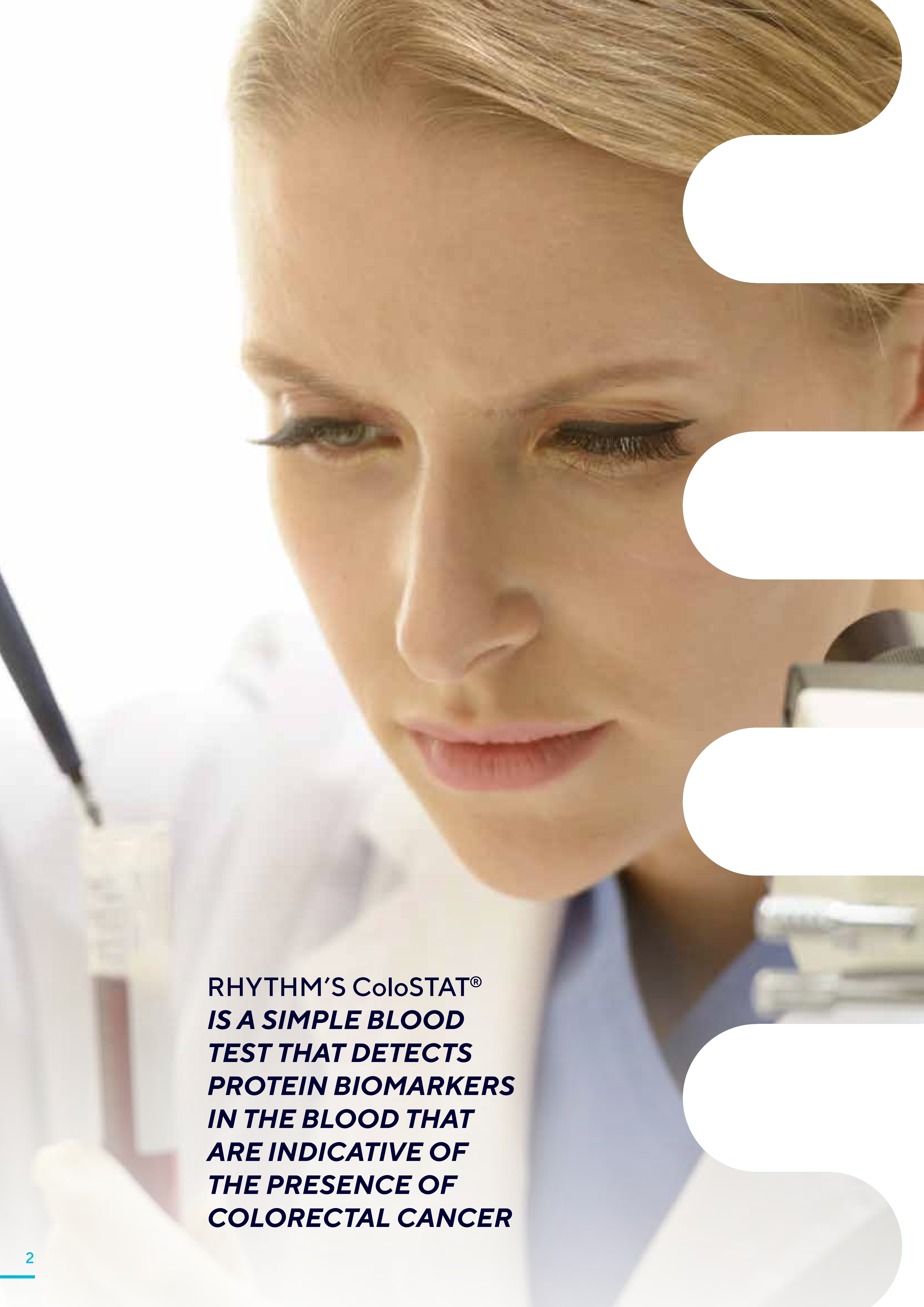
RHYTHM™
BIOSCIENCES

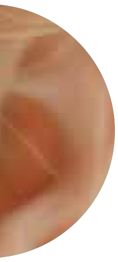
2021 ANNUAL REPORT

RHYTHM BIOSCIENCES LIMITED

ACN 619 459 335



RHYTHM'S ColoSTAT®
IS A SIMPLE BLOOD TEST THAT DETECTS PROTEIN BIOMARKERS IN THE BLOOD THAT ARE INDICATIVE OF THE PRESENCE OF COLORECTAL CANCER



Contents

RHYTHM BIOSCIENCES IS HITTING ITS MILESTONES

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- Advanced the ColoSTAT® Clinical Trial (Study 7)
- Patents granted in the US and China
- Core technology technically validated
- Global manufacturer appointed
- Study 6 delivered with exceptional results
- ISO certification maintained

REMAINS ON TRACK FOR FUTURE MILESTONES

Completion of Clinical Trial (Study 7)

Platform Technology Expansion

CE Mark (Europe)

TGA (Australia)

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Market Entry

ABOUT RHYTHM BIOSCIENCES

Rhythm Biosciences is focused on becoming a globally significant, transformative diagnostics company, specialising in cancer detection technology. The Company is currently developing ColoSTAT® – a simple, low-cost, blood test for global mass market detection of colorectal cancer.

Worldwide, colorectal cancer is the third most common cancer in men and the second most common in women, accounting for an estimated 1.9 million new cases and approximately 935,000 deaths annually.

In an effort to reduce the global burden, many countries have implemented screening programs aimed at early detection. These programs are predominantly administered with a faecal immunochemical test (FIT) for the assessment of colorectal cancer risk, with a positive result referred for a colonoscopy. FIT analyses the presence of blood in faeces, which can occur for several reasons other than cancer, therefore it is not designed as an accurate test for cancer. Many people simply don't take the test for fear of an unnecessary colonoscopy procedure, unpleasantness, difficulty, or for religious/cultural reasons. There is currently no appropriate simple blood test alternative.

Rhythm aims to transform the global colorectal cancer diagnostics market with its simple, low cost blood test that is fit for purpose, meaning that it is designed to actually detect colorectal cancer. Since listing on the ASX in late 2017, the Company has run a successful multi-year research and development program that has successfully delivered technical validation of the core biomarker technology, ensuring it is reproducible and stable. The ColoSTAT® test-kit was manufactured in 2021 and delivered performance testing that outperforms the current market standard faecal immunochemical test (FIT) utilising Rhythm's proprietary algorithm. The Company is currently finalising its clinical trial (Study 7) for ColoSTAT®, and is progressing regulatory, manufacturing and scale up activities ahead of market entry in 2022.

Rhythm's targeted global addressable population is over 800 million people which are over 50 years of age. Almost 70%, or 550 million people, are not currently screened for colorectal cancer due to the limitations of the current faecal based testing regime. This "at risk" population is also expanding with the disease growing rapidly in much younger age groups. Early detection and intervention can lead to cure in over 90 per cent of new cases, therefore the need for effective screening and early intervention has the potential to save a significant number of lives. Rhythm estimates today's colorectal cancer screening market alone to be worth in excess of $38 billion.

COLORECTAL CANCER

Globally, Colorectal Cancer is currently the 3rd largest cancer by volume with 1.93 million new cases diagnosed annually andthe 2nd largest cause of cancer related deaths.

11.2%	11.4%	10.0%	7.3%	5.6%	4.6%	3.1%
BREAST	LUNG	COLORECTAL	PROSTATE	STOMACH	LIVER	CERVIX UTERI
2,261M	2,20M	1,931M	1,141M	1,089M	905M	604M

Source: Xi Y, Xu P (2021), Global colorectal cancer burden in 2020 and projections to 2040, Translational Oncology, 14 (10), 101174; doi: 10.1016/j.tranon.2021.101174 Epub 2021 Jul 6.

Global Burden

1.93 million new cases

~940,000 deaths

Source: Xi Y, Xu P (2021), Global colorectal cancer burden in 2020 and projections to 2040, Translational Oncology, 14 (10), 101174; doi: 10.1016/j.tranon.2021.101174 Epub 2021 Jul 6.

Current Testing & Screening Regime

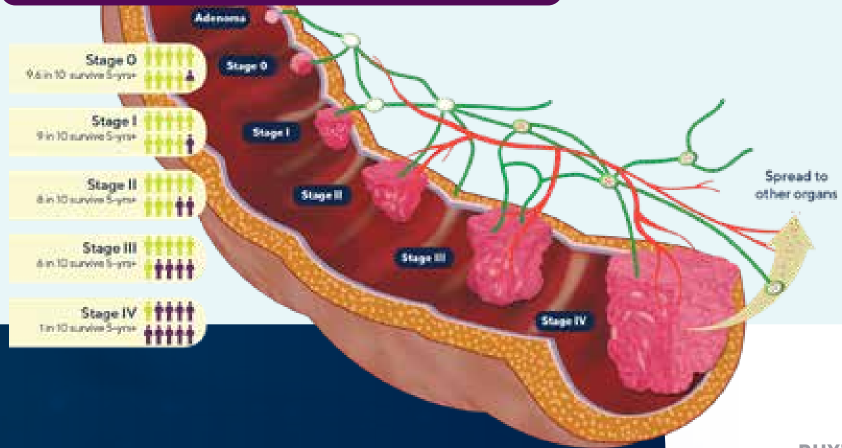
In most countries, screening is recommended for those aged between 50-74 years old, with the primary method being faecal test (FIT), which is designed to test only for blood in stool.

