

Next Science Limited

ACN: 622 382 549

Appendix 4E 31 December 2022

Company details

Name of entity:	Next Science Limited
ABN:	47 622 382 549
Reporting period:	For the year ended 31 December 2022
Previous period:	For the year ended 31 December 2021

Results for announcement to the market

				USD \$
Revenues from ordinary activities	up	31%	to	11,712,722
Loss from ordinary activities after tax attributable to the owners of Next Science Limited	up	36%	to	(12,683,312)
Loss for the year attributable to the owners of Next Science Limited	up	36%	to	(12,683,312)

Dividends

No dividend was paid or proposed during the year ended 31 December 2022 (2021: 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>2.62</u>	<u>4.16</u>

The net tangible asset/(liability) per ordinary security is calculated based on 214,790,134 ordinary shares on issue at 31 December 2022 and 197,973,909 shares that were in existence at 31 December 2021.

Control gained over entities

Not applicable.

Loss of control over entities

Not applicable.

Next Science Limited

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Appendix 4E
31 December 2021

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 2022 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



Mark Compton, AM
Chair

28 February 2023
Sydney

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Next Science Limited

ACN 622 382 549

Annual Report - 31 December 2022

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Next Science Limited
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Next Science Limited
Directors' report
31 December 2022

The Directors present their report together with the consolidated financial statements of the Group comprising of Next Science Limited (**Next Science/Company**), and the entities it controlled at the end of, or during, the year ended 31 December 2022 (**Group**). 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:

Mark Compton (Chair)
Judith Mitchell
Bruce Hancox
Daniel Spira
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 grew by 31% in 2022 with sales contributions across all of Next Science's products in market, including sales from products sold through the newly established Durable Medical Equipment ('DME') business from mid October 2022 onwards. Good progress was made in building market awareness for our XBIO™ brand as an answer to the biofilms and bacteria that directly lead to the need for revision (repeat) joint replacement surgeries.

In January 2022, Next Science and Zimmer, Inc (Zimmer) revised the term of their existing distribution agreement for Bactisure™. The term will now end on 31 December 2026 with Zimmer having the option to extend the distribution agreement for an additional five-year period by providing 6 months' prior written notice.

Next Science and Zimmer reached agreement in January 2022, in respect of the 2021 complaint filed in the United States District Court, Northern District of Indiana, alleging that Zimmer had global commercial exclusivity rights over XPERIENCE™ and signed a new US distribution agreement in relation to the supply of a white labelled version of XPERIENCE™ under Zimmer's own labelling. The distribution agreement with Zimmer for XPERIENCE™ has a 5 year term plus a 5 year renewal option and confirms Next Science's intellectual property ownership and rights in respect of XPERIENCE™.

In conjunction with the signing of the new distribution agreement, Zimmer withdrew its District Court proceedings. The complaint was dismissed "with prejudice" (meaning that Zimmer cannot reassert the claims) with each party paying its own costs.

The first shipment to Zimmer of a white labelled version of XPERIENCE™ took place in June 2022 to support a controlled rollout commencing in July 2022 across Zimmer's national sales network. First US shipments of TridentX™ Wound Wash to Convatec, also took place in June 2022.

During the year, Next Science also entered into multiple distribution partnerships in Australia and New Zealand for Next Science's XPERIENCE™, Surg X™ and Blast X™ products. Sales of XPERIENCE™ to New Zealand commenced in Q2 2022 with sales of XPERIENCE™ and Blast X™ in Australia commencing in Q3 2022. Sales of Surg X™ to New Zealand commenced in Q3 2022.

In Q4 2022 Next Science announced its accreditation as a licensed DME supplier giving the Company the ability to seek reimbursement directly from US Centers for Medicare and Medicaid (CMS) for Surgical Dressings (including Collagen products) supplied to patients, initially in 40 US States. Sales commenced during Q4 2022 through the new DME business entity of a range of topical Collagen products to patients who have been prescribed Collagen treatment as a wound dressing.

Operating and financial review (continued)

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

Next Science's commercial team, in the United States, is continuing its own XPERIENCE™, Surg X™ and Blast X™ commercialisation efforts with increased customer usage across all products during the year.

During 1H of 2022 Next Science completed a two-tranche placement to institutional and sophisticated investors raising A\$6.0million (US\$4.4million) in March 2022 and a further A\$4.0million (US\$2.9million) in May 2022 before capital raising costs. A Share Purchase Plan was also launched during March 2022 raising A\$4.8million (US\$3.6million) before costs.

The financial position of the Group was affected by the amendment of the US Jacksonville Greystone Park Commercial Lease on 17 June 2022. The amendment included:

- a) Modification of the lease to expand the Premises; and
- b) Extension of the term of the lease by 5 years

The amendment resulted in the recognition of an additional lease liability of \$1,178,751, a right-of-use asset of \$1,025,617 and leasehold improvements of \$160,910 in the Statement of Financial Position.

In August 2021, Irrimax Corporation, a competitor of Next Science in the wound irrigation sector, filed a complaint and subsequently served on its complaint in the United States District Court for the Northern District of Georgia alleging common law unfair competition and false advertising regarding XPERIENCE™. The complaint settled in July 2022 and was dismissed "with prejudice" (meaning that Irrimax cannot reassert the claims).

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

	2022	2021
Revenue	\$11,712,722	\$8,947,591
Loss attributable to owners of the company	(\$12,683,312)	(\$9,349,639)
Basic earnings per share (EPS) (cents)	(\$6.03)	(\$4.75)
Share price as at 31 Dec (A\$)	AUD\$0.685	AUD\$1.245
Return on capital employed	(128.0%)	(77.8%)

Review of operations

The loss for the Group for the financial year to 31 December 2022 after providing for income tax amounted to \$12,683,312 (2021: \$9,349,639).

Revenue increased by 31% for the period increasing from \$8,947,591 in the prior corresponding period to \$11,712,722, reflecting some of the recovery from the impacts of the COVID-19 pandemic during the 2022 financial year across surgical procedures and in wound care clinics as well as revenue from new distribution agreements entered into for XPERIENCE™, Blast X™ and Surg X™ both in the USA and in Australia and New Zealand, in addition to revenue earned from reimbursement of Collagen products through the newly operational DME business from mid October 2022 onwards.

Gross profit for FY22 was \$9,149,698 compared to \$6,940,122 in the prior corresponding period. Gross margin as a percent of sales remained steady at 78% (2021: 78%).

Operating and financial review (continued)

Review of operations (continued)

Selling and distribution expenses were \$10,310,205, an increase of \$2,915,334 compared with \$7,394,871 in the prior corresponding period. The \$2,915,334 in spend in 2022 mainly related to an increase in sales headcount ahead of the launch of the DME business in October 2023, other employee related expenditure including recruitment costs and an increase in travel costs, associated with higher levels of direct sales activity in the US across all Next Science's products as COVID-19 travel related restriction eased in 2022 compared to 2021.

Administration expenses were \$5,385,006, an increase of \$1,279,088 compared with \$4,105,918 in the prior corresponding period. The majority of the expenses in the current period relate to one off costs of defending and settling the 2021 legal suits brought by Irrimax Corporation and Zimmer. The balance of the increase mainly relates to upfront recruitment retainer fees for the US based CEO search, increased executive travel costs with the easing of COVID-19 travel related restrictions, as well as additional strategic and territorial commercialisation consulting advice undertaken in the period.

Research and development expenses were \$6,149,806 an increase of \$1,102,931 compared with \$5,046,875 in the prior corresponding period with expenditure in the current period related to ongoing R&D projects and clinical studies as well as regulatory compliance in existing and new jurisdictions (Canada) and increased medical advisory consulting expenses as well as a modest increase in headcount.

Cash and cash equivalents at 31 December 2022 amounted to \$5,073,625 compared to \$7,000,869 at 31 December 2021. Term deposits at 31 December 2022 amounted to \$37,789 compared to \$367,129 at 31 December 2021.

Inherent risks of Investments in Health Care Companies

There are many inherent risks associated with the development of medical devices to a marketable stage. The distribution of some of Next Science's products is subject to obtaining and maintaining FDA and other clearances issued by appropriate governmental authorities and regulatory bodies. Following regulatory approval of some products such as XPERIENCE™, further clinical studies are being undertaken to demonstrate effectiveness and to expand the list of claims per product. Although Next Science believes such clinical studies will be a success, there are no guarantees that the studies will effectively meet their end points.

Other risks include patent protection and proprietary rights, whether patent applications and issued patents will offer adequate protection to enable product development, the obtaining of necessary regulatory authority approvals and difficulties caused by rapid advancements in technology.

As an accredited DME business, the Company will continue to expand its wound care footprint to patients. Being accredited as a DME business, Next Science must comply with the U.S Health Insurance Portability and Accountability Act (HIPAA) which requires companies that deal with protected health information to have physical, network, and process security measures in place and follow them. Next Science will need to ensure that it maintains its HIPAA compliance in order to continue to be accredited as a DME entity.

Companies such as Next Science are dependent on the success and commercialisation of both their research projects and existing products and their continued ability to attract funding to support those activities, as the Group scales. Access to capital and funding for the Group and its projects going forward cannot be guaranteed. Whilst Next Science believes that reimbursement through the DME will provide welcome cash inflows to assist with ongoing capital needs, the new DME business is in its early stages and the timing and extent of reimbursements are still being assessed. To assist with bridging the gap until the Group becomes cash flow positive, Next Science has issued a A\$10,000,000 Secured Convertible Note to major shareholder, Walker Group Holdings Pty Ltd, post shareholder approval on 2 February 2023. See Matters subsequent to the end of the financial year for more details.

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

On 2 February 2023 shareholders approved the issue of A\$10,000,000 Secured Convertible Notes with major shareholder, Walker Group Holdings Pty Ltd, with a maturity date 21 months after the issue date at a conversion price of A\$0.72 per security.

