 2019.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

25 Parent Entity Information (continued)

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2020 and 31 December 2019.

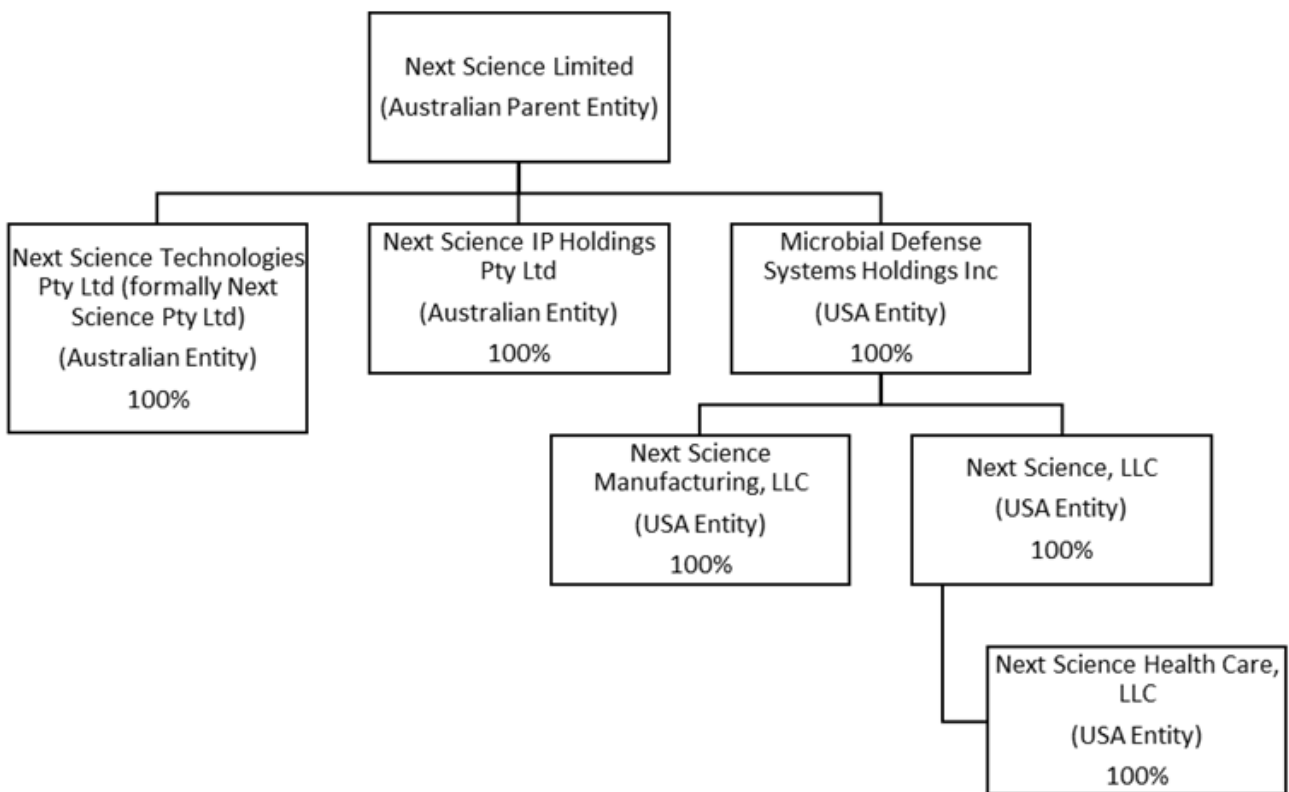
Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 3, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

26 Group Entities

Set out below is the Group structure listing all subsidiaries as at 31 December 2020.



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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

27 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:

	2020	2019
In USD	\$	\$
Short term employee benefits	1,614,212	1,498,338
Post employment benefits	47,613	66,820
Share-based payment benefits	411,372	575,503
	<u>2,073,197</u>	<u>2,140,661</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

KMP's of the Company hold 13.9% (2019: 14.6%) of the issued capital of the Company as at 31 December 2020.

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

28 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 2020, there are 8,092,500 options over ordinary shares on issue (2019: 9,249,500 options), representing 4.17% (2019: 5.12%) of the Company's total share capital, granted to the employees and Directors 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 2019	Granted	Exercised (ii)	Lapsed	No of options as at 31 Dec 2020	Vested as at 31 Dec 2020
9-Nov-16 (2)	9-Nov-20	247,000	-	(247,000)	-	-	-
1 Mar-17 (2)	1-Mar-21	325,000	-	(325,000)	-	-	-
1-Sep-17 (1)	1-Sep-20	162,500	-	(162,500)	-	-	-
1-Sep-17 (2)	1-Sep-21	162,500	-	(162,500)	-	-	-
16-Apr-18 (1)	16-Apr-21	734,500	-	-	-	734,500	734,500
16-Apr-18 (5)	16-Apr-21	2,340,000	-	-	-	2,340,000	1,560,000
16-Apr-18 (4)	16-Apr-21	1,040,000	-	-	-	1,040,000	1,040,000
16-Apr-18 (2)	16-Apr-22	78,000	-	-	-	78,000	78,000
17-Dec-18 (3)	17-Dec-23	2,470,000	-	-	-	2,470,000	-
17-Dec-18 (2)	17-Dec-23	1,690,000	-	-	(260,000)	1,430,000	1,430,000
Totals		9,249,500	-	(897,000)	(260,000)	8,092,500	4,842,500

(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

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

28 Share-based Employee Incentive Arrangements (continued)

- (ii) The weighted average share price for the options exercised during the year was USD \$0.35 (2019: USD \$0.37).