- 50+ — Aged over 50
- Inherited genetic risk factor
- Poor diet and lack of excercise
- Smoking
- A waistline over 94cm for men and 80cm for women
- A strong family history of bowel cancer
- A serious inflammatory bowel disease for more than eight years

Early detection is key to survival

>90%

Diagnosis by Stage



On behalf of the Board of Directors of Rhythm Biosciences and its U.S.A. subsidiary, IchorDX, Inc., we are pleased to present our FY'21 Annual Report, which details our progress during the past year.

A MESSAGE FROM THE CHAIRMAN
OTTO BUTTULA

Dear Fellow Shareholders,

Writing this letter for the FY'20 Annual Report, I closed off with the following statement: "Whilst the Company remains well below its December 2017 IPO price, I believe we are entering an exciting phase whereby substantial value will be capable of being recognised, rewarding all stakeholders." Thankfully, the achievements of our team have begun to be recognised by investors and I firmly believe that we are only at the beginning of this exciting journey in becoming a globally recognised participant in simple, low-cost, blood-based diagnostics, for the mass-market screening of cancer.

Last year, following a strategic review, the Board's focus was to re-set the Company by creating a renewed, straightforward 12-month operating plan, with bi-monthly milestones, all of which were designed to de-risk and further develop our initial product for colorectal cancer – ColoSTAT®. With the support of the Board, a major commitment from the whole team, led by our CEO, Glenn Gilbert, I'm pleased to say that the Company has faithfully executed on this objective and is on a clear path to realising its initial and primary potential to be a globally recognised supplier or licensee in colorectal cancer diagnostics.

Critically, during FY'21, Rhythm confirmed that its core technology works. The technical validation of biomarkers, along with the successful delivery of Study 6, with third-party manufactured kits, delivered a watershed moment for your Company, alleviating substantial technology development risk and setting us on a clear path to commercialisation. This has been no mean feat, as the results we see today are the culmination of millions of dollars of investment, with 13 years of research and development by the CSIRO and a further 4 years of technical development by Rhythm.

With clinical trial activity having been conducted in 11 centres, Rhythm has also built an excellent domestic reputation in a relatively short period of time. This should assist in our future commercial activities.

Although FY'21 was a critically important year for Rhythm, FY'22 and 1H'FY'23 will be pivotal periods for your company. Inflection points being pursued and expected to be delivered over the next 16 months include:

i. A successful conclusion to Study 7 in Australia;
ii. Submission and eventual grant of a CE Mark;
iii. Further pipeline development for other cancer targets, leveraging both new and research already undertaken;
iv. Final submission and eventual approval by the Therapeutic Goods Administration (TGA) in Australia;
v. Various commercial or strategic alignments with distribution partners both in Australia and overseas; and
vi. Commercial sales, moving the Company from a development stage to a commercial entity.

Rhythm is a company at the point of transition to becoming a global, commercially active company. Over the next 16 months, we will have device approval processes underway in the EU and other CE aligned countries, in Australia with the TGA and potentially in Asia and the U.S.A. via laboratory developed tests (LDT or better known as CLIA in the U.S.A.). We expect commercial discussions to become more prevalent with several globally based organisations as we prepare for an expected commercial launch of ColoSTAT® before the end of CY'22.

Once, established in multiple jurisdictions, we expect Rhythm to transition to a financially sustainable, revenue-generating company.

The transition from a development-stage company to a commercial entity means that, as a Board, we must be more attuned to the competitive, regulatory and commercial risks that are inherent to the commercialisation process. These are exciting times for the Company, but they are also complex. Financial stability and the resulting operational resilience of a properly capitalised enterprise was also an important focus for the Company this past year. We are appreciative of the support from shareholders for recent capital raisings which is expected to bring in, in excess of $10 million of further capital over the last 15 months to the upcoming close.

Our augmented balance sheet puts us in a strong position to not only commence the launch of Rhythm's first product ColoSTAT®, but to also to commence testing of biomarkers for our emerging diagnostic pipeline pipeline of cancer diagnostic products, further de-risking the commercial future of the Company.

Globally, we know, the issue of colorectal cancer continues to remain a leading cause of cancer death. The new fear developing, considering the interruption of the COVID-19 pandemic, is that we will see increased cancer diagnosis in the coming years stemming from deferred screening. Couple this with the emerging data on the incidence of colorectal cancer growth in much younger age groups, our timing to market may prove crucial.

We also note that some countries are now leading the call to lower the screening age. The US, via the US Preventative Services Task Force, has recommended the screening age be reduced from 50 to 45 years, representing a potential 21% increase in Rhythm's addressable market in the US alone. It is expected that other countries will follow suit. Rhythm is well positioned on its US focus as a priority market, with ColoSTAT® already exceeding the criteria requirements for reimbursement eligibility in the US.

At this point, I would like to thank Rhythm's current directors Trevor Lockett, Lou Panaccio and Eduardo Vom and past director, David White, for their dedication, focus and support during the year. Similarly, I also thank our Company Secretaries, Adrien Wing and Pauline Moffatt.

At the coalface, cancer doesn't stop for a pandemic and neither did the Rhythm team. Despite adverse operating conditions we continued to run clinical trials, deliver outcomes and grow the operational footprint of the business. For this, on behalf of the Board, I wish to extend my sincere gratitude to Rhythm's people. Delivering advanced healthcare solutions is a people-centric business and over the last year Rhythm, led ably by our CEO Glenn Gilbert, the team has shown resilience in the face of challenges and excelled operationally.

Our people have adopted a "can-do" culture with a pervasive belief that what we are doing is vitally important. The fact that all within the Company can see 'light at the end of the tunnel' has seen everyone push harder, with even greater resolve, despite obvious headwinds. I would like to acknowledge their additional energy and commitment over the past year.

Overall, we have a collective mission to assist people, governments and insurance companies avoid the emotional, health and economic ravages brought about by delayed or undiagnosed cancers. Our aim is, quite simply, to ensure people who are diagnosed early live longer, better quality lives, a mission that has never been more important and relevant.

Finally, I would also like to take this opportunity to thank you, our growing number of shareholders, for your continued support. I believe that we are at the start of a most rewarding journey, not just for stakeholder returns, but importantly for medical diagnostics and improving the quality of life. FY'22 will be another pivotal year for Rhythm and we look forward to keeping shareholders closely and transparently informed of our progress.

Otto Buttula
Chairman

CHIEF EXECUTIVE OFFICER'S REPORT
GLENN GILBERT

The 2021 Financial Year will be recorded as a transformational year in the Company's development for its' life saving cancer detection technology ColoSTAT®. Our vision is clear – it is to focus upon delivering simple, low cost, blood-based diagnostics, for the mass-market screening of cancer. Over this last year, the Company has taken a massive step toward making this vision a reality, with our initial product for colorectal cancer.

Technology

Rhythm successfully transitioned its cancer detection technology, from an optimised state to a technically validated platform. The technical validation of four final adjunct biomarkers supporting the key lead biomarker for ColoSTAT®, was a critical milestone. This meant the Company was able to prove that the core technology underpinning the ColoSTAT® blood test, is both stable and reproduceable. In doing this, the Company eliminated a major technology development risk.

With the technology foundation established, the progression and successful conclusion of Study 6 confirmed the analytical performance of the third party commercially manufactured ColoSTAT® prototype test-kit. The exceptional outcome delivered from Study 6, confirmed that ColoSTAT® exhibited very high accuracy for the detection of colorectal cancer, at a sensitivity of 84% and a specificity of 95%, materially surpassing all prior test results. In fact, this result showed that ColoSTAT® performs 33% better than the current market standard Faecal Immunochemical Test (FIT)^ used in most countries around the world for colorectal cancer screening.

A main driver for this outstanding performance is attributed to continued enhancements of Rhythm's proprietary, artificial intelligence (AI), algorithm. This is an important and exciting aspect of our technology. The AI based algorithm has the capability to continue "learning", and potentially deliver further improvements in performance. The Company demonstrated this potential with the Lifestyle Risk Factors (LRF) enhancement. LRF includes diet, weight, exercise, smoking and type 2 diabetes information, all of which have been strongly linked to the incidence risk of colorectal cancer. With the addition of only one of these easily obtainable LRF datapoints, Rhythm showed an improvement to the accuracy of the ColoSTAT® test from 84% to 88%.

Global Capability

In line with the completion of the technical development and performance validation of ColoSTAT®, the Company was able to quickly progress activities associated with the core technology transfer to a high-volume manufacturer.

France based, global manufacturer, Biotem, was appointed to manufacture the ColoSTAT® test-kits for initial small-scale third-party commercial test work. Biotem was chosen following a robust due diligence process that provided confidence they could execute on Rhythm's ambition to enter priority countries for mass market screening.

Biotem manufactured ColoSTAT® test-kits were used to support the completion of Study 6, and critically, performed at the same high standard set by Rhythm's own in-house prototype. Further quality and regulatory testing remain ongoing to support product registration activities

The Global Opportunity

Establishment of the global manufacturing capabilities for the ColoSTAT® test-kit allowed for the commercialisation and market entry path to be advanced with confidence. It is a

^ *Source: Morikawa et al., Gastroenterology (2005); 129: 422-428* well formed, global view, that the financial and societal burden of colorectal cancer continues to grow, presenting a very real opportunity for Rhythm to address this global unmet need.

Not only has the incidence of colorectal cancer continued to increase, but there has been a material shift in the demographics associated with affected population segments. Colorectal cancer is no longer considered a disease impacting those greater than 50 years of age.

Across the world, a number of countries have noted the growing incidence in younger age groups. In Australia, for example, the number one cause of cancer related deaths among 25–29 year-olds, is colorectal cancer. In the past twenty years, the issue affecting younger age groups has largely gone unnoticed. In 1995, colorectal cancer deaths in 25-29 year olds ranked number 15. By 2010, colorectal cancer deaths ranked number 1 and remain to this day the leading cause of cancer death in Australia in this age category.