Each Note accrues interest at a rate of 10% per annum if the Notes are redeemed (and payable in one instalment only on redemption) or at a rate of 5% per annum if the Notes are converted (and capitalised into additional shares on conversion). Interest shall accrue on any overdue sum at a rate of 12% per annum from the due date. If converted, the shares rank pari passu with existing ordinary shares.

Next Science Limited's obligations under the Secured Convertible Note Deed are to be secured over the Company and all of the Company's property under a General Security Agreement.

In accordance with the Secured Convertible Note Deed, Walker Group Holdings Pty Ltd may at any time after the issue date until 31 October 2023, give notice to Next Science Limited that it wishes to convert all of the Notes to conversion shares.

If the Notes are not converted by 31 October 2023, Next Science Limited must redeem the Notes on the maturity date, unless Next Science Limited gives notice of early redemption to Walker Group Holdings Pty Ltd.

The Notes are non-transferrable.

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, other than those matters detailed above, of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Environmental regulation

The Group's operations are not subject to significant environment regulations under either Commonwealth or State legislation. The Board believes that the Group has adequate systems in place for the management of 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, efficacy, manufacturing, advertising, labelling and safety reporting. The exercise of broad regulatory powers available to the U.S. Food and Drug Administration (the "FDA") can result 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.

In October 2022, the Jacksonville based subsidiary, Next Science LLC, established itself, and has been licensed and accredited by US Medicare, as a Durable Medical Equipment (DME) provider based in the State of Florida, USA. Such licensing and accreditation, brings with it additional regulatory and compliance obligations.

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

Information on Directors

Name:	Mark Compton AM
Title:	Chair and Independent Non-Executive Director
Special responsibilities:	Member, Audit and Risk Committee 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, 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 Chair of the Board of Trustees of St John International. Mark is Chair of Sonic Healthcare Limited, a global medical diagnostics and healthcare organisation which is a Top 50 ASX listed entity. He is also Chair of St Luke's Care Limited, a not-for-profit health and aged care organisation. Mark has held various CEO and managing director roles, including at St Luke's Care Limited, Immune System Therapeutics Limited, Royal Flying Doctor Service of Australia, SciGen Limited and Alpha Healthcare Limited. He is an Adjunct Professor at Macquarie University in healthcare leadership and management (since 2012).
Other current directorships:	Chair and Non-Executive Director of Sonic Healthcare Limited (ASX: SHL). Chair of the Board of Trustees of St John International, Chair of St Luke's Care Limited.
Former listed directorships (last 3 years):	None

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

Information on Directors (continued)

Name:	Bruce Hancox
Title:	Non-Executive Director
Special responsibilities:	Chair, Audit and Risk Committee
Qualifications:	Bachelor of Commerce, Canterbury University New Zealand
Experience and expertise:	<p>Bruce has many 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 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):	None

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), a leading multinational consumer healthcare and pharmaceutical company with operations across Asia Pacific and Africa. Previously he was at Bausch Health (2011-2015) as Vice President and GM-North America (with responsibility for a portfolio of businesses spanning Vision Care, Dermatology and Aesthetic Devices) and was also Managing Director, Pacific region.</p> <p>Prior to that, Daniel spent over 15 years at Johnson & Johnson Inc in various roles including Vice President, Country Manager, Chief Marketing Officer and other sales and marketing roles across the Asia Pacific, Europe/Middle East and North American regions.</p>
Other current directorships:	None
Former listed directorships (last 3 years):	None

Information on Directors (continued)

Name:	Aileen Stockburger
Title:	Independent Non-Executive Director
Special responsibilities:	Member, Audit and Risk Committee Member, People, Culture and Remuneration 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:	Prior to joining Next Science, Aileen was the Worldwide Vice President of Business Development for the DePuy Synthes Group of Johnson & Johnson, where she oversaw the group's merger and acquisition activities, including deal structuring, negotiations, contract design and review, and deal terms. Aileen 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 drive the DePuy Trauma business and acquire Micrus Endovascular. Aileen was also involved in numerous other M&A transactions including Pfizer Consumer Healthcare (US\$16.5 billion), Aveeno, BabyCenter, OraPharma, DePuy, DePuy Miket, Kodak Clinical Diagnostics and Neutrogena.
Other current directorships:	Non-Executive Director, Microbot Medical Inc. (NASDAQ: MBOT). Non-Executive Director, Materna Medical Inc. Non-Executive Director, Orchid Orthopedic Solutions Non-Executive Director, ChemImage Corporation
Former listed directorships (last 3 years):	None

Next Science Limited
Directors' report
31 December 2022

Company Secretary

Gillian Nairn, BA/LLB, LLM, FGIA, was appointed Company Secretary on 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 in-house and consulting company secretarial roles, predominantly with listed entities.

Meetings of directors

The number of meetings held and attended by each of the Directors of the Company during the year ended 31 December 2022 were as follows:

Name of director	Board meetings		People, Culture & Remuneration Committee		Audit and Risk Committee	
	A	B	A	B	A	B
Mark Compton	20	18	3	3	8	8
Judith Mitchell	19	19	-	-	-	-
Bruce Hancox	20	20	-	-	8	8
Daniel Spira	20	19	3	3	-	-
Aileen Stockburger	20	19	3	3	8	8

A – Number of meetings held when Director was eligible to attend

B – Number of meetings attended during the time the Director held office

Directors' interests

The relevant interest of each Director in shares, options and rights 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
Mark Compton	171,920	520,000
Judith Mitchell	6,420,000	-
Bruce Hancox	564,482	520,000
Daniel Spira	752,172	260,000
Aileen Stockburger	44,837	520,000
Total	7,953,411	1,820,000

Shares under option

At the date of this report, there are 2,812,000 options over ordinary shares on issue (2021: 2,890,000 options), representing 1.31% (2021: 1.46%) of the Company's undiluted total share capital, granted to employees and directors under an equity incentive plan.

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the company

No person has applied to 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 34 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 34 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
- The external auditor has declared to the Directors that to the best of the individual auditor's knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act* and no contraventions of any applicable code of professional conduct in relation to the half-year review.
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants* (including *Independence Standards*), as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing 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 23 and forms part of the Directors' Report for the financial year ended 31 December 2022.

Auditor

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

Remuneration Report (audited)

This Remuneration Report forms part of the Directors' Report for the year ended 31 December 2022. 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 plans and performance rights over equity instruments
- KMP Remuneration
- KMP Equity Holdings

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Directors' report
31 December 2022

Key management personnel (KMP)

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

Non-Executive Directors

Mark Compton
Bruce Hancox
Daniel Spira
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) (Resigned and ceased to be a KMP on 20 April 2022)

Remuneration governance

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

- Daniel Spira (Chair)
- Mark Compton
- Aileen Stockburger

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 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.

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 or employee may terminate the service agreement by giving 3-months' notice or pay in lieu of all or part of the notice period.

The Company may terminate 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 or employee may terminate the service agreement by giving 3-months' notice or pay in lieu of all or part of the notice period.

The Company may terminate 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.

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 or employee may terminate the service agreement by giving 90 days written notice.
The Company may terminate immediately for Cause as defined in the agreement.
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 or employee may terminate the service agreement by giving 90 days written notice.
The Company may terminate immediately for Cause as defined in the agreement.
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 or employee may terminate the service agreement by giving 90 days written notice.
The Company may terminate immediately for Cause as defined in the agreement.
Dustin is entitled to participate in the Company's short term and long-term incentive plans.
Dustin's employment agreement with Next Science ceased on 20 April 2022.

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, the Constitution and the ASX Listing Rules stipulate that the total amount of fees paid to Non-Executive Directors (excluding any special exertion fees) must not exceed the amount approved by the Company's shareholders. 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. An additional fee of AUD\$10,000 per annum is paid for performing the role of Chair of the Audit and Risk Committee or People, Culture and Remuneration Committee. The Company paid special exertion fees to Aileen Stockburger during 2021 and 2022. These exertions were to assist the Board in ensuring the Company's activities in the US received appropriate oversight and support.

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 in the STI 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 a 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 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 at least 3 out of 5.

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

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

No STI payments were made in respect of the financial year ended 31 December 2022 (2021: 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 under which incentives are issued in the form of Performance Rights to eligible participants (LTI Plan).

The terms of the LTI Plan with respect to future participation are currently under review. The details of the LTI Plan in this Remuneration Report relate to the terms of the LTI Plan as they currently apply.

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

The Managing Director, CFO, COO and CCO, are entitled to participate in the LTI Plan. If Group performance hurdles are achieved in the financial year ending 31 December 2022, and thereafter, the Managing Director has the opportunity to be granted performance rights worth 200% of her Total Fixed Remuneration (TFR) and the other participants in the LTI Plan have the opportunity to 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:

- 50% of Performance Rights will vest if the compound annual total shareholder return (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.

If compound TSR is less than 15% per annum, no Performance Right will vest.

Subject to vesting conditions being satisfied, Performance Rights automatically convert to shares, on a one-for-one basis, three years after the date on which they are granted. If vesting conditions have not been satisfied, the Performance Rights will automatically lapse. Participants must be employed by the Company or a wholly owned subsidiary at the date of vesting.

No Performance Rights have been issued in relation to the financial year ending 31 December 2022 (2021: Nil) as vesting conditions were not met.

The Company's 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 the other executive KMPs from the options awarded to them prior to the Company's admission to ASX, in February 2021, the Company granted the CCO USD\$315,000 worth of performance rights. The vesting of the CCO's performance rights was subject to continued tenure and was to be 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. However, due to employment ceasing on 20 April 2022 the performance rights in year 2 and 3 did not vest during the year.

Options and rights over equity instruments

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 31). 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 2022 (2021: Nil). Details of the options over ordinary shares issued under the ECP or ESOP which were held by KMP as at 31 December 2022 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>Non-Executive Directors</i>						
Mark Compton	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	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>						
Jon Swanson	17 Dec 2018	17 Dec 2023	17 Dec 2020	2,138	0.33	0.56

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Options and rights over equity instruments (continued)

There were no rights over ordinary shares issued as compensation to KMP during the year ended 31 December 2022 (2021: 340,602).