As at 31 December 2020, 4,842,500 options have vested (2019: 4,231,500 post share split).

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

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

	Grant date		
	16-Apr-18	17-Dec-18	19-Feb-19
FV at grant date (USD)	0.20 - 0.22	0.33	0.02
Share price at grant date (USD)	0.42	0.56	0.57
Exercise price (USD)	0.42	0.56	0.57
Expected volatility		91%	
Expected life		3 -4 years	
Expected dividends		0%	
Risk-free interest rate		2.25% - 5.0%	

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

29 Commitments and Contingencies

The Group has no capital commitments or contingencies as at 31 December 2020 (2019: nil).

30 Events Occurring After the Reporting Date

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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Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2020

31 Auditors' Remuneration

	2020	2019
In USD	\$	\$
<i>Audit and assurance related services</i>		
<i>KPMG Australia</i>		
Audit of financial statements	<u>80,372</u>	72,825
Total audit and assurance services	<u>80,372</u>	<u>72,825</u>
<i>Other services</i>		
<i>KPMG Australia</i>		
Taxation services	2,432	43,335
Other services	<u>19,230</u>	95,829
Total other services	<u>21,662</u>	139,164
Total auditor's remuneration	<u>102,034</u>	<u>211,989</u>

32 Earnings Per Share

(a) Reconciliation of earnings to profit or loss from continuing operations

	2020	2019
In USD	\$	\$
Loss after tax	(11,912,004)	(14,351,828)
Basic and diluted earnings per share (USD cents)	<u>(6.36)</u>	(8.65)
Earnings used to calculated basic EPS from discontinuing operations	<u>(6.00)</u>	<u>(9.00)</u>
Weighted average number of shares	<u>187,185,169</u>	<u>165,978,735</u>

33 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.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2020

33 Financial Risk Management (continued)

(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.

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 \$8,100,416 and USD \$7,238,986 in term deposits at 31 December 2020 (2019: USD \$6,556,808 in cash and USD \$10,353,798 in term deposits). The cash and cash equivalents are held with credit worthy bank and financial 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.

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2020

33 Financial Risk Management (continued)

(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.

As 31 December 2020	Less than 6 months	Between 1 and 5 years	Total contracted amounts
In USD	\$	\$	\$
Trade and other payables	1,064,365	-	1,064,365
At 31 December 2019			
Trade and other payables	1,076,672	-	1,076,672

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.

(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 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 \$122,864 (2019: \$166,849). 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.

Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2020

33 Financial Risk Management (continued)

(e) Market risk (continued)

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:

	2020	2019
	\$	\$
In USD		
AUD financial assets converted to USD	7,282,214	3,160,154
AUD financial liabilities converted to USD	<u>(137,932)</u>	<u>(229,180)</u>
Net exposure in statement of financial position	<u>7,144,282</u>	<u>2,930,974</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.

	%	Profit before tax strengthen	Profit before tax weaken	Equity strengthen	Equity weaken
In USD	\$	\$	\$	\$	\$
2020					
Australian Dollars	10%	<u>(714,428)</u>	<u>714,428</u>	<u>(714,428)</u>	<u>714,428</u>
2019					
Australian Dollars	10%	<u>(293,097)</u>	<u>293,097</u>	<u>(293,097)</u>	<u>293,097</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.

Next Science Limited

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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 27 to 72 and the Remuneration report on pages 10 to 25 in the Directors' report, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Group as at 31 December 2020 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 2020.
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
Chair

Dated: 22nd February 2021



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 2020 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 2020
- 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 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

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.

This matter was 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 this matter.

Revenue recognition – USD 3,440,975

Refer to Note 5 to the Financial Report

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 customer contract such as product sales, advance deposits, true up payments and milestone payments. This increases the effort required by the audit team to evaluate the timing and measurement of revenue recognised by the Group, and associated contract liabilities; • Earlier termination of a key customer contract increasing the risk of error in the deferred revenue calculation; • Group has manual processes and controls which may increase the risk of bias in recognition of revenue at the end of the reporting period due to differing terms of trade and extended delivery periods of customer contracts. 	<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 <i>Revenue from Contracts with Customers</i>. • For a sample of transactions, across customer contracts including product sales, advance deposits, true up payments and milestone payments, 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 through evaluation of the terms and conditions in the underlying customer contract, date of completion of freight forwarding services from underlying freight documents such as the waybill, underlying sales invoices and bank statement cash receipts. • For the calculation of deferred revenue, we checked the remaining life of the contract in the calculation of deferred revenue to the underlying key customer contract. • Selected a sample of revenue transactions across differing terms of trade and extended delivery periods for the last two weeks of the reporting period and the first two weeks of the next reporting period. For each sample selected, we checked the amount and timing of revenue recorded by the Group to the underlying customer contracts, sales invoice and to freight documents. • 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.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report and Remuneration Report. The Our Purpose page, Overview, Chairman's Letter, Managing Director's Report, Our Journey page, Investor Information and Corporate Directory are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will 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: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.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 2020, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in pages 10 to 25 of the Directors' report for the year ended 31 December 2020.

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



KPMG



Tony Nimac
Partner
Sydney
22 February 2021