Given this, it is not surprising that other countries such as the US are driving the need to increase the number of people being screened by lowering the age threshold. With the call to lower the screening age in all major markets, the need for a low cost, simple blood test for easier mass market screening is obvious. The reality is, that the majority of people below the current screening age, are not aware of the growing risk and do not have access to screening programs.

Performance

The outstanding performance of Rhythm's ColoSTAT® means that the Company is ahead of the curve with respect to eligibility for reimbursement in priority markets like the US. The US Centers for Medicare and Medicaid Services released a draft decision outlining the criteria for the reimbursement of current and future blood-based colorectal cancer screening tests.* At a test level, it must demonstrate both sensitivity greater than or equal to 74% and specificity greater than or equal to 90%. ColoSTAT® therefore meets this requirement in the US based on Study 6 performance of 84% sensitivity and 95% specificity (note, without LRF enhancement included).

For Rhythm, the focus on the global opportunity is clear. Presently ~800M people sit in the current eligible screening market, with a potential short term growth runway of 20% to over 1B people as the screening age is lowered.

The Company is well positioned to continue executing on its commercialisation plans and these are now taking a newfound precedence.

Commercialisation and Market Entry

Rhythm has secured patents for the diagnosis of colorectal cancer in 19 countries, with Brazil added recently to the priority markets already secured including:

- USA
- Australia
- China
- Japan
- United Kingdom
- Brazil
- Europe – Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxemburg, Netherlands, Norway, Spain, Sweden, and Switzerland

A further patent for India is under review that will complete a solid, global patent position. The Company expects to file additional patents in FY'22.

Rhythm confirmed its acceleration of priority market activities under the FY'22 Strategic Plan announced in May 2021. An initial focus is the US market, which represents a significant part of the global opportunity, as one of the world's largest diagnostic markets.

Post year end, the Company announced the establishment of a 100% owned USA domiciled entity, IchorDX Inc., as clear intent on accelerating international expansion activities. Preliminary assessment work has commenced, with go-to-market plans being developed that incorporate an initial market entry via a CLIA laboratory (lab developed test, or 'LDT') and an FDA approval pathway for approval of ColoSTAT® in the US.

More broadly, Rhythm is increasing its global business development and commercialisation focus via:

- Engaging governments and identifying pathways for a screening mandate;
- Developing partnerships with
  - health insurance companies
  - in vitro diagnostic device and pharmaceutical companies; and
  - pathology laboratories, possibly including LDT initiatives in the first instance.

Clinical Trial – Study 7

During a largely disruptive year with COVID-19 impacts, Rhythm made meaningful progress on the ColoSTAT® Clinical Trial (Study 7). Over the year, the Company expanded the number of Clinical Trial sites, from 3 to 11, with a focus on highly experienced principal investigators and a geographical diversity of sites. This has been critical given 80% of our trial sites were initially in COVID-19 affected Victoria.

Following this geographical site expansion, patient recruitment accelerated as new sites became operational. Feedback from both patients and the trial sites has been positive. The Company can confirm the completion of patient recruitment for the clinical trial remains on track for 1HFY'22 as planned.

**www.cancerhealth.com/article/task-force-colon-cancer-screening-age-45*

Quality and Regulatory

The Company maintained its certification to the International Standard for In-Vitro Diagnostics and Medical Devices (ISO13485:2016), passing an audit conducted by the British Standards Institution (BSI). This standard certifies Rhythm's Quality Management System, a key indicator for the high standard the Company has set.

Achieving ISO certification is also critically important as it supports the Company's regulatory approvals required as part of its commercial and market entry strategy.

Rhythm has confirmed its intention to file for CE Mark approval ahead of the completion of Study 7. The CE Mark filing remains on track to occur by 1HFY'22.

With respect to the Therapeutic Goods Administration (TGA) application for approval in Australia, post year end, Rhythm submitted its initial documentation with the TGA, formally commencing the regulatory process. Rhythm anticipate filing for TGA approval by 2HFY'22.

Corporate

In line with the Company's capital light model, Rhythm has been conservative with respect to raising of capital and deployment. At the start of the year, circa $6 million was raised via a strategic placement, with the majority of funds coming via a 3 for 5 Rights Issue from existing shareholders. Post year end, the Company chose to again reward existing shareholders for their ongoing support with a 1 for 40 Rights Issue Offer to raise circa $4.3 million.

The successful completion of biomarker technical validation, granting of patents, global manufacturing capabilities and delivering a superior Study 6 analytical performance were key inflection points that contributed to an increase in the Company's market value. During the year, Rhythm updated its strategy, structure, operating plans, with disciplined and targeted plans adopted. Further, all employees were aligned with shareholders via a new long-term incentive structure.

I would like to acknowledge our dedicated Rhythm team members for their tireless commitment, passion, and drive making ColoSTAT® a success. I would also like to thank our shareholders and our business partners for their ongoing support. There is substantially more value to unlock as we move into a pre-market and commercial phase. The Company is in great shape, and I look forward to executing on our plans to deliver on our promise for simple, low cost, blood-based diagnostics, for the mass-market screening of cancer.

Glenn Gilbert
CEO

The Directors of Rhythm Biosciences Limited (Rhythm, the Group, or the Consolidated Entity) present their report for the financial year ended 30 June 2021.

Directors

The Directors at any time during the year, or since the end of the financial year, were as follows:

Mr Otto Buttula

Dr Trevor Lockett

Mr Louis (Lou) Panaccio

Mr David White (resigned 14 July 2021)

Mr Eduardo Vom

Principal Activities

Rhythm Biosciences Limited (ASX: RHY) is developing and commercialising Australian medical diagnostics technology for sale in domestic and international markets. Its ColoSTAT® product, which remains in development aims to provide an accurate and early detection test for colorectal cancer.

Corporate Information

Rhythm, a company limited by shares, is incorporated and domiciled in Australia. Rhythm has prepared a consolidated financial report incorporating the entity that it controlled during the financial year.

The registered office is located at Level 2, 480 Collins Street, Melbourne Victoria, Australia, 3000.

The major operations of the Company are located at Bio21 Institute, 30 Flemington Road, Parkville Victoria, Australia, 3010

Review of Operations

The Group incurred a loss after income tax of $6,612,148 for the year ended 30 June 2021 (2020: $4,022,984).

The Chairman's Letter and Chief Executive Officer's Report contain a review of operations.

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

Future Developments

The Directors' do not foresee any unusual future event that may significantly negatively impact the Group's operations, results or state of affairs.

Rhythm's business model of developing diagnostic products for global markets will always bear some risk given the nature of technological development, competitors entering the market, changes in global healthcare, reliance on commercial partners and our ability to access capital to sustain operations. We cannot guarantee that Rhythm's technology will be widely adopted and sold by pathology laboratories. Moreover, the global Healthcare industry is an ever-evolving landscape where changes may impact our business opportunities.

Dividends

No dividends were paid or declared since the start of the financial year. No recommendation for payment has been made.

Directors

Names, qualifications and experience

Name	Otto Buttula
Title	Non-Executive Chairman
Experience and expertise	Mr Buttula has had extensive experience and success in investment research, funds management, information and biotechnologies and has held directorships in a number of public companies. Mr Buttula's executive experience includes co-founder and CEO and Managing Director of IWL Limited, an online financial services company that listed on the ASX in 1999. The company grew from a market capitalisation of $48 million at listing before a takeover in 2007 by Commonwealth Bank of Australia for $373 million. Mr Buttula also founded and was Managing Director of Investors Mutual, prior to which he was a co-founder and director of Lonsdale Securities Limited. Following his completion of executive duties, Mr Buttula was Non-Executive Chairman of platform and stockbroking provider Investorfirst Limited and led the acquisition of HUB24 Limited (ASX: HUB). More recently, he served on the Board as a non-executive director and Head of Audit and Risk at Imugene Limited (ASX: IMU) between 2014 and 2016.
Other current directorships	HITIQ Limited (appointed 28 January 2021) OncoSil Medical Limited (appointed 20 July 2021)
Interests in shares	27,400,000 fully paid ordinary shares
Interests in options	Nil
Name	**Dr Trevor Lockett**
Title	Technical Director
Experience and expertise	A molecular biologist by trade, Trevor Lockett received his PhD in biochemistry from the University of Adelaide and postdoctoral experience at the Rockefeller University in New York. With over 30 years of research experience, predominantly at the CSIRO, Trevor has led large, multidisciplinary research efforts in the areas of prostate cancer gene therapy, colorectal cancer prevention and the promotion of gastrointestinal health. In his role as Theme Leader, Colorectal Cancer and Gut Health, Trevor oversaw the research efforts leading to the technology that is to become ColoSTAT™.
Interests in shares	160,000 fully paid ordinary shares
Interests in options	1,500,000 options with an exercise price of 20 cents expiring on 14 September 2023
Name	**David White**
Title	Non-Executive Director (Resigned 14 July 2021)
Experience and expertise	David is based in Chicago in the US and is currently the Vice President of Business Development for Bluechiip Limited. Bluechiip is an ASX listed company with unique technology that assists Biotech and Pharmaceutical companies to track biological samples in and out of cryogenic storage. Prior to Bluechiip, David spent 4 years with Planet Innovation in Project Management and Business Development roles, assisting PI in commercializing their IP in the Point of Care diagnostics space. David brings over 20 years' experience with diverse companies such as GenMark Diagnostics and Leica Biosystems in developing, marketing and selling IVD products in regulated markets. David's experience, networks and contacts within the US diagnostics market will accelerate the path to commercialization in this key geography.