The movement for the year ended 31 December 2022, in the number of rights and options over ordinary shares in Next Science Limited held, directly, indirectly or beneficially, by each KMP, including their related parties was as follows:

KMP	Balance as at 1 Jan 2022 No.	Granted No.	Exercised No.	Lapsed No.	Balance as at 31 Dec 2022 No.	Vested during the year	Vested and exercisable No.	Un-vested No.
Options								
<i>Executive Director</i>								
Judith Mitchell	-	-	-	-	-	-	-	-
<i>Non-Executive Directors</i>								
Bruce Hancox	520,000	-	-	-	520,000	-	520,000	-
Daniel Spira	260,000	-	-	-	260,000	-	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	-	-	-	-	-	-	-	-
Dustin Haines	-	-	-	-	-	-	-	-
Rights								
Dustin Haines*	340,602	-	(113,534)	(227,068)	-	-	N/A	N/A

*Dustin Haines employment agreement with Next Science ceased on 20 April 2022

Options and rights over equity instruments (continued)

The movement for the year ended 31 December 2021, in the number of rights and options over ordinary shares in Next Science Limited held, directly, indirectly or beneficially, by each KMP, including their related parties was as follows:

KMP	Balance as at 1 Jan 2021 No.	Granted No.	Exercised No.	Lapsed No.	Balance as at 31 Dec 2021 No.	Vested during the year	Vested and exercisable No.	Un-vested No.
Options								
<i>Executive Director</i>								
Judith Mitchell	2,340,000	-	(1,560,000)	(780,000)	-	-	-	-
<i>Non-Executive Directors</i>								
George Savvides	650,000	-	-	(650,000)	-	-	-	-
Bruce Hancox	520,000	-	-	-	520,000	520,000	520,000	-
Daniel Spira	1,300,000	-	(1,040,000)	-	260,000	260,000	260,000	-
Mark Compton	520,000	-	-	-	520,000	520,000	520,000	-
Aileen Stockburger	520,000	-	-	-	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)	-	-	-	-	-
Dustin Haines	-	-	-	-	-	-	-	-
Rights								
Dustin Haines	-	340,602	-	-	340,602	-	N/A	340,602

Exercise of options granted as compensation

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

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Analysis of movements in rights

The value of rights over ordinary shares in the Company granted and exercised by each KMP during the reporting period is detailed below.

KMP	Granted in year \$	Value of rights exercised in year \$
Dustin Haines	-	105,000

Details of equity incentives affecting current and future remuneration

KMP	Instrument	Number	Grant date	Expiry date	% vested	Financial years in which grant vests
<i>Non-Executive Directors</i>						
Mark Compton	Options	520,000	17 Dec 2018	17 Dec 2023	100%	2021
Bruce Hancox	Options	520,000	17 Dec 2018	17 Dec 2023	100%	2021
Aileen Stockburger	Options	520,000	17 Dec 2018	17 Dec 2023	100%	2021
Daniel Spira	Options	260,000	17 Dec 2018	17 Dec 2023	100%	2021
<i>Other KMP</i>						
Jon Swanson	Options	650,000	17 Dec 2018	17 Dec 2023	100%	2020

KMP Remuneration

The table below details the remuneration of the KMP based on the remuneration policies discussed in this report for the year ended 31 December 2022.

Year ended 31 December 2022

KMP (USD)	Cash salary and fees	Other cash service (i)	Long service Leave	Super- annuati on	Share- based payments rights (ii)	Total	Performance Related (iii)
	\$	\$	\$	\$	\$	\$	%
<i>Executive Director</i>							
Judith Mitchell	264,444	-	6,717	16,922	-	288,083	-
<i>Non-Executive Directors</i>							
Mark Compton	173,466	-	-	-	-	173,466	-
Bruce Hancox	62,941	-	-	6,446	-	69,387	-
Daniel Spira	67,768	-	-	1,619	-	69,387	-
Aileen Stockburger	79,868	-	-	-	-	79,868	-
<i>Other KMP</i>							
Matthew Myntti	359,962	6,650	-	-	-	366,612	-
Jon Swanson	264,571	609	-	-	-	265,180	-
Jacqueline Butler	207,427	38,925	4,630	16,926	-	267,908	-
Dustin Haines (iv)	103,474	46	-	-	8,750	112,270	-
	1,583,921	46,230	11,347	41,913	8,750	1,692,161	-

(i) Included in Jacqueline Butler's Other cash services is an amount of \$38,925 for cashed out annual leave.

Other cash services for Matthew Myntti, Jon Swanson and Dustin Haines includes motor vehicle allowance and/or other minor benefits. For the year ended 31 December 2022 threshold Group performance targets were not met and hence no amounts were awarded to KMP under the STI Plan.

(ii) The fair value of the right is calculated at the date of grant using the 60 day volume weighted average price of Next Science shares in the period immediately prior to the offer date. The rights disclosed is the portion of the fair value of the rights recognised as an expense in the reporting period.

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

(iv) Dustin Haines employment agreement with Next Science ceased on 20 April 2022.

KMP Remuneration (continued)

The table below details the remuneration of KMP for the year ended 31 December 2021.

Year ended 31 December 2021

KMP (USD)	Cash salary and fees (i)	Other cash service (ii)	Long service Leave	Super- annuati on	Share-based payments		Total	Performance Related (v)
					Options (iii)	Rights (iv)		
	\$	\$	\$	\$	\$	\$	\$	%
<i>Executive Director</i>								
Judith Mitchell	283,239	-	3,696	17,051	(101,211)	-	202,775	-
<i>Non-Executive Directors</i>								
Mark Compton	144,570	-	-	-	71,729	-	216,299	-
Bruce Hancox	68,388	-	-	6,663	71,729	-	146,780	-
Daniel Spira	73,385	-	-	1,667	35,865	-	110,917	-
Aileen Stockburger	83,860	-	-	-	71,729	-	155,589	-
George Savvides	66,493	-	-	-	(132,471)	-	(65,978)	-
<i>Other KMP</i>								
Matthew Myntti	350,000	6,516	-	-	-	-	356,516	-
Jon Swanson	254,155	651	-	-	-	-	254,806	-
Jacqueline Butler	198,231	-	3,126	16,990	-	-	218,347	-
Dustin Haines	320,235	106	-	-	-	96,250	416,591	-
	1,842,556	7,273	6,822	42,371	17,370	96,250	2,012,642	

- (i) On 5 May 2021, George Savvides, AM retired as Chair and Mark Compton assumed the role of Chair.
- (ii) Other cash service includes motor vehicle allowance and/or other minor benefits. For the year ended 31 December 2021 threshold Group performance targets were not met and hence no amounts were awarded to KMP under the STI Plan.
- (iii) 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. Certain tranches of previous options awarded did not vest and lapsed during the year as vesting conditions were not met. In accordance with Australian Accounting Standards previous expenses related to the lapsed portion of options were reversed in the current year.
- (iv) The fair value of the right is calculated at the date of grant using the 60 day volume weighted average price of Next Science shares in the period immediately prior to the offer date. The rights disclosed is the portion of the fair value of the rights recognised as an expense in the reporting period.
- (v) 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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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 2022

KMP	Balance as at 1 Jan 2022 No.	Received on exercise of options/rights No.	Other changes during the year No.*	Balance on termination	Balance as at 31 Dec 2022 No.
<i>Executive Director</i>					
Judith Mitchell	6,560,000	-	(140,000)	-	6,420,000
<i>Non-Executive Directors</i>					
Mark Compton	137,438	-	34,482	-	171,920
Bruce Hancox	530,000	-	34,482	-	564,482
Daniel Spira	723,437	-	28,735	-	752,172
Aileen Stockburger	44,837	-	-	-	44,837
<i>Other KMP</i>					
Matthew Myntti	13,354,989	-	(1,411,020)	-	11,943,969
Jon Swanson	50,000	-	-	-	50,000
Jacqueline Butler	410,196	-	-	-	410,196
Dustin Haines	-	113,534**	(40,000)	73,534	N/A

* Other changes represent shares that were purchased, sold or transferred to another party during the year.

** Dustin Haines employment agreement with Next Science ceased on 20 April 2022.

Next Science Limited
Directors' report
31 December 2022

KMP equity holdings (continued)

Year ended 31 December 2021

KMP	Balance as at 1 Jan 2021 No.	Received on exercise of options No.	Other changes during the year No.*	Balance as at 31 Dec 2021 No.
<i>Executive Director</i>				
Judith Mitchell	5,000,000	1,560,000	-	6,560,000
<i>Non-Executive Directors</i>				
Mark Compton	137,438	-	-	137,438
Bruce Hancox	530,000	-	-	530,000
Daniel Spira	49,266	1,040,000**	(365,829)	723,437
Aileen Stockburger	44,837	-	-	44,837
George Savvides	649,876	-	(180,000)	469,876
<i>Other KMP</i>				
Matthew Myntti	20,657,000	-	(7,302,011)***	13,354,989
Jon Swanson	70,000	-	(20,000)	50,000
Jacqueline Butler	-	650,000**	(239,804)	410,196
Dustin Haines	-	-	-	-

* Other changes represent shares that were purchased, sold or transferred to another party during the year.

** In respect of these options, in order to facilitate the exercise of these options the Company provided a short term loan to the option holder which was repaid within 15 days.