Name	Lou Panaccio
Title	Non-Executive Director
Experience and expertise	A chartered accountant with extensive management experience in business and healthcare services. Lou is currently on the boards of ASX listed companies Sonic Healthcare Limited and Avita Therapeutics, Inc. Lou is also on the board of Unison Housing Limited. Lou has more than twenty years' experience as a board member of both public and private, for profit and not for profit companies. Previously, Lou was the CEO of Melbourne Pathology and Monash IVF, and also executive Chairman of Health Networks Australia.
Other current directorships	Sonic Healthcare Limited Avita Therapeutics, Inc
Former directorships (last 3 years)	Genera Biosystems Limited (resigned 28 June 2019)
Interests in shares	800,000 fully paid ordinary shares
Interests in options	Nil

Name	Eduardo Vom
Title	Non-Executive Director
Experience and expertise	Mr Vom has over 20 years' experience in technology and development and commercialisation in the biotech industry, having held leadership roles at cancer diagnostics manufacturer Vision BioSystems and molecular diagnostics company Genetic Technologies. He currently serves as a non-executive director with privately owned health and wellbeing companies and is well known for his expertise in digital healthcare, management of multi discipline projects, business strategy and technology commercialisation. He holds a Post Graduate Diploma in Management Technology and an honours degree in Industrial Engineering and Computing from Monash University.
Interests in shares	3,552,667 fully paid ordinary shares
Interests in options	Nil

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company Secretaries

Adrien Wing is a certified practicing accountant. He previously practiced in the audit and corporate advisory divisions of a chartered accounting firm before working with several public companies listed on the ASX as a corporate and accounting consultant and company secretary.

Pauline Moffatt is a graduate of the Australian Institute of Company Directors (GAICD) and a fellow GIA ICSA of the Governance Institute of Australia. Ms Moffatt has a wealth of experience, providing specialised accounting and company secretary services to public companies for over 20 years.

Meetings of Directors

The following table sets out the number of Director meetings of the Company held during the financial year, and the number of meetings attended by each Director.

Director	Directors' Meetings	
	Held	Attended
Mr O Buttula	15	15
Dr T Lockett	15	13
Mr L Panaccio	15	15
Mr D White	15	15
Mr E Vom	15	15

Corporate Governance

Details on the Company's corporate governance procedures, policies and practices are at **www.rhythmbio.com**.

The Remuneration Report, which forms part of the Directors' report, sets out information about the remuneration of the Company's Directors and its Key Management Personnel for the financial year ended 30 June 2021.

Directors' Report – Remuneration Report (Audited)

Names and positions held by Directors and Key Management Personnel at any time during the financial year were:

Name	Position	Date Appointed to Position
Mr Otto Buttula	Non-Executive Chairman	28 October 2019
Dr Trevor Lockett	Technical Director	27 November 2018 (previously Managing Director from 1 June 2017)
Mr Louis (Lou) Panaccio	Non-Executive Director	1 August 2017
Mr David White	Non-Executive Director	1 June 2017 (Resigned 14 July 2021)
Mr Eduardo Vom	Non-Executive Director	5 June 2020
Mr Glenn Gilbert	Chief Executive Officer	27 November 2018
Mr Adrien Wing	Company Secretary	1 June 2017

Directors' and Key Management Personnel Interests in Shares and Options

Directors' and Key Management Personnel's interests in the ordinary shares of Rhythm Biosciences Limited and options over ordinary shares as at the date of this report are detailed below:

Name	Position	Number of Ordinary Shares	Number of Options
Mr Otto Buttula	Non-Executive Chairman	27,400,000	-
Dr Trevor Lockett	Technical Director	160,000	1,500,000
Mr Louis (Lou) Panaccio	Non-Executive Director	800,000	-
Mr Eduardo Vom	Non-Executive Director	3,552,667	-
Mr Glenn Gilbert	Chief Executive Officer	1,183,341	3,500,000
Mr Adrien Wing	Company Secretary	19,049,761	-
		52,145,769	**5,000,000**

Remuneration Policy

The aim of the Company's remuneration policy is to align the interests of directors and employees with those of shareholders. To do this Rhythm sets remuneration levels that attract and retain highly skilled and experienced directors and employees; and motivates and rewards performance that advances the Company's strategic goals.

Remuneration Structure

The remuneration of Key Management Personnel and employees is structured in two parts:

- Fixed Remuneration, comprising: base salary, superannuation (payable under the Superannuation Guarantee Act) and other benefits in lieu of salary; and
- Variable Remuneration, may include: a short-term incentive bonus (cash) and a long-term incentive in the form of options under the ESOP.

The Company aims to set the level of fixed remuneration at market levels for comparable jobs, in similarly structured and sized companies in the industry in which the Company operates. No advice from a remuneration consultant was sought during the financial year.

Short-Term Incentive Plan

The short-term incentive plan provides an incentive to employees to achieve an annual cash bonus on the achievement of corporate goals set at the beginning of each calendar year. These corporate goals are clearly defined, drive shareholder value and can be objectively measured. The percentage of an employee's base salary that can be earned through the Short-Term Incentive Plan (STIP) is set by the Board for Key Management Personnel and by Key Management Personnel for all other employees. At the end of the calendar year the Board assesses the level of achievement of these corporate goals. Payments made pursuant to the STIP are at the discretion of the Board.

Long-Term Incentive Plan

The purpose of the long-term incentive plan is to align the interests of directors, key management personnel and employees with those of the shareholders and provide reward for sustained achievement of the Group's strategic objectives. Rhythm's long-term incentive plan is implemented through the Employee Share Option Plan (ESOP).

Options

During the 2021 year, 8,150,000 Options were issued to key management personnel and employees. The fair value of employee share options was $1,063,298. $531,649 was expensed in the current financial year (2020: $18,592). The options were issued for nil consideration and granted in accordance with performance guidelines established by the Board.

The following Share Options arrangements existed at 30 June 2021:

Number of Options	Exercise Price ($)	Grant Date	Vesting Period	Vesting Date	Expiry Date	Holder	Fair Value per Option at Grant Date
750,000	$0.20	18.11.2020	n/a	18.11.2020	14.9.2023	Dr T Lockett	$0.3545
750,000	$0.20	18.11.2020	See below (i)	See below (i)	14.9.2023	Dr T Lockett	$0.3545
1,750,000	$0.20	14.9.2020	n/a	14.9.2020	14.9.2023	G Gilbert	$0.0799
1,750,000	$0.20	14.9.2020	See below (i)	See below (i)	14.9.2023	G Gilbert	$0.0799
1,575,000	$0.20	14.9.2020	n/a	14.9.2020	14.9.2023	Employees	$0.0799
1,575,000	$0.20	14.9.2020	See below (i)	See below (i)	14.9.2023	Employees	$0.0799
8,150,000	**Total ESOP Options**						

(i) Vesting conditions related to these options not yet achieved are as follows:

- 50% upon the granting of a CE Mark; and
- 50% upon achieving Therapeutic Goods Association (TGA) registration.

All options granted are in respect of ordinary shares in Rhythm Biosciences Limited and confer a right of one ordinary share for each option held.

Movement in the number of share options on issue

	2021 Number of Options	2021 Weighted Average Exercise Price (cents)	2020 Number of Options	2020 Weighted Average Exercise Price (cents)
Opening balance	3,000,000	26.67	3,000,000	26.67
Forfeited	(3,000,000)	26.67	-	-
Granted	8,150,000	20.00	-	-
Exercised	(675,000)	20.00		
Outstanding at year-end	**7,475,000**	**20.00**	**3,000,000**	**26.67**
Exercisable at year-end	3,400,000	20.00	3,000,000	26.67

Shares

On 14 September 2020, 183,241 fully paid ordinary shares were issued to the CEO, Mr Glenn Gilbert, as a sign-on incentive for a revised employment agreement. Included under employee costs in the income statement is a share-based payments expense of $26,570 (2020: $nil) based on a price of 14.5 cents per share at the date of issue.

Non-Executive Director Remuneration

The Board considers the level of remuneration necessary to attract and retain Directors with the skills and experience required by the Company at its stage of development. Non-executive Directors fees are paid within an aggregate limit which is approved by the shareholders from time to time. No retirement payments are made to Non-executive Directors.

For the 2021 financial year, the Non-executive Chairman's fees were $84,000 per annum while the Australian based Non-executive Directors' fees were $42,000 per annum. The United States based Non-executive Directors' fees were $36,000 per annum. No options were issued to Non-Executive Directors under the ESOP during the 2021 financial year.

Key Management Personnel Remuneration

Key Terms of the CEO's employment contract

The Company entered into a revised executive services agreement effective 1 July 2020 for Mr Glenn Gilbert as Chief Executive Officer (CEO) to receive an annual salary of $270,400 (exclusive of 9.5% superannuation). A sign-on incentive for this revised agreement of 183,241 fully paid ordinary shares were issued (at a fair value of 14.5 cents per share). The Company also issued Glenn 3,500,000 unlisted Options exercisable at 20 cents on or before 14 September 2023. Refer to Note 17 for details on Options vesting conditions. Glenn may also receive short-term incentives dependent upon performance, as assessed against key performance indicators. The Company may terminate Glenn's employment upon 3 months' written notice.