*** As announced to ASX on 6 September 2021

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:



Mark Compton, AM

Chair

Dated at Sydney 28 February 2023



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 2022 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

Kevin Leighton
Partner

Sydney
28 February 2023

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Next Science Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2022

	Note	Consolidated 2022 \$	2021 \$
Revenue	5	11,712,722	8,947,591
Cost of sales		<u>(2,563,024)</u>	<u>(2,007,469)</u>
Gross profit		<u>9,149,698</u>	<u>6,940,122</u>
Other income	6	37,870	147,112
Selling and distribution expenses		(10,310,205)	(7,394,871)
Research and development expenses		(6,149,806)	(5,046,875)
Administration expenses		(5,385,006)	(4,105,918)
Other expenses	8	<u>(45,558)</u>	<u>(15,633)</u>
Operating loss		<u>(12,703,007)</u>	<u>(9,476,063)</u>
Finance income	10	48,298	142,900
Finance costs	11	<u>(28,603)</u>	<u>(16,476)</u>
Net finance income		<u>19,695</u>	<u>126,424</u>
Loss before income tax expense		<u>(12,683,312)</u>	<u>(9,349,639)</u>
Income tax expense	12	<u>-</u>	<u>-</u>
Loss after income tax expense for the year		<u>(12,683,312)</u>	<u>(9,349,639)</u>
Other comprehensive loss			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation differences		<u>(556,734)</u>	<u>(547,407)</u>
Other comprehensive loss for the year, net of tax		<u>(556,734)</u>	<u>(547,407)</u>
Total comprehensive loss for the year		<u><u>(13,240,046)</u></u>	<u><u>(9,897,046)</u></u>
		Cents	Cents
Basic earnings per share	35	(6.03)	(4.75)
Diluted earnings per share	35	(6.03)	(4.75)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Next Science Limited
Consolidated statement of financial position
As at 31 December 2022

	Note	Consolidated 2022 \$	Consolidated 2021 \$
Assets			
Current assets			
Cash and cash equivalents	13	5,073,625	7,000,869
Trade and other receivables	14	1,738,923	887,211
Inventories	15	871,266	1,500,522
Other current assets - term deposits	16	37,789	367,129
Other current assets - other	17	541,506	476,049
Total current assets		<u>8,263,109</u>	<u>10,231,780</u>
Non-current assets			
Trade and other receivables	14	36,656	36,656
Property, plant and equipment	18	696,848	683,562
Right-of-use assets	20	1,053,113	232,456
Intangible assets	19	2,409,930	2,532,491
Total non-current assets		<u>4,196,547</u>	<u>3,485,165</u>
Total assets		<u>12,459,656</u>	<u>13,716,945</u>
Liabilities			
Current liabilities			
Trade and other payables	21	1,979,346	1,172,996
Contract liabilities	22	274,902	91,177
Lease liabilities	23	257,912	166,235
Employee benefits	24	94,811	109,611
Total current liabilities		<u>2,606,971</u>	<u>1,540,019</u>
Non-current liabilities			
Contract liabilities	22	824,706	1,283,334
Lease liabilities	23	962,060	109,802
Employee benefits	24	30,194	17,295
Total non-current liabilities		<u>1,816,960</u>	<u>1,410,431</u>
Total liabilities		<u>4,423,931</u>	<u>2,950,450</u>
Net assets		<u>8,035,725</u>	<u>10,766,495</u>
Equity			
Share capital	25	113,526,533	102,921,007
Reserves	26	(42,362,294)	(41,709,310)
Accumulated losses		<u>(63,128,514)</u>	<u>(50,445,202)</u>
Total equity		<u>8,035,725</u>	<u>10,766,495</u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

Next Science Limited
Consolidated statement of changes in equity
31 December 2022

	Share capital \$	Common control reserve \$	Foreign currency translation reserve \$	Share option reserve \$	Performance rights reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 January 2022	102,921,007	(42,596,715)	(1,349,143)	2,140,298	96,250	(50,445,202)	10,766,495
Loss for the year	-	-	-	-	-	(12,683,312)	(12,683,312)
<i>Other comprehensive income</i>							
Foreign currency translation differences	-	-	(556,734)	-	-	-	(556,734)
Total other comprehensive loss	-	-	(556,734)	-	-	-	(556,734)
Total comprehensive loss for the year	-	-	(556,734)	-	-	(12,683,312)	(13,240,046)
<i>Transactions with owners in their capacity as owners</i>							
Share-based payments	-	-	-	-	8,750	-	8,750
Performance rights converted to shares on vesting	105,000	-	-	-	(105,000)	-	-
Issue of ordinary shares	10,886,160	-	-	-	-	-	10,886,160
Capital raising costs	(385,634)	-	-	-	-	-	(385,634)
Total transactions with owners	10,605,526	-	-	-	(96,250)	-	10,509,276
Balance at 31 December 2022	113,526,533	(42,596,715)	(1,905,877)	2,140,298	-	(63,128,514)	8,035,725

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

Next Science Limited
Consolidated statement of changes in equity
31 December 2022

	Share capital \$	Common control reserve \$	Foreign currency translation reserve \$	Share option reserve \$	Performance rights reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 January 2021	101,281,467	(42,596,715)	(801,736)	2,125,541	-	(41,095,563)	18,912,994
Loss for the year	-	-	-	-	-	(9,349,639)	(9,349,639)
<i>Other comprehensive income</i>							
Foreign currency translation differences	-	-	(547,407)	-	-	-	(547,407)
Total other comprehensive loss	-	-	(547,407)	-	-	-	(547,407)
Total comprehensive loss for the year	-	-	(547,407)	-	-	(9,349,639)	(9,897,046)
<i>Transactions with owners in their capacity as owners</i>							
Share-based payments	-	-	-	17,370	96,250	-	113,620
Foreign exchange impact	-	-	-	(2,613)	-	-	(2,613)
Issue of ordinary shares	1,645,770	-	-	-	-	-	1,645,770
Capital raising costs	(6,230)	-	-	-	-	-	(6,230)
Total transactions with owners	1,639,540	-	-	14,757	96,250	-	1,750,547
Balance at 31 December 2021	102,921,007	(42,596,715)	(1,349,143)	2,140,298	96,250	(50,445,202)	10,766,495

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

Next Science Limited
Consolidated statement of cash flows
For the year ended 31 December 2022

	Note	Consolidated 2022 \$	Consolidated 2021 \$
Operating activities			
Receipts from customers		10,657,495	9,512,635
Payments to suppliers and employees		(20,464,045)	(16,268,131)
Payments for research and development		(2,033,830)	(1,672,278)
Interest received	10	12,720	16,515
COVID-19 government assistance and other income		37,890	146,905
		<u> </u>	<u> </u>
Net cash used in operating activities	13	<u>(11,789,770)</u>	<u>(8,264,354)</u>
Investing activities			
Payments for property, plant and equipment	18	(88,972)	(140,492)
Payments for intangible assets	19	(386,744)	(576,266)
		<u> </u>	<u> </u>
Net cash used in investing activities		<u>(475,716)</u>	<u>(716,758)</u>
Financing activities			
Proceeds from issue of ordinary shares	25	10,853,400	-
Proceeds from conversion of options to ordinary shares	25	32,760	1,645,770
Capital raising costs	25	(385,634)	(6,230)
Payment of lease liabilities		(253,229)	(212,759)
		<u> </u>	<u> </u>
Net cash from financing activities		<u>10,247,297</u>	<u>1,426,781</u>
Net decrease in cash and cash equivalents		(2,018,189)	(7,554,331)
Cash and cash equivalents at the beginning of the financial year (including bank term deposits)		7,367,998	15,339,402
Effects of exchange rate changes on cash and cash equivalents		(238,395)	(417,073)
		<u> </u>	<u> </u>
Cash and cash equivalents at the end of the financial year (including bank term deposits)		<u><u>5,111,414</u></u>	<u><u>7,367,998</u></u>
Less bank term deposits classified as other current assets	16	(37,789)	(367,129)
Cash and cash equivalents at end of the year	13	5,073,625	7,000,869

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

Next Science Limited
Notes to the consolidated financial statements
31 December 2022

Note 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 2022 and comparative information for the year ended 31 December 2021.

Note 2. Basis of preparation

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 _____ 2023.

Basis of measurement

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

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.

Use of judgements and estimates

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

The key judgements, estimates and assumptions are discussed below:

Impairment of non-financial assets

The 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. 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 and approved budgets were used for revenue projections.
- The pre-tax discount rates of 12% - 15% based on the weighted average cost of capital.
- Changes in key assumptions would impact recoverable amount calculations.

Note 2. Basis of preparation (continued)

Estimation of useful lives of assets

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

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 2022, the Group incurred a loss of \$12,683,312 and had net cash outflows from operations of \$11,789,770. As at 31 December 2022, the Group had net current asset and net asset positions of \$5,656,138 and \$8,035,725 respectively.

The Group continues to reflect on the potential continued impacts of COVID-19 which primarily are expected to affect revenue due to the difficulty in accessing end customers and/or the ability for elective surgeries to be performed in selected markets. The Group has also considered the impacts the launch of the DME business will have on cash inflows via reimbursements from Medicare/Medicaid and other insurance providers and has modelled a range of scenarios for going concern purposes. The Group considers that its cash and term deposits totalling \$5,111,414 at 31 December 2022, together with the cash received from the issue of A\$10,000,000 Secured Convertible Notes to major shareholder, Walker Group Holdings Pty Ltd, following approval at the shareholder meeting on 2 February 2023 as well as potential cost management initiatives are sufficient to enable the Group to continue as a going concern for the foreseeable future, being at least twelve months from the date of signing this financial report.

Note 3. Significant accounting policies

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

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 28.

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.

Note 3. Significant accounting policies (continued)

(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.

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 equity and accumulated in the translation reserve.

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 some of Next Science's customers at the point when the Group fulfils its obligation to deliver, and goods are available at the customer's premises. For these customers, 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 other customers (including DME patients), title and control pass when the product is delivered to the courier, with revenue being recognised at this point in time.

Note 3. Significant accounting policies (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.

For the new DME business which commenced mid October 2022, revenue is recognised when the cash reimbursement amount is received and an estimate is made of amounts to be recognised in relation to debtor balances owing from Medicare.

(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.

As a result of the non-renewal of the 3M contract, a change has been made to the time frame for recognition of the performance obligation in relation to the milestone payments received from 3M. The milestone payments would previously have been recognised as revenue over the period until the end of the 3M contract on 31 December 2021. The milestone payments have now been recognised as revenue over a shorter time period ending 1H 2021, as the transition of Blast-X back to Next Science was completed during 1H 2021.

In January 2022, Next Science and Zimmer, Inc revised the term of their existing distribution agreement for Bactisure™. The term will now end on 31 December 2026 with Zimmer, Inc having the option to extend the distribution agreement for an additional five-year period by providing 6 months' prior written notice. As a result of this amendment, there has been a change in the time frame for recognition of the performance obligation in relation to milestone payments previously received from Zimmer, Inc. The milestone payments which previously would have been recognised as revenue over the period until the end of the contract period of 28 February 2037, will now be recognised as revenue over a shorter time period ending 31 December 2026.

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.

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.

Note 3. Significant accounting policies (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 3.5% to 4.6% 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.

Income tax

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

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

(i) Current tax

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

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

(ii) Deferred tax

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

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

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

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

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

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

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.

Note 3. Significant accounting policies (continued)

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.

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.

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.

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.

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.

Note 3. Significant accounting policies (continued)

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.

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.

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.

Intangible assets

(i) Recognition and measurement

Research and development expenditure

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

Patents

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

Computer software

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

(ii) Subsequent expenditure

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

(iii) Amortisation

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

Note 3. Significant accounting policies (continued)

The estimated useful lives of intangible assets are as follows:

- Development expenditure: 5 years
- Computer software: 2-3 years
- Patents: 8-15 years

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

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

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.

Contract liabilities

Contract liabilities represent the Group'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.

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.

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.

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.

Note 3. Significant accounting policies (continued)

(ii) Long-term employee benefits

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

(iii) Defined contribution plans

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

(iv) Share-based payment arrangements

The fair value of performance rights and options granted is recognised as an employee expense with a corresponding increase in equity, on a straight-line monthly basis over the vesting period in which the performance and/or service conditions are fulfilled after which the employee becomes unconditionally entitled to them. The cumulative expense recognised for share-based payments at each reporting date until the vesting date reflects the extent to which the vesting period has ended and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of the period. No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting are conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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.

Note 3. Significant accounting policies (continued)

(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, 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.

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.

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.

Note 3. Significant accounting policies (continued)

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 consider in pricing a transaction.

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.

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.

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.

Note 4. Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2023 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) AASB 17 Insurance Contracts
- (2) Classification of Liabilities as Current or Non-current (*AASB 2020-1 Amendments to Australian Accounting Standards*)
- (3) Annual Improvements 2018-2020 and Other Amendments (*AASB 2020-3 Amendments to Australian Accounting Standards*)
- (4) Classification of Liabilities as Current or Non-current – Deferral of Effective Date (*AASB 2020-6 Amendments to Australian Accounting Standards*)
- (5) Disclosure of Accounting Policies and Definition of Accounting Estimates (*AASB 2021-2 Amendments to Australian Accounting Standards*)
- (6) Deferred Tax related to Assets and Liabilities arising from a Single Transaction (*AASB 2021-5 Amendments to Australian Accounting Standards*)
- (7) Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards (*AASB 2021-6 Amendments to Australian Accounting Standards*)
- (8) Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections (*AASB 2021-7a, b and c Amendments to Australian Accounting Standards*)
- (9) Initial Application of AASB 17 and AASB 9 – Comparative Information (*AASB 2021-1 Amendments to Australian Accounting Standards*)

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Note 5. Revenue

	Consolidated	
	2022	2021
	\$	\$
Revenue from contracts with customers	<u>11,712,722</u>	<u>8,947,591</u>

Identification of reporting operating segments

The Group operates in one operational segment, based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers (CODM)) in assessing performance and in determining the allocation of resources. The one operational segment operates over two geographical segments, North America and Australia and New Zealand.

	North America \$	Australia and New Zealand \$	Total \$
Year ended 31 December 2022			
Revenue from contracts with customers	11,009,151	703,571	11,712,722
Segment assets	8,237,427	4,354,973	12,592,400
Segment liabilities	2,949,117	1,607,560	4,556,677
Segment loss	(6,765,412)	(5,917,901)	(12,683,313)

	North America \$	Australia and New Zealand \$	Total \$
Year ended 31 December 2021			
Revenue from contracts with customers	8,854,153	93,438	8,947,591
Segment assets	8,155,415	5,621,935	13,777,350
Segment liabilities	1,901,704	1,130,524	3,032,228
Segment loss	(5,831,533)	(3,518,105)	(9,349,638)

Major customers

Revenues from two major customers of the Group represented 43% (2021: 78%) of the Group's total revenue.

Note 6. Other income

	Consolidated	
	2022	2021
	\$	\$
Government assistance – Covid-19	-	130,656
Other income	<u>37,870</u>	<u>16,456</u>
Other income	<u>37,870</u>	<u>147,112</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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Note 7. Depreciation and amortisation

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

	Consolidated	
	2022	2021
	\$	\$
Included in selling and distribution expenses		
Depreciation and amortisation	30,609	23,811
Included in research and development expenses		
Depreciation and amortisation	653,349	567,984
Included in administrative expenses		
Depreciation and amortisation	213,143	198,477

Note 8. Other expenses

	Consolidated	
	2022	2021
	\$	\$
Loss on sale of fixed asset	1,475	8,057
Impairment loss on intangibles	44,083	7,576
	<u>45,558</u>	<u>15,633</u>

Note 9. Employee expenses

	Consolidated	
	2022	2021
	\$	\$
Salaries and wages	10,075,827	7,338,288
Contributions to defined contribution funds	43,499	43,564
Share-based payments	8,750	113,620
	<u>10,128,076</u>	<u>7,495,472</u>

As part of employee compensation, the Group offers medical insurance to certain employees in certain geographies (2022:\$1,040,228, 2021:\$759,048). These insurance amounts are not included in the above figures.

Note 10. Finance income

	Consolidated	
	2022	2021
	\$	\$
Interest income	12,720	16,515
Net foreign exchange gain	35,578	126,385
	<u>48,298</u>	<u>142,900</u>

Note 11. Finance costs

	Consolidated	
	2022	2021
	\$	\$
Interest expense on lease liabilities	28,603	16,476

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Note 12. 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:

	Consolidated	
	2022	2021
	\$	\$
<i>Income tax expense</i>		
Current tax	-	-
Deferred tax	-	-
Aggregate income tax expense	<u>-</u>	<u>-</u>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Reconciliation of income tax to accounting profit:		
Loss before income tax expense	(12,683,312)	(9,349,639)
Tax at the statutory tax rate of 25% (2021: 26%)	(3,170,828)	(2,430,906)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Permanent differences	24,231	(23,777)
Effect of tax rate in foreign jurisdictions	(264,232)	(319,306)
Tax losses not brought to account	3,410,829	2,968,169
Prior period over/(under) provision	-	(194,180)
Income tax expense	<u>-</u>	<u>-</u>

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

	Consolidated	
	2022	2021
	\$	\$
Australia gross unused tax losses (in AUD)	52,469,578	43,126,968
USD gross unused tax losses (in USD)	34,495,776	27,889,973

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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Note 12. Income tax expense (continued)

Australian entities

Movement in deferred tax assets and liabilities using the Company's domestic Australian tax rate of 26%

	Opening balance	Recognised in profit or loss	Closing balance
	\$	\$	\$
2022 cost			
Intangibles	(555,043)	40,596	(514,447)
Employee benefits	30,295	(5,102)	25,193
Accrued expenses	45,011	(12,367)	32,644
Deferred revenue	357,373	(82,471)	274,902
Unused tax losses carried forward	7,161,233	1,347,152	8,508,385
Other items	(47,486)	(4,786)	(52,272)
Deferred tax assets not recognised	(6,991,383)	(1,283,022)	(8,274,405)
Deferred tax assets/(liabilities)	-	-	-
2021 cost			
Intangibles	(520,105)	(34,938)	(555,043)
Employee benefits	23,803	6,492	30,295
Accrued expenses	9,255	35,756	45,011
Deferred revenue	903,118	(545,745)	357,373
Unused tax losses carried forward	6,149,970	1,011,263	7,161,233
Other items	(39,484)	(8,002)	(47,486)
Deferred tax assets not recognised	(6,526,557)	(464,826)	(6,991,383)
Deferred tax assets/(liabilities)	-	-	-

US entities

Movement in deferred tax assets and liabilities using the US tax rate of 21%

	Opening balance	Recognised in profit or loss	Closing balance
	\$	\$	\$
2022 cost			
Intangibles	(83,520)	9,570	(73,950)
Employee benefits	2,181	2,908	5,089
Accrued expenses	83,282	73,025	156,307
Unused tax losses carried forward	5,856,894	1,387,219	7,244,113
Other items	(39,415)	10,997	(28,418)
Deferred tax asset not recognised	(5,819,422)	(1,483,719)	(7,303,141)
Deferred tax assets/(liabilities)	-	-	-
2021 cost			
Intangibles	(117,566)	34,046	(83,520)
Employee benefits	1,075	1,106	2,181
Accrued expenses	104,118	(20,836)	83,282
Unused tax losses carried forward	5,698,521	158,373	5,856,894
Other items	(40,289)	874	(39,415)
Deferred tax asset not recognised	(5,645,859)	(173,563)	(5,819,422)
Deferred tax assets/(liabilities)	-	-	-

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Notes to the consolidated financial statements
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Note 13. Cash and cash equivalents

	Consolidated	
	2022	2021
	\$	\$
<i>Current assets</i>		
Cash at bank	5,073,625	7,000,869

Reconciliation of cash flows from operating activities

	Consolidated	
	2022	2021
	\$	\$
Loss for the year	(12,683,312)	(9,349,639)
Adjustments for:		
Depreciation and amortisation	897,101	790,272
Share based payments (note 9)	8,750	113,620
Unrealised foreign currency translation gain/(loss)	25,806	(101,651)
Interest expense on right-of-use assets (note 20)	20,827	16,476
Loss on sale of fixed asset (note 8)	1,475	8,057
Impairment of intangible assets (note 19)	44,083	7,576
Operating loss before changes in working capital and provisions	(11,685,270)	(8,515,289)
Change in operating assets and liabilities		
Change in trade and other receivables	(807,827)	2,498,905
Change in inventories	556,918	(389,361)
Change in other current assets	(455,474)	(56,049)
Change in trade and other payables	806,350	109,884
Change in provisions	70,436	(2,891)
Change in contract liabilities	(274,903)	(1,909,553)
	(104,500)	250,935
Net cash from operating activities	(11,789,770)	(8,264,354)

Note 14. Trade and other receivables

	Consolidated	
	2022	2021
	\$	\$
<i>Current assets</i>		
Trade receivables	1,596,417	865,831
Other receivables	142,506	21,380
	<u>1,738,923</u>	<u>887,211</u>
<i>Non-current assets</i>		
Security deposit	<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 expected credit loss to be insignificant.