Key Terms of the Technical Director's employment contract

The Company entered into a revised consulting services agreement effective 1 July 2020 for Dr Trevor Lockett to receive an annual salary of $112,000 (inclusive of 9.5% superannuation). The Company also issued Trevor 1,500,000 unlisted Options exercisable at 20 cents on or before 14 September 2023. The issue of these Options was approved by shareholders at the Annual General Meeting of the Company on 18 November 2020. Refer to Note 17 for details on Options vesting conditions.

Details of the remuneration of Directors and Key Management Personnel for the 2021 financial year are provided below:

	Short-term Benefits				Long-term Benefits			
	Cash salary and fees ($)	Cash bonus ($)	Annual Leave Provision ($)	Long Service Leave Provision ($)	Post-employment Superannuation ($)	Equity-based compensation Shares and Options ($)	Total ($)	% Performance Based
Non-Executive Directors								
O Buttula	76,712	-	-	-	7,288	-	84,000	-
D White	36,000	-	-	-	-	-	36,000	-
L Panaccio	38,963	-	-	-	3,037	-	42,000	-
E Vom	38,356	-	-	-	3,644	-	42,000	-
Executive Director								
T Lockett	102,283	-	-	-	9,717	265,860	377,860	70.4
CEO								
G Gilbert	270,400	61,977	19,945	3,605	28,943	166,459	551,329	30.2
Company Secretary								
A Wing	105,600	-	-	-	-	-	105,600	-
Total	**668,314**	**61,977**	**19,945**	**3,605**	**52,629**	**432,319**	**1,238,789**	

Details of the remuneration of Directors and Key Management Personnel for the 2020 financial year are provided below:

	Short-term Benefits			Long-term Benefits				
	Cash salary and fees ($)	Cash bonus ($)	Annual Leave Provision ($)	Long Service Leave Provision ($)	Post-employment Superannuation ($)	Equity-based compensation Shares and Options ($)	Total ($)	% Performance Based
Non-Executive Directors								
O Buttula	51,142	-	-	-	4,858	-	56,000	-
S Tanner	28,000	-	-	-	-	-	28,000	-
T Lockett	174,436	-	(13,317)	(2,744)	10,054	-	168,429	-
D White	36,000	-	-	-	-	-	36,000	-
L Panaccio	42,000	-	-	-	-	-	42,000	-
E Vom	3,033	-	-	-	-	-	3,033	-
CEO								
G Gilbert	265,700	52,310[1]	16,000	3,030	24,700	18,592	380,332	18.6
Company Secretary								
A Wing	105,600	-	-	-	-	-	105,600	-
Total	**705,911**	**52,310**	**2,683**	**286**	**39,612**	**18,592**	**819,394**	**-**

[1] Included in this bonus is an amount of $23,750 relating to the 2019 financial year which was not finalised and agreed upon until during the 2020 financial year. The bonus awarded for 2020 represented 30% of the total available and was based on leadership, investor support and overall contribution. The bonus awarded for 2019 represented 50% of the total available and was based on scientific progress, relocation to Bio21 premises and staffing arrangements.

Share-Based Payments

The Group operates an Employee Share Option Plan (ESOP). Each option provides the holder with the right to purchase an ordinary share in the parent entity at a pre-determined price. During the financial year ended 30 June 2021, 8,150,000 options were issued pursuant to the Group's ESOP. Options offered to Rhythm Directors and staff are subject to several conditions which can restrict both vesting and the exercising of the options. At the date of the Directors Report a total of 7,475,000 options were on issue.

There were 675,000 ordinary shares issued during the financial year from the exercise of employee share options.

Option Holdings

The number of options over ordinary shares in the Company held during and at the end of the financial year by each Director and Key Management Personnel, including related parties, are set out below (refer also to Note 17 for further details):

	Balance at Beginning of Year	Granted During Year	Exercised During Year	Forfeited During Year	Balance at End of Year	Vested and Exercisable at End of Year	Unvested at End of Year
T Lockett	2,000,000	1,500,000	-	(2,000,000)	1,500,000	750,000	750,000
G Gilbert	1,000,000	3,500,000	-	(1,000,000)	3,500,000	1,750,000	1,750,000
Total	**3,000,000**	**5,000,000**	**-**	**(3,000,000)**	**5,000,000**	**2,500,000**	**2,500,000**

Shareholdings

The number of ordinary shares in the Company held during and at the end of the 2021 financial year by each Director and Key Management Personnel of the Group, including related parties, are set out below.

	Balance at Beginning of Year	Share-based Compensation	Exercise of Options	Upon Appointment/ Resignation	On-market and Other Transactions	Balance at End of Year
Non-Executive Directors						
O Buttula	1,500,000	-	-	-	25,900,000	27,400,000
D White	530,220	-	-	-	-	530,220
L Panaccio	500,000	-	-	-	300,000	800,000
E Vom	2,710,000	-	-	-	842,667	3,552,667
Executive Director						
T Lockett	100,000	-	-	-	60,000	160,000
CEO						
G Gilbert	-	183,241	-	-	1,000,000	1,183,241
Company Secretary						
A Wing	11,100,000	-	-	-	7,949,761	19,049,761
TOTAL	**16,440,220**	**183,241**	**-**	**-**	**36,052,428**	**52,675,889**

Additional Information

The earnings of the consolidated entity are summarised below:

Loss after income tax of $6,612,148 for the year ended 30 June 2021 (2020: $4,022,984).

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

- Share price at the end of the financial year was 88.5 cents (2020: 6.9 cents).
- Basic Loss per share (cents per share) of 3.57 for the year ended 30 June 2021 (2020: 3.99).

This concludes the remuneration report, which has been audited.

Voting and comments made at the Company's 2020 Annual General Meeting

At the 2020 Annual General Meeting the 2020 Remuneration Report was voted upon by shareholders with 2.96% votes against the resolution.

Environmental Issues

Rhythm's operations are subject to certain environmental regulations under the laws of the Commonwealth and State. The Directors are not aware of any breaches during the period covered by this report.

Related Party Transactions

Both Mr Buttula and Mr Wing charged a fee at commercial market rates of $25,000 in respect to an underwriting commitment for the Rights Issue completed during the year.

During the 2021 and 2020 financial years there were no other transactions with related parties other than remuneration.

After Balance Date Events

Rights Offer

On 30 July 2021, the Company announced on the ASX a non-renounceable rights issue offer to eligible shareholders on the basis of one (1) new share for every forty (40) shares held at an issue price of $0.85 (85 cents) per new share plus 1 Class A Option and 1 Class B Option for every 2 New Shares subscribed under the Offer to raise up to $4.3 million before costs. Binding commitments have been received for approximately $2.75 million for any shortfall shares from the Rights Issue Offer. All Directors have indicated that they intend to take up some or all of their entitlement, representing an investment of approximately $0.62 million.

COVID-19 Impact

The Company has been able to maintain its Research & Development staff within the laboratory. The Company has experienced some delays in the receipt of various materials from international suppliers primarily due to the backlog and re-routing of ports associated with freight processing, particularly in Victoria.

There has been no other matter or circumstance which has arisen since 30 June 2021 that has significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2021, of the consolidated entity; or
- the results of those operations; or
- the state of affairs, in financial years subsequent to 30 June 2021, of the consolidated entity.

Proceedings on behalf of the Company

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

Indemnity and Insurance of Officers

The Company has paid a premium for Directors' and Officers' Liability (Management Liability) Insurance.

Under the Company's constitution:

i. To the extent permitted by law and subject to the restrictions in sections 199A and 199B of the Corporations Act 2001, the Company indemnifies every person who is or has been an officer of the Company against any liability (other than for legal costs) incurred by that person as an officer of the Company.

ii. To the extent permitted by law and subject to the restrictions in sections 199A and 199B of the Corporations Act 2001, the Company indemnifies every person who is or has been an officer of the Company against reasonable legal costs incurred in defending an action for a liability incurred by that person as an officer of the Company.

The Company insures its Directors, Company Secretary and executive officers under a Management Liability Insurance policy. Under the Company's Management Liability Insurance Policy, the Company cannot release to any third party or otherwise publish details of the nature of the liabilities insured by the policy or the amount of the premium. Accordingly, the Company relies on section 300(9) of the Corporations Act 2001 to exempt it from the requirement to disclose the nature of the liability insured against and the premium amount of the relevant policy.

Indemnity and Insurance of Auditor

The company has 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.

Auditors’ Independence Declaration

A copy of the auditors’ independence declaration as required under s307C of the Corporations Act 2001 is set out on page 24.

Non-Audit Services

BDO Audit Pty Ltd were paid $7,830 (2020: $7,450) for non-audit services during the 2021 financial year.

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

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

Officers of the company who are former directors of BDO Audit Pty Ltd

There are no officers of the company who are former directors of BDO Audit Pty Ltd.

This report is made in accordance with a resolution of the Directors.

Otto Buttula
Chairman

Melbourne, Australia
Dated this 31st day of August 2021

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DECLARATION OF INDEPENDENCE BY JAMES MOONEY TO THE DIRECTORS OF RHYTHM BIOSCIENCES LIMITED

As lead auditor of Rhythm Biosciences Limited for the year ended 30 June 2021, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Rhythm Biosciences Limited and the entities it controlled during the period.