Information about the Group's exposure to credit and market risks, and impairment losses for trade receivables is included in Note note 36 (c).

Next Science Limited
Notes to the consolidated financial statements
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Note 15. Inventories

	Consolidated	2021
	2022	2021
	\$	\$
<i>Current assets</i>		
Finished goods - at cost	617,540	987,457
Raw materials – at cost	386,470	573,472
Less: Provision for obsolete stock	<u>(132,744)</u>	<u>(60,407)</u>
	<u>871,266</u>	<u>1,500,522</u>

Note 16. Other current assets - term deposits

	Consolidated	2021
	2022	2021
	\$	\$
<i>Current assets</i>		
Term deposits	<u>37,789</u>	<u>367,129</u>

Note 17. Other current assets - other

	Consolidated	2021
	2022	2021
	\$	\$
<i>Current assets</i>		
Prepayments and other assets	<u>541,506</u>	<u>476,049</u>

Note 18. Property, plant and equipment

	Consolidated	2021
	2022	2021
	\$	\$
<i>Non-current assets</i>		
Leasehold improvements - at cost	361,222	199,754
Less: Accumulated depreciation	<u>(85,011)</u>	<u>(74,611)</u>
	<u>276,211</u>	<u>125,143</u>
Plant and equipment - at cost	1,188,504	1,158,763
Less: Accumulated depreciation and impairment	<u>(848,804)</u>	<u>(680,804)</u>
	<u>339,700</u>	<u>477,959</u>
Furniture, fixtures and fittings - at cost	286,892	250,905
Less: Accumulated depreciation and impairment	<u>(205,955)</u>	<u>(170,445)</u>
	<u>80,937</u>	<u>80,460</u>
	<u>696,848</u>	<u>683,562</u>

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Notes to the consolidated financial statements
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Note 18. Property, plant and equipment (continued)

Reconciliations

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

Consolidated	Leasehold improvements \$	Plant and equipment \$	Furniture and fittings \$	Total \$
Balance at 1 January 2021	138,551	547,856	101,726	788,133
Additions	-	123,112	17,380	140,492
Disposals	-	(7,847)	(210)	(8,057)
Depreciation expense	(13,411)	(185,164)	(38,436)	(237,011)
Foreign exchange movements	3	2	-	5
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 1 January 2022	125,143	477,959	80,460	683,562
Additions	162,885	51,010	35,987	249,882
Disposals	-	(1,475)	-	(1,475)
Depreciation expense	(11,817)	(187,794)	(35,510)	(235,121)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2022	<u>276,211</u>	<u>339,700</u>	<u>80,937</u>	<u>696,848</u>

Note 19. Intangible assets

	Consolidated	
	2022	2021
	\$	\$
<i>Non-current assets</i>		
Capitalised development - at cost	2,139,440	1,972,054
Less: Accumulated amortisation and impairment	(770,862)	(486,796)
	<hr/>	<hr/>
	1,368,578	1,485,258
Patents and trademarks - at cost	1,675,632	1,507,814
Less: Accumulated amortisation and impairment	(634,280)	(461,218)
	<hr/>	<hr/>
	1,041,352	1,046,596
Computer software - at cost	117,613	121,701
Less: Accumulated amortisation	(117,613)	(121,064)
	<hr/>	<hr/>
	-	637
	<hr/>	<hr/>
	<u>2,409,930</u>	<u>2,532,491</u>

Next Science Limited
Notes to the consolidated financial statements
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Note 19. Intangible assets (continued)

Reconciliations

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

Consolidated	Capitalised development \$	Patents and trade marks \$	Computer software \$	Total \$
Balance at 1 January 2021	1,371,189	962,110	1,637	2,334,936
Additions	356,949	219,317	-	576,266
Impairment of assets	(7,576)	-	-	(7,576)
Amortisation expense	(235,304)	(134,831)	(1,000)	(371,135)
Balance at 1 January 2022	1,485,258	1,046,596	637	2,532,491
Additions	218,927	167,817	-	386,744
Impairment of assets	(44,083)	-	-	(44,083)
Amortisation expense	(291,524)	(173,061)	(637)	(465,222)
Balance at 31 December 2022	<u>1,368,578</u>	<u>1,041,352</u>	<u>-</u>	<u>2,409,930</u>

Note 20. Right-of-use assets

The Group holds leases for properties with lease terms ranging from 3 to 5 years.

	Consolidated 2022 \$	2021 \$
<i>Non-current assets</i>		
Property - right-of-use	1,682,210	668,314
Less: Accumulated depreciation	(629,097)	(435,858)
	<u>1,053,113</u>	<u>232,456</u>

There was a significant change in the current period with an amendment to the US Jacksonville Greystone Park Commercial Lease on 17 June 2022. The amendment resulted in the recognition of an additional right-of-use asset of \$1,025,617.

	Consolidated 2022 \$	2021 \$
<i>Amounts recognised in profit or loss</i>		
Depreciation expense	196,757	182,127
Interest expense	28,603	16,476
Expense relating to variable lease payments not included in the measurement of the lease liability	89,511	89,146
	<u>314,871</u>	<u>287,749</u>

The total cash outflow in relation to lease payments amounted to \$253,229 (2021: \$212,759).

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Note 20. Right-of-use assets (continued)

Movement	Property \$
Balance at 1 January 2021	227,265
Additions	186,161
Depreciation expense	(182,127)
Foreign exchange movements	1,157
Closing value at 31 December 2021	<u>232,456</u>
Balance at 1 January 2022	232,456
Additions	1,025,617
Depreciation expense	(196,757)
Foreign exchange movements	(8,203)
Closing value at 31 December 2022	<u>1,053,113</u>

Note 21. Trade and other payables

	Consolidated	
	2022	2021
	\$	\$
<i>Current liabilities</i>		
Trade payables	973,665	515,579
Other payables and accrued expenses	1,005,681	657,417
	<u>1,979,346</u>	<u>1,172,996</u>

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

Note 22. Contract liabilities

	Consolidated	
	2022	2021
	\$	\$
<i>Current liabilities</i>		
Contract liabilities	<u>274,902</u>	<u>91,177</u>
<i>Non-current liabilities</i>		
Contract liabilities	<u>824,706</u>	<u>1,283,334</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.

Note 23. Lease liabilities

	Consolidated	
	2022	2021
	\$	\$
<i>Current liabilities</i>		
Lease liability	<u>257,912</u>	<u>166,235</u>
<i>Non-current liabilities</i>		
Lease liability	<u>962,060</u>	<u>109,802</u>

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Note 23. Lease liabilities (continued)

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be paid after the reporting date:

	Consolidated	
	2022	2021
	\$	\$
<i>Maturity analysis</i>		
Not later than 1 year	306,736	173,402
Later than 1 year but not later than 5 years	1,043,232	113,736
Later than 5 years	-	-
	<u>1,349,968</u>	<u>287,138</u>

Note 24. Employee benefits

	Consolidated	
	2022	2021
	\$	\$
<i>Current liabilities</i>		
Liability for annual leave	<u>94,811</u>	<u>109,611</u>
<i>Non-current liabilities</i>		
Liability for long service leave	<u>30,194</u>	<u>17,295</u>

Note 25. Share capital

	Fully paid
In number of shares	
Balance as at 1 January 2021	194,201,409
Shares issued in March 2021 on conversion of employee share options (i)	84,500
Shares issued in April 2021 on conversion of employee share options (ii)	3,250,000
Shares issued in May 2021 on conversion of employee share options (iii)	438,000
Balance as at 31 December 2021	<u>197,973,909</u>
Balance as at 1 January 2022	197,973,909
Shares issued in February 2022 on conversion of employee performance shares (iv)	113,534
Shares issued in February 2022 on conversion of employee share options (v)	78,000
Placement in March 2022 (vi)	6,666,667
Shares purchase plan in March 2022 (vii)	5,513,579
Placement in May 2022 (viii)	4,444,445
Balance as at 31 December 2022	<u>214,790,134</u>

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Notes to the consolidated financial statements
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Note 25. Share capital (continued)

	Fully paid \$
Balance at 1 January 2021	101,281,467
Shares issued in March 2021 (on conversion of employee share options) (i)	35,490
Shares issued in April 2021 (on conversion of employee share options) (ii)	1,365,000
Shares issued in May 2021 (on conversion of employee share options) (iii)	245,280
Capital raising costs	(6,230)
Balance at 31 December 2021	<u>102,921,007</u>
Balance at 1 January 2022	102,921,007
Shares issued in February 2022 on conversion of employee performance shares (iv)	105,000
Shares issued in February 2022 on conversion of employee share options (v)	32,760
Placement in March 2022 (vi)	4,382,730
Shares purchase plan in March 2022 (vii)	3,597,370
Placement in May 2022 (viii)	2,873,300
Capital raising costs	(385,634)
Balance at 31 December 2022	<u>113,526,533</u>

(i) On 18 March 2021, 84,500 round 3 Equity Incentive Plan (ECP) employee share options converted to 84,500 ordinary shares at a price of AUD\$0.54.