James Mooney
Director

BDO Audit Pty Ltd

Melbourne, 31 August 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	2021 ($)	2020 ($)
Other Income			
Interest Income		13,973	46,266
Government Stimulus Income		-	100,000
Research and Development Tax Refund		1,108,507	-
Expenses			
Employment related costs	4	(2,189,773)	(1,397,801)
Office and compliance costs		(730,253)	(549,617)
Research and development costs		(4,554,750)	(1,939,431)
Marketing and investor relations		(62,821)	(41,846)
Occupancy costs		(45,479)	(49,918)
Travel and meetings		(3,724)	(41,554)
Finance costs – lease liabilities		(785)	(3,713)
Finance costs - other		(396)	(4,083)
Depreciation - PPE		(70,665)	(60,017)
Depreciation - ROU		(40,012)	(45,299)
Amortisation of intangibles	9	(35,971)	(35,971)
Loss Before Income Tax		**(6,612,148)**	**(4,022,984)**
Income tax expense	5	-	-
Loss After Tax		**(6,612,148)**	**(4,022,984)**
Other comprehensive income		-	-
Total Comprehensive Loss for the Year		**(6,612,148)**	**(4,022,984)**
Loss Per Share			
Basic loss per share (cents per share)	6	(3.57)	(3.99)
Diluted loss per share (cents per share)	6	(3.57)	(3.99)

The financial statements should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

	Notes	30 June 2021 ($)	30 June 2020 ($)
Current Assets			
Cash and cash equivalents	7	2,228,397	1,797,958
Trade and other receivables	8	163,982	139,175
Other financial assets – term deposit		45,000	45,000
Prepayments		56,580	23,234
Total Current Assets		**2,493,959**	**2,005,367**
Non-Current Assets			
Intangible assets	9	462,015	497,986
Right-of-use assets		-	40,012
Property, plant and equipment	10	113,800	102,546
Total Non-Current Assets		**575,815**	**640,544**
Total Assets		**3,069,774**	**2,645,911**
Current Liabilities			
Trade and other payables	11	1,206,237	676,099
Provisions	12	137,047	75,888
Lease liabilities		-	42,437
Total Current Liabilities		**1,343,284**	**794,424**
Non-Current Liabilities			
Provisions	12	19,686	8,428
Total Non-Current Liabilities		**19,686**	**8,428**
Total Liabilities		**1,362,970**	**802,852**
Net Assets		**1,706,804**	**1,843,059**
Equity			
Issued capital	13	15,981,488	10,037,245
Reserves	14	531,650	194,000
Accumulated losses		(14,806,334)	(8,388,186)
Total Equity		**1,706,804**	**1,843,059**

The financial statements should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

	Issued Capital ($)	Reserves ($)	Accumulated Losses ($)	Total ($)
Balance at 1 July 2020	10,037,245	194,000	(8,388,186)	1,843,059
Loss attributable to members	-	-	(6,612,148)	(6,612,148)
Lapse of performance rights	-	(194,000)	194,000	-
Transactions with owners in their capacity as owners:				
Issued capital	6,168,754	-	-	6,168,754
Capital raising costs	(251,081)	-	-	(251,081)
Share-based payments expense (Note 17)	26,570	531,650	-	558,220
Balance at 30 June 2021	**15,981,488**	**531,650**	**(14,806,334)**	**1,706,804**
Balance at 1 July 2019	**10,037,245**	**184,239**	**(4,374,033)**	**5,847,451**
Loss attributable to members	-	-	(4,022,984)	(4,022,984)
Lapse of performance rights	-	(8,831)	8,831	-
Transactions with owners in their capacity as owners:				
Share-based payments expense (Note 17)	-	18,592	-	18,592
Balance at 30 June 2020	**10,037,245**	**194,000**	**(8,388,186)**	**1,843,059**

The financial statements should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

	Notes	2021 ($)	2020 ($)
Cash Flow from Operating Activities			
Interest received		20,212	47,197
Payments to suppliers and employees		(6,580,420)	(3,575,821)
Interest paid		(785)	(7,796)
Government COVID-19 stimulus		50,000	50,000
Research and development tax refund		1,108,507	743,822
Net Cash Used in Operating Activities	**15**	**(5,402,486)**	**(2,742,598)**
Cash Flow from Investing Activities			
Purchase of property, plant and equipment		(68,271)	(45,535)
Net Cash Used In Investing Activities		**(68,271)**	**(45,535)**
Cash Flow from Financing Activities			
Proceeds from issues of shares and options		6,168,754	-
Costs of capital raising		(225,121)	-
Repayment of lease liabilities		(42,437)	(59,860)
Repayment of other borrowings		-	(82,364)
Net Cash From/(Used in) Financing Activities		**5,901,196**	**(142,224)**
Net Increase/(Decrease) In Cash Held		**430,439**	**(2,930,357)**
Cash and cash equivalents at beginning of financial year		1,797,958	4,728,315
Cash And Cash Equivalents at End of Financial Year	**7**	**2,228,397**	**1,797,958**

The financial statements should be read in conjunction with the accompanying notes.

Note 1: Statement of Significant Accounting Policies

The consolidated financial statements and notes represent those of Rhythm Biosciences Limited and Controlled Entities (the 'consolidated entity' or 'Group'). The separate financial statements of the parent entity, Rhythm Biosciences Limited, have not been presented within this financial report as permitted by amendments made to the Corporations Act 2001. The financial report covers the economic entities of Rhythm Biosciences Limited and its controlled entities as an economic entity for the year ended 30 June 2021. Comparatives are disclosed for the year ended 30 June 2020.

The financial statements are presented in Australian dollars, which is the Group's functional and presentation currency. The financial statements were authorised for issue on 31st August 2021 by the Directors of the Company.

Statement of Compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations, and comply with other requirements of the law. The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the company and the Group comply with International Financial Reporting Standards ('IFRS').

Basis of Preparation

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets, and financial liabilities.

Going Concern

The consolidated entity incurred an operating loss of $6,612,148 (2020: $4,022,984) and had cash outflows from operating activities of $5,402,486 (2020: $2,742,598) for the year ended 30 June 2021. The consolidated entity is in start-up phase and does not yet have an income stream.

The financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the normal course of business for the following reasons:

- as at 30 June 2021, the consolidated entity had a strong cash position of $2.2 million;
- a research and development refund, based on expenditure incurred, is expected in the second half of 2021;
- the consolidated entity is still in the early stages of operations and is able to scale back activity if required; and
- post balance date capital raising plans comprise conducting a Rights Issue Offer to raise a total of approximately $4.3 million before costs. Refer to Note 22 for further details.

Accounting Policies

Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Rhythm Biosciences Limited ('company' or 'parent entity') as at 30 June 2021 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Operating Segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Revenue Recognition

Revenue is recognised at the fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

Government stimulus and research and development tax refund Income Is recognised when there Is reasonable assurance that the eligibility conditions are met and that the grants will be received.

Income Tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available, against which deductible temporary differences can be utilised. No deferred tax assets have been recognised on the statement of financial position as at 30 June 2021, as the probability of deriving a benefit is uncertain.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the expectation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

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

A liability is classified as current when: it is either expected to be settled in the consolidated entity'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 provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for estimated credit losses of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables expected. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Intangibles

Research and Development

Expenditure during the research phase of a project is recognised as an expense when incurred. Product development costs are capitalised only when each of the following specific criteria has been satisfied:

i. Technical feasibility of completing development of the product and obtaining approval by regulatory authorities.

ii. Ability to secure a commercial partner for the product.

iii. Availability of adequate technical, financial and other resources to complete development of the product, obtain regulatory approval and secure a commercial partner.

iv. Reliable measurement of expenditure attributable to the product during its development.

v. High probability of the product entering a major diagnostic market.

Capitalised development costs have a finite life and are amortised on a systematic basis over the period from when the product becomes available for use and ceases at the earlier of the date the asset is expected to exit the market or that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with AASB 5.

Other Intangible Assets

Other intangible assets comprise licences and are stated at cost less accumulated amortisation and impairment losses.

Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment.

Plant and Equipment

The carrying amount of plant and equipment is reviewed annually by the Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets, including building and capitalised lease assets but excluding freehold land, is depreciated on a straight line basis over their useful lives to the Group commencing from the time the asset is held ready for use. Items of property, plant and equipment, are depreciated over their estimated useful lives.

The depreciation rates for each class of asset are:

Class of Non-Current Asset	Depreciation Rate	Estimated Useful Lives
Office Equipment	10%	10 years
Computer Equipment	33.3%	3 years
Laboratory Equipment	33.3%	3 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The consolidated entity leases office space. The lease is short-term, so it has been expensed as incurred and not capitalised as right-of-use assets.

Impairment of Non-Financial Assets

At each reporting date the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Impairment testing is performed annually for intangible assets with indefinite lives and capitalised development costs not yet ready for use.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Due to their short-term nature they are measured at amortised cost and are not discounted. Trade accounts payable and other creditors are normally settled within 60 days.

Employee Entitlements

Short-term and long-term employee benefits

A liability is recognised for benefits accruing to employees for wages and salaries and annual leave in the year the related service is rendered.

Liabilities recognised in respect of short-term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognised in respect of long-term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Contributions are made by the Group to employee superannuation funds and are charged as expenses when incurred.

Share-based compensation

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

Employee Entitlements (continued)

Share-based compensation (continued)

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing or models that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

Issued Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Financial Instruments

Recognition

Financial instruments are initially measured at fair value on transaction date, plus or minus transaction costs directly attributable to the acquisition. Subsequent to initial recognition these instruments are measured as set out below.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation. Lease liabilities have been recorded adopting an Incremental borrowing rate of 4.99%.

Impairment

An 'expected credit loss' ('ECL') model is used to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted.

Earnings per share

Earnings per share

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

Diluted earnings per share 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.

Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Critical Accounting Estimates and Judgments

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key Estimates

Share-based payments

Rhythm operates an Employee Share Option Plan (ESOP). The non-cash expense of issuing these options is calculated using a Black-Scholes option pricing model. This model requires the input of a number of variables including an estimate of future volatility and a risk-free interest rate. Refer to Note 17 to the financial statements.