(ii) Between 13 April 2021 and 15 April 2021, 3,250,000 round 3 Equity Incentive Plan (ECP) employee share options converted to 3,250,000 ordinary shares at a price of AUD\$0.55.

(iii) On 3 May 2021, 438,000 round 4 Equity Incentive Plan (ECP) employee share options converted to 438,000 ordinary shares at a price of AUD\$0.72.

(iv) In February 2022, 113,534 performance rights converted into 113,534 ordinary shares at a fair value of USD\$0.92 per share.

(v) In February 2022, 78,000 round 3 Equity Incentive Plan (ECP) employees share options converted to 78,000 ordinary shares at a price of A\$0.58.

(vi) In March 2022, Next Science raised A\$6,000,000 via a Placement at A\$0.90 per share.

(vii) In March 2022, Next Science raised A\$4,796,814 via a Share Purchase Plan at A\$0.87 per share.

(viii) In May 2022, Next Science raised A\$4,000,000 via a Placement at A\$0.90, approved by shareholders at the annual general meeting held on 27 May 2022.

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.

Capital management

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

Next Science Limited
Notes to the consolidated financial statements
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Note 26. Reserves

	Consolidated	
	2022	2021
	\$	\$
Share option reserve	2,140,298	2,140,298
Foreign currency translation reserve	(1,905,877)	(1,349,143)
Common control reserve	(42,596,715)	(42,596,715)
Performance rights reserve	-	96,250
	<u>(42,362,294)</u>	<u>(41,709,310)</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) was 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.

Note 27. Dividends

Dividends

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

Dividend franking account

The Company has franking credits available to shareholders of Nil.

Note 28. Parent entity information

As at, and throughout, the financial year to 31 December 2022 the parent entity of the Group was Next Science Limited.

Statement of profit or loss and other comprehensive income

	Parent	Parent
	2022	2021
	\$	\$
Loss after income tax	(13,713,271)	(10,733,399)
Other comprehensive income	(685,101)	(478,466)
Total comprehensive loss	<u>(14,398,372)</u>	<u>(11,211,865)</u>

Next Science Limited
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Note 28. Parent entity information (continued)

Statement of financial position

	Parent 2022	Parent 2021
	\$	\$
<i>Assets</i>		
Total current assets	3,877,713	4,033,709
Total non-current assets	9,938,727	13,308,038
Total assets	<u>13,816,440</u>	<u>17,341,747</u>
<i>Liabilities</i>		
Total current liabilities	(815,428)	(451,638)
Total non-current liabilities	-	-
Total liabilities	<u>(815,428)</u>	<u>(451,638)</u>
Total net assets	<u>13,001,012</u>	<u>16,890,109</u>
<i>Equity</i>		
Share capital	113,526,531	102,921,005
Reserves	(26,799,557)	(26,018,205)
Accumulated losses	(73,725,962)	(60,012,691)
Total equity	<u>13,001,012</u>	<u>16,890,109</u>

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 2022 and 31 December 2021.

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2022 and 31 December 2021.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2022 and 31 December 2021.

Significant accounting policies

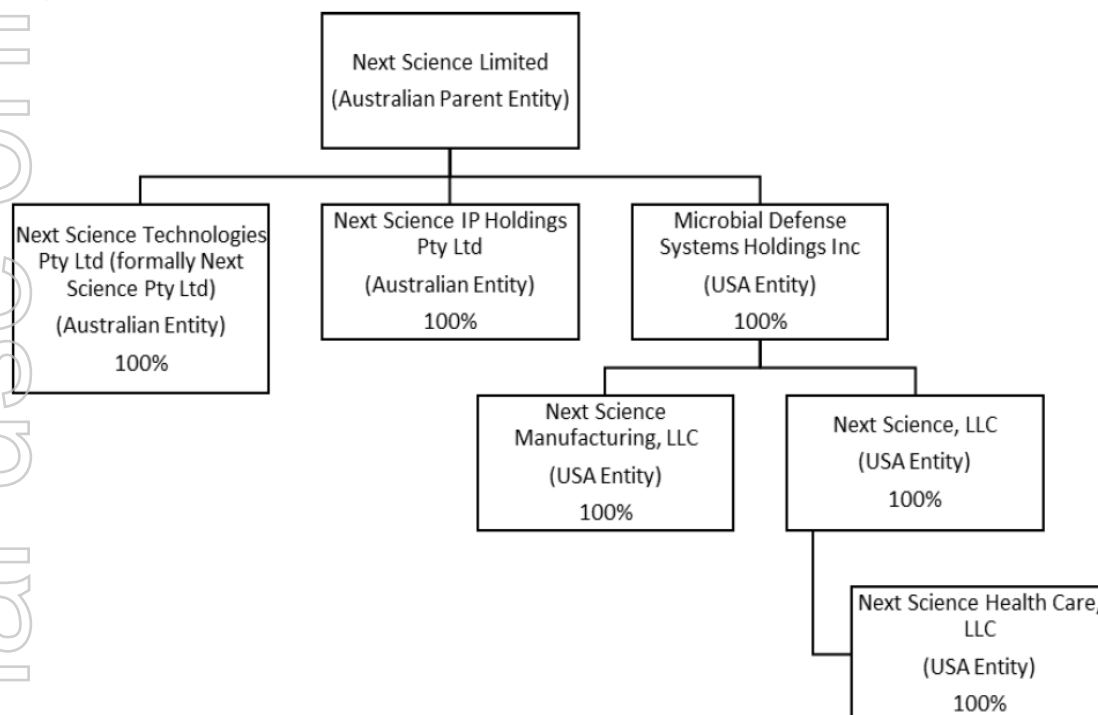
The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 3, except for the following:

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

Next Science Limited
Notes to the consolidated financial statements
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Note 29. Group entities

Set out below is the Group structure listing all subsidiaries as at 31 December 2022.



Note 30. Related party transactions

(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:

	Consolidated	
	2022	2021
	\$	\$
Short term employee benefits	1,630,151	1,849,829
Other long term employee benefits	11,347	6,822
Post employment benefits	41,913	42,371
Share based payment benefits	8,750	113,620
Total	1,692,161	2,012,642

Short term employee benefits

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

Post-employment benefits

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

Next Science Limited
Notes to the consolidated financial statements
31 December 2022

Note 30. Related party transactions (continued)

(b) Key management personnel transactions

KMPs of the Company hold 9.48% (2021: 11.02%) of the issued capital of the Company as at 31 December 2022.

Note 31. 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 2022, there are 2,812,000 options over ordinary shares on issue (2021: 2,890,000 options), representing 1.31% (2021: 1.46%) of the Company's total share capital, granted to the employees and Directors of the Company.

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

Grant date and vesting conditions (i)	Expiry date	No of options as at 31 Dec 2021			No of options as at 31 Dec 2022		Vested as at 31 Dec 2022
		Granted	Exercised (ii)	Lapsed	Granted	Lapsed	
16-Apr-18 (1)	16-Apr-22	78,000	-	(78,000)	-	-	-
17-Dec-18 (2)	17-Dec-23	1,820,000	-	-	1,820,000	-	1,820,000
17-Dec-18 (1)	17-Dec-23	992,000	-	-	992,000	-	992,000
Totals		2,890,000	-	(78,000)	2,812,000	-	2,812,000

(i) Vesting conditions are as follows:

- (1) 2 years' service from grant date
- (2) 3 years' service from grant date

(ii) The weighted average share price for the options exercised during the year was USD \$0.42 (2021: USD \$0.44).

As at 31 December 2022, 2,812,000 options have vested (2021: 2,890,000)

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:

	16-Apr-18	Grant date 17-Dec-18
FV at grant date (USD)	0.20-0.22	0.33
Share price at grant date (USD)	0.42	0.56
Exercise price (USD)	0.42	0.56
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.

The fair value of the performance rights granted to Dustin Haines is deemed to represent the value of Dustin Haines's services received over the vesting period. These values were calculated applying the following inputs to performance rights issued:

Next Science Limited
Notes to the consolidated financial statements
31 December 2022

Note 31. Share based employee incentive arrangements (continued)

	Performance rights
Grant date	22 February 2021
Weighted average fair value per performance right	USD \$0.9248
Number of performance rights issued	340,602
Remaining life of the performance rights	3 years

The fair value of performance rights was measured as the 60 day volume weighted average share price of Next Science Limited shares prior to the performance rights being issued.

Note 32. Contingent liabilities and capital commitments

The Group has no contingent liabilities as at 31 December 2022.

The Group has no capital commitments as at 31 December 2022 (2021: nil).

Note 33. Events occurring after the reporting date

On 2 February 2023 shareholders approved the issue of A\$10,000,000 Secured Convertible Notes with major shareholder, Walker Group Holdings Pty Ltd, with a maturity date 21 months after the issue date at a conversion price of A\$0.72 per security.

Each Note accrues interest at a rate of 10% per annum if the Notes are redeemed (and payable in one instalment only on redemption) or at a rate of 5% per annum if the Notes are converted (and capitalised into additional shares on conversion). If converted, the shares rank pari passu with existing ordinary shares.

Next Science Limited's obligations under the Secured Convertible Note Deed are to be secured over the Company and all of the Company's property under a General Security Agreement.

In accordance with the Secured Convertible Note Deed, Walker Group Holdings Pty Ltd may at any time after the issue date until 31 October 2023, give notice to Next Science Limited that it wishes to convert all of the Notes to conversion shares.

If the Notes are not converted by 31 October 2023, Next Science Limited must redeem the Notes on the maturity date, unless Next Science Limited gives notice of early redemption to Walker Group Holdings Pty Ltd.

The Notes are non-transferrable.

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, other than those matters detailed above, of a material and unusual nature likely, in the opinion of the directors of the Company, 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.

Next Science Limited
Notes to the consolidated financial statements
31 December 2022

Note 34. Remuneration of auditors

	Consolidated	Consolidated
	2022	2021
	\$	\$
<i>Audit and assurance related services</i>		
<i>KPMG Australia</i>		
Audit of financial statements	97,485	82,466
<i>Other services</i>		
<i>KPMG Australia</i>		
Taxation services	10,171	11,602
Other services	7,142	10,494
Total other services	17,313	22,096
Total auditor's remuneration	114,798	104,562

Note 35. Earnings per share

	Consolidated	Consolidated
	2022	2021
	\$	\$
Loss after income tax	(12,683,312)	(9,349,639)
	Number	Number
Weighted average number of shares	210,468,045	196,882,812
	Cents	Cents
Basic earnings per share	(6.03)	(4.75)
Diluted earnings per share	(6.03)	(4.75)

Note 36. Financial risk management

(a) Overview

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

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

(b) Risk management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework with assistance from the Audit and Risk Committee (as detailed below). The Group's risk management framework has been established to identify and analyse the material risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to the risk appetite set by the Board. The Group's risk management framework is reviewed at least annually by the Audit and Risk Committee and the consideration of changes in the Group's risk profile and mitigating actions and controls is a standing item at Audit and Risk Committee meetings.

Audit and Risk Committee

The Audit and Risk Committee responsibilities in relation to risk management are to:

Note 36. Financial risk management (continued)

- (a) oversee the establishment, and maintenance by management, of processes to ensure that there is an adequate and effective system to identify and manage material business risks;
- (b) monitor the Group's Risk Register to confirm that key risks have been identified and adequate controls are in place to mitigate risks so far as reasonably practicable;
- (c) receive reports from management on new and emerging sources of risk and the proposed risk controls to mitigate those risks;
- (d) receive reports from management and the external auditor on any material incident involving fraud or a breakdown of the Group's risk controls and the lessons learned;
- (e) review, at least annually, the Group's risk management framework to confirm that it continues to be sound and that the Group is operating with due regard to the risk appetite set by the Board;
- (f) monitor the need for, and if considered necessary, require, an internal or external audit of critical areas of risk;
- (g) oversee the establishment of procedures for the receipt, handling and investigation of whistleblower disclosures;
- (h) oversee the establishment of, and monitor, assurance mechanisms for monitoring:
 - the Group's culture and compliance with the Group's Values; and
 - compliance with the Group's corporate governance policies and procedures, contractual obligations and the laws applicable to the Group and its operations;
- (i) oversee the Group's annual insurance program, having regard to the Group's business and the insurable risks within its business;
- (j) assess the adequacy of controls, including disaster recovery and business continuity plans, for preserving and re-establishing financial and operational information in the event of a disaster; and
- (k) review and make recommendations to the Board in relation to public disclosures made by the Group regarding material business risks.

The Board considers the Group's risk management framework to be appropriate for the size and level of operations of the Group.

(c) Credit risk

Cash and cash equivalents

The Group held cash and cash equivalents of USD \$5,073,625 and USD \$37,789 in term deposits at 31 December 2022 (2021: USD \$7,000,869 in cash and USD \$367,129 in term deposits). The cash and cash equivalents are held with credit worthy bank and financial counterparties. The expected credit loss of each of these banks and counterparties are considered to be extremely low; accordingly any expected credit losses are deemed to be insignificant.

Trade receivables and contract assets

Credit risk on trade receivables is the risk of financial loss if a customer fails to meet its contractual obligations.

The carrying amounts of financial assets represents the maximum credit exposure.

Maximum exposure to credit risk for trade receivables by type of counterparty was as follows:

Next Science Limited
Notes to the consolidated financial statements
31 December 2022

Note 36. Financial risk management (continued)

	Consolidated	
	2022	2021
	\$	\$
Distribution & Licensing Partners	867,065	593,644
Hospitals & Surgery Centres	526,897	272,187
Prescribing Physicians	202,455	-
	<u>1,596,417</u>	<u>865,831</u>

As at 31 December 2022, Zimmer Surgical Inc (worldwide) accounted for over 47% of the trade receivables (2021: Zimmer Surgical Inc accounted for over 67% of the trade receivables).

(i) Risk management

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. Details of concentration of revenue are included in note 5.

The Audit and Risk Committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review of new customers includes customer due diligence and credit agency information (Dun & Bradstreet Corporation), if available. Sale limits are established for each customer and reviewed periodically. Any sales exceeding those limits require approval according to an approval matrix.

The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual hospital or surgery centre or whether they are a distribution partner with which Next Science has a licensing or distribution agreement. Further consideration is given to their geographic location and trading history with the Group and existence of any previous financial difficulties.

Next Science Limited
Notes to the consolidated financial statements
31 December 2022

Note 36. Financial risk management (continued)

(ii) Impaired trade receivables

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indications of this include significant financial difficulties of the debtor, the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for an extensive period of time.

Impairment losses are recognised in the profit or loss statement within selling and distribution expenses. Subsequent recoveries of amounts previously written off are credited against selling and general expenses.

As at 31 December 2022, trade receivables with a nominal value of \$Nil (2021: Nil) were considered impaired and fully provided for.

(iii) Past due not impaired

As at 31 December 2022, trade receivables of \$56,315 (2021: \$67,247) were past due but not impaired. These relate to customers for whom there is no recent history of default.

The aging analysis of trade receivables is as follows:

	Consolidated	
	2022	2021
	\$	\$
0 - 30 days	1,269,546	781,855
31 - 60 days	281,858	62,302
61 - 90 days	35,791	21,006
91 - 120 days	9,222	668
More than 120 days	-	-
Total	<u>1,596,417</u>	<u>865,831</u>

(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.

Next Science Limited
Notes to the consolidated financial statements
31 December 2022

Note 36. Financial risk management (continued)

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.

	Less than 6 months \$	6-12 months \$	Between 1 and 5 years \$	Total contracted amounts \$
As 31 December 2022				
Trade and other payables	1,979,346	-	-	1,979,346
Lease liabilities	151,550	155,185	1,043,232	1,349,967
Total	<u>2,130,896</u>	<u>155,185</u>	<u>1,043,232</u>	<u>3,329,313</u>
As 31 December 2021				
Trade and other payables	1,172,996	-	-	1,172,996
Lease liabilities	115,361	58,042	113,736	287,139
Total	<u>1,288,357</u>	<u>58,042</u>	<u>113,736</u>	<u>1,460,135</u>

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.

Next Science Limited
Notes to the consolidated financial statements
31 December 2022

Note 36. Financial risk management (continued)

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 \$13,032 (2021: \$42,906). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Currency risk

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

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

	Consolidated	
	2022	2021
	\$	\$
AUD financial assets converted to USD	1,402,132	4,006,776
AUD financial liabilities converted to USD	<u>(346,097)</u>	<u>(300,868)</u>
Net exposure in statement of financial position	<u><u>1,056,035</u></u>	<u><u>3,705,908</u></u>

A reasonably possible strengthening (weakening) of the United States Dollar against all other currencies at 31 December 2022 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.

	% Change	Profit before tax strengthen	Profit before tax weaken	Equity strengthen	Equity weaken
	\$	\$	\$	\$	\$
2022					
Australian Dollars	10%	<u>105,604</u>	<u>(105,604)</u>	<u>105,604</u>	<u>(105,604)</u>
2021					
Australian Dollars	10%	<u>370,591</u>	<u>(370,591)</u>	<u>370,591</u>	<u>(370,591)</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
Directors' declaration
31 December 2022

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 24 to 62 and the Remuneration Report on pages 10 to 22 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 2022 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 Group 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 2022.
3. The Directors draw attention to Note 2 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of Directors:



Mark Compton, AM
Chair

28 February 2023



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 2022 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 2022;
- 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; and
- 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 these requirements.

For personal use only

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 11,712,722

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; • The Group has manual processes and controls which may increase the risk of error 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"> • Reviewed new and modified contracts and considered management’s assessment of revenue recognition in accordance with AASB 15 – Revenue from contracts with customers • Evaluated the appropriateness of the Group’s revenue recognition policies against the requirements of AASB 15 Revenue from Contracts with Customers. • Obtained an understanding of and assessed management’s recognition and estimation of revenue from the new collagen products (DME) through examination of the underlying arrangements and substantive sampling • 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, underlying sales invoices and bank statement cash receipts. • For the calculation of deferred revenue, we reviewed the calculation based on the remaining life of the contract with reference to

	<p>the underlying customer contract including the contract modification during the year relating to the Bactisure contract with Zimmer.</p> <ul style="list-style-type: none"> 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.
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Other Information

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

The Other Information we obtained prior to the date of this Auditor’s Report was the Directors’ Report, Remuneration Report and Corporate Directory. The Our Purpose Page, Chairman’s Letter, Managing Director’s Report, Investor Information 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 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; and

- Assessing the Group'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 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 2022, 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 22 of the Directors' report for the year ended 31 December 2022.

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



KPMG



Kevin Leighton

Partner

Sydney

28 February 2023

**Next Science Limited
Corporate Directory
31 December 2022**

Directors

Independent Non-Executive Chairman:

Mark Compton

Managing Director:

Judith Mitchell

Non-Executive Directors:

Bruce Hancox

Daniel Spira

Aileen Stockburger

Company Secretary

Gillian Nairn

Registered office

Suite 1902
Level 19
Tower A
The Zenith Building
821 Pacific Highway
Chatswood
NSW 2067

Share register

Link Market Services Limited
Level 12
680 George Street
Sydney
NSW 2000

Auditor

KPMG Australia
300 Barangaroo Avenue
Sydney
NSW 2000

Solicitors

HWL Ebsworth Lawyers
Level 14
Australia Square
264-278 George Street
Sydney
NSW 2000

Stock exchange listing

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

Website

www.nextscience.com

Corporate governance statement

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