Other Intangible Assets

Other intangible assets comprise licences and are stated at cost less accumulated amortisation. The consolidated entity assesses impairment of non-financial indefinite life intangible assets and intangible assets not yet ready for use at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Adoption of New and Revised Accounting Standards

During the current year, the Group has adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

New Accounting Standards for Application in Future Periods

The Board has assessed the impact of the new, but not yet mandatory, accounting standards issued by Australian Accounting Standards Board (AASB). The adoption of these Standards is not expected to have a material impact on the financial statements.

Note 2: Parent Information

	2021 ($)	2020 ($)
Statement of Financial Position		
Current assets	2,331,673	1,918,815
Non-current assets	25,464	260,959
Total Assets	**2,357,137**	**2,179,774**
Current liabilities	630,647	328,287
Non-Current Liabilities	19,686	8,428
Total Liabilities	**650,333**	**336,715**
Issued Capital	15,981,488	10,037,245
Reserves	531,650	194,000
Accumulated losses	(14,806,334)	(8,388,186)
Total Equity	**1,706,804**	**1,843,059**
Statement of Comprehensive Income	**2021 ($)**	**2020 ($)**
Total loss	(6,612,148)	(4,022,984)
Total Comprehensive Income	**(6,612,148)**	**(4,022,984)**

Guarantees

The Parent Company has not entered into any guarantees in relation to its subsidiary.

Commitments and Contingent Liabilities

At 30 June 2021, the Parent Company had no capital commitments and no contingent liabilities (2020: Nil).

Significant Accounting Policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in Note 1, except for investments in subsidiaries which are accounted for at cost, less any impairment, in the parent entity.

Note 3: Controlled Entities

Controlled Entities Consolidated	Country of Incorporation	Percentage Owned (%) 2021	Percentage Owned (%) 2020
Vision Tech Bio Pty Ltd	Australia	100%	100%

** Percentage of voting power in proportion to ownership*

Note 4: Employment Related Costs

	2021 ($)	2020 ($)
Loss from continuing activities before income tax after charging the following		
Employment Related Costs		
Staff salaries and wages	1,498,760	1,267,197
Superannuation	120,491	102,876
Share-based payments expense (Refer to Note 17 for options and shares issued)	558,219	18,592
Other employment related expenses	12,303	9,136
Total	**2,189,773**	**1,397,801**

Note 5: Income Tax Relating to Continuing Activities

	2021 ($)	2020 ($)
Prima facie income tax benefit from continuing activities before income tax at 27.5% (2020: 27.5%)	1,818,341	1,106,321
Add/(subtract) Tax Effect:		
- Research and development claim	304,839	-
- Government COVID-19 stimulus	-	27,500
- Share based payments expense	(153,510)	(5,113)
- Other non-deductible expenditure	(1,554)	(1,035)
- Tax losses and temporary differences not brought to account	(1,968,116)	(1,127,673)
Income Tax Expense	**-**	**-**

Total tax losses and temporary differences not brought to account $3,466,469 (2020: $2,132,457).

Note 6: Loss Per Share

	2021 ($)	2020 ($)
The following reflects the income and share data used in the calculations of basic and diluted loss per share:		
Loss used in calculating basic and diluted earnings per share	**(6,612,148)**	**(4,022,984)**
	2021 No. of Shares	**2020 No. of Shares**
Weighted average number of ordinary shares used in calculating basic loss per share	185,464,174	100,750,000
Basic and Diluted Loss Per Share (cents)	**(3.57)**	**(3.99)**

Calculation of diluted loss per share

Potential ordinary shares are considered to be antidilutive, therefore diluted loss per share is equivalent to the basic loss per share.

Note 7: Cash and Cash Equivalents

	2021 ($)	2020 ($)
Cash at bank	2,228,397	297,958
Short term deposits	-	1,500,000
	2,228,397	**1,797,958**

Note 8: Trade and Other Receivables

	2021 ($)	2020 ($)
GST receivable	162,879	81,833
Government stimulus	-	50,000
Other receivables	1,103	7,342
	163,982	**139,175**

Note 9: Intangible Assets

	2021 ($)	2020 ($)
Intellectual Property		
Licences at cost (i)	600,000	600,000
Licences accumulated amortisation (i)	(137,985)	(102,014)
	462,015	**497,986**

	2021 ($)	2020 ($)
Movement in Carrying Amounts		
Balance at the beginning of the year	497,986	533,957
Amortisation (i)	(35,971)	(35,971)
Balance at the End of the Year	**462,015**	**497,986**

(i) A licence was granted by the Commonwealth Scientific and Industrial Research Organisation ("CSIRO") on 23 August 2017 and is being amortised over a period of 17 years based on contract terms.

Note 10: Property, Plant and Equipment

	2021 ($)	2020 ($)
Computers – at cost	58,356	38,450
Accumulated depreciation	(33,196)	(20,632)
	25,160	**17,818**
Office equipment – at cost	1,986	1,986
Accumulated depreciation	(1,391)	(893)
	595	**1,093**
Laboratory equipment - at cost	200,310	138,267
Accumulated depreciation	(112,235)	(54,632)
	88,075	**83,635**
Total	**113,800**	**102,546**

Movement in Carrying Amounts 2021	Computer Equipment ($)	Office Equipment ($)	Laboratory Equipment ($)	Total ($)
Balance at the beginning of the year	17,818	1,093	83,635	102,546
Additions	19,906	-	62,043	81,949
Depreciation	(12,564)	(498)	(57,603)	(70,665)
Balance at the End of the Year	**25,160**	**595**	**88,075**	**113,800**

Movement in Carrying Amounts 2020	Computer Equipment ($)	Office Equipment ($)	Laboratory Equipment ($)	Total ($)
Balance at the beginning of the year	21,532	1,590	67,043	90,165
Additions	7,467	-	50,213	57,680
Depreciation	(11,181)	(497)	(33,621)	(45,299)
Balance at the End of the Year	**17,818**	**1,093**	**83,635**	**102,546**

Note 11: Trade and Other Payables

	2021 ($)	2020 ($)
Trade creditors	603,163	560,535
Accruals	603,074	115,564
	1,206,237	**676,099**

The financial statements should be read in conjunction with the accompanying notes.

Note 12: Provisions

	2021 ($)	2020 ($)
Current		
Provision for Annual Leave	137,047	75,888
Non-Current		
Provision for Long Service Leave	19,686	8,428
	156,733	**84,316**

Note 13: Issued Capital

	2021 (No.)	2020 (No.)	2021 ($)	2020 ($)
Ordinary Shares Fully Paid				
Balance at the beginning of the year	100,750,000	100,750,000	10,037,245	10,037,245
Rights issue and placement at 6 cents per share	100,562,570	-	6,033,754	-
Options exercised at 20 cents per share	675,000	-	135,000	-
Employee remuneration	183,241	-	26,570	-
Capital raising costs			(251,081)	-
Balance at the End of the Year	**202,170,811**	**100,750,000**	**15,981,488**	**10,037,245**

Ordinary Shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. Ordinary shares have no par value and the company does not have a limited amount of authorised capital. On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Capital Risk Management

The consolidated entity'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.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents. In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest further into development and commercialisation or in a business seen as value adding relative to the current company's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The capital risk management policy remains unchanged from 30 June 2020.

Note 14: Reserves

	Notes	2021 ($)	2020 ($)
Share Based Payments Reserve			
Balance at the beginning of the year		194,000	184,239
Employee share-based payments expense	17	531,650	18,592
Lapse/forfeiture of performance rights	17	(194,000)	(8,831)
Balance at the End of the Year		**531,650**	**194,000**

Share based payments reserve is used to record the value of equity benefits provided to Directors and executives as part of their remuneration.

Note 15: Cash Flow Information

	Notes	2021 ($)	2020 ($)
a. Cash at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:			
Cash at bank		2,228,397	297,958
Short term deposits		-	1,500,000
	7	**2,228,397**	**1,797,958**
b. Reconciliation of cash flow from operating activities with loss from continuing activities after income tax benefit			
Loss from continuing activities after significant items and income tax		(6,612,148)	(4,022,984)
Non-Cash Items			
Depreciation and amortisation		146,647	141,287
Insurance expense (funded via borrowings)		-	82,364
Expense recognised in respect of equity-settled share-based payments		558,220	18,592
Changes In Assets and Liabilities			
Decrease/(Increase) in trade and other receivables		(40,197)	658,522
Decrease/(Increase) in prepayments		(33,345)	11,064
Increase in trade and other payables		505,920	361,822
Increase in provision for employee entitlements		72,417	6,735
Net Cash Used In Operating Activities		**(5,402,486)**	**(2,742,598)**
c. Total cash outflow for leases		(43,222)	(63,573)

The financial statements should be read in conjunction with the accompanying notes.

Note 16: Related Party Transactions

Rhythm Biosciences Limited is the parent entity. Refer to Note 3 for details on the subsidiary.

The names of each person holding the position of director of Rhythm Biosciences Limited during the year were Mr Otto Buttula, Dr Trevor Lockett, Mr David White, Mr Lou Panaccio and Mr Eduardo Vom. Company secretaries were Mr Adrien Wing and Ms Pauline Moffatt.

Both Mr Buttula and Mr Wing charged a fee at commercial market rates of $25,000 in respect to an underwriting commitment for the Rights Issue completed during the year.

During the 2021 and 2020 financial years there were no other transactions with related parties other than remuneration as disclosed in the Remuneration Report.

Note 17: Share-Based Payments

a. Shares

On 14 September 2020, 183,241 fully paid ordinary shares were issued to the CEO, Mr Glenn Gilbert, as a sign-on incentive for a revised employment agreement. Included under employee costs in the income statement is a share-based payments expense of $26,570 (2020: $nil) based on a price of 14.5 cents per share at the date of issue.

b. Options

During the 2021 financial year the Company granted 8,150,000 options to key management personnel and other employees as part of their remuneration. Set out below are summaries of options granted. Vesting conditions related to these options not yet achieved are as follows:

- 25% upon the granting of a CE Mark; and
- 25% upon achieving Therapeutic Goods Association (TGA) registration.

Unvested options shall lapse upon employment termination without notice (with cause) or cessation.

An expense of $531,650 (2020: $18,592) is included in the Statement of profit or loss and other comprehensive income. Details are as follows:

Grant Date	Expiry Date	Ecercise Price	Granted	Exercised	Expired/ Forfeited	Balance at End of the Year	Vested
14.9.2020	14.9.2023	$0.20	6,650,000	(675,000)	-	5,975,000	2,650,000
18.11.2020	14.9.2023	$0.20	1,500,000	-	-	1,500,000	750,000
Total			**8,150,000**	**(675,000)**	**-**	**7,475,000**	**3,400,000**

The valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant Date	Expiry Date	Share Price at Grant Date	Exercise Price	Expected Volatility	Dividend Yield	Risk-free Interest Rate*	Fair Value at Grant Date
14.9.2020	14.9.2023	$0.145	$0.20	100%	-	0.24%	$0.0799
18.11.2020	14.9.2023	$0.47	$0.20	100%	-	0.11%	$0.3545

* The risk-free interest rate is based on the Australian Government 3 year bond yield (Reserve Bank of Australia website) at the grant date.

3,000,000 Options were forfeited during the year without being exercised.

A share option plan has been established by the consolidated entity, whereby the consolidated entity may, at the discretion of the Board, grant options over ordinary shares in the company to certain key management personnel of the consolidated entity. The options are issued for nil consideration and are granted in accordance with performance guidelines established by the Board.

All options granted are in respect of ordinary shares in Rhythm Biosciences Limited and confer a right of one ordinary share for each option held.

Movement in the number of share options on issue

	2021 Number of Options	2021 Weighted Average Exercise Price (cents)	2020 Number of Options	2020 Weighted Average Exercise Price (cents)
Opening balance	3,000,000	26.67	3,000,000	26.67
Granted	8,150,000	20.00	-	-
Forfeited	(3,000,000)	26.67	-	-
Exercised	(675,000)	20.00	-	-
Expired	-	-	-	-
Outstanding at Year-end	**7,475,000**	**20.00**	**3,000,000**	**26.67**
Exercisable at year-end	3,400,000	20.00	3,000,000	26.67

The fair value of issued employee share options granted during the year pursuant to the ESOP in 2021 was calculated to be $1,063,300. The total amount expensed in the income statement is a share-based payments expense of $531,650 (2020: $18,592). No value has been included for the Options not yet vested. Vesting conditions related to 4,075,000 (50% of the amount granted) options not yet achieved are as follows:

- 50% upon the granting of a CE Mark; and
- 50% upon achieving Therapeutic Goods Association (TGA) registration.

The value of the vested employee share options issued has been calculated by using a Black-Scholes option pricing model applying the following inputs:

	T Lockett	G Gilbert	Other Employees
Options granted	750,000	1,750,000	1,575,000
Grant date	18.11.2020	14.9.2020	14.9.2020
Exercise price	$0.20	$0.20	$0.20
Underlying share price	$0.47	$0.145	$0.145
Expiry date	14.9.2023	14.9.2023	14.9.2023
Vesting period	n/a	n/a	n/a
Expected share price volatility	100%	100%	100%
Risk free interest rate	0.11%	0.24%	0.24%
Fair value per option at grant date	$0.3545	$0.0799	$0.0799
Total fair value at grant date	**$265,860**	**$139,890**	**$125,900**

The life of the options is based on the contracted expiry date.

Note 18: Financial Risk Management

The Group's financial instruments consist mainly of term deposits with banks, other receivables and trade payables.

The totals for each category of financial instruments, measured in accordance with AASB 9 as detailed in the accounting policies to these financial statements, are as follows:

	2021 ($)	2020 ($)
Financial Assets		
Cash and cash equivalents	2,228,397	1,797,958
Trade and other receivables	163,982	139,175
Other financial assets – term deposits	45,000	45,000
	2,437,379	**1,982,133**
Financial Liabilities		
Trade and other Payables	1,206,237	676,099
	1,206,237	**676,099**

There are no impaired assets within trade and other receivables; these balances, and the balance of trade and other payables, are expected to be settled within 1 year.

Financial Assets Pledged as Collateral

No financial assets have been pledged as security for any financial liability.

Financial Risk Management Policies

The Board are responsible for, among other issues, monitoring and managing financial risk exposures of the Group. The Board monitors the Group's transactions and reviews the effectiveness of controls relating to credit risk, liquidity risk, and market risk. Discussions on monitoring and managing financial risk exposures are held regularly by the Board. The Board's overall risk management strategy seeks to ensure that the Group meets its financial targets, while minimising potential adverse effects of cash flow shortfalls.

The Group did not have any derivative instruments at 30 June 2021.

Specific Financial Risk Exposures and Management

The main risk the Group is exposed to through its financial instruments is liquidity risk.

Credit Risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Credit risk is managed through maintaining procedures ensuring, to the extent possible, that members and counterparties to transactions are of sound credit worthiness.

Credit Risk Exposures

Cash reserves form the majority of the Group's financial assets. At 30 June 2021, cash was deposited with a large Australian bank in order to limit risk and ensure interest rate competitiveness.

Liquidity Risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward-looking cash flow analysis in relation to its operational, investing and financing activities; and
- only investing surplus cash with major financial institutions.

Market Risk

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. Exposure to interest rate risk arises on interest earned on cash and cash equivalents and term deposits.

The consolidated entity's cash and cash equivalents and term deposits were $2,273,397 as at 30 June 2021 (2020: $1,797,958). An official increase/decrease in interest rates of 100 (2020: 100) basis points would have an adverse/favourable effect on loss before tax of $22,734 (2020: $17,979) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts' forecasts.

Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. The Group is not exposed to price risk.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's exposure to currency risk is minimal at present as the majority of transactions are in Australian dollars.

Note 19: Segment Reporting

In accordance with Australian Accounting Standard AASB 8 Operating Segments, the Company has determined that it has one reporting segment, consistent with the manner in which the business is managed. This is the manner in which the chief operating decision maker receives information for the purpose of resource allocation and assessment of performance. The Group operates predominantly in one business and geographical segment being the research and development of biosciences in Victoria, Australia.

Note 20: Key Management Personnel Compensation

The Key Management Personnel compensation included in employee expenses are as follows:

	Share-based payments ($)	Short-term benefits ($)	Post-employment benefit ($)	Other Long-term benefits ($)	Total ($)
2021					
Total compensation	432,319	750,236	52,629	3,605	1,238,789
2020					
Total compensation	18,592	760,904	39,612	286	819,394

Further details on the above remuneration is disclosed in the Remuneration Report in the Directors' report.

Note 21: Auditor Remuneration

	2021 ($)	2020 ($)
Remuneration of the Auditor of the Group for:		
Auditing or reviewing the financial report	41,500	35,500
Other services:		
- Taxation advice	7,830	7,450
	49,330	**42,950**

Note 22: Events Subsequent to Reporting Date

Rights Offer

On 30 July 2021, the Company announced on the ASX a non-renounceable rights issue offer to eligible shareholders on the basis of one (1) new share for every forty (40) shares held at an issue price of $0.85 (85 cents) per new share plus 1 Class A Option and 1 Class B Option for every 2 New Shares subscribed under the Offer to raise up to $4.3 million before costs. Binding commitments have been received for approximately $2.75 million for any shortfall shares from the Rights Issue Offer. All Directors have indicated that they intend to take up some or all of their entitlement, representing an investment of approximately $0.62 million.

COVID-19 Impact

The Company has been able to maintain its Research & Development staff within the laboratory. The Company has experienced some delays in the receipt of various materials from international suppliers primarily due to the backlog and re-routing of ports associated with freight processing, particularly in Victoria.

There has been no other matters or circumstance which has arisen since 30 June 2021 that has significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2021, of the consolidated entity; or
- the results of those operations; or
- the state of affairs, in financial years subsequent to 30 June 2021, of the consolidated entity.

Note 23: Commitments

The Group has no capital commitments for expenditure as at 30 June 2021 (2020: $nil).

Note 24: Contingent Assets and Liabilities

The Group has no contingent assets or liabilities as at 30 June 2021 (2020: $nil).

The Directors declare that:

1. The financial statements and notes, as set out on pages 25 to 45 are in accordance with the Corporations Act 2001, and:
   a. comply with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
   b. give a true and fair view of the Consolidated Entity's financial position as at 30 June 2021 and of its performance for the year ended on that date;
2. The attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
3. The Chief Executive Officer and Chief Finance Officer have provided the declarations as required by section 295A of the Corporations Act 2001 to the Company;
4. In the Directors' opinion there are reasonable grounds to believe that the entity will be able to pay its debts as and when they become due and payable; and
5. Remuneration disclosures on pages 17 to 21 comply with section 300A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Directors pursuant to section 295(5)(a) of the Corporations Act 2001.

Otto Buttula
Chairman

Melbourne, Australia
Dated this 31st day in August 2021

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Australia

INDEPENDENT AUDITOR'S REPORT

To the members of Rhythm Biosciences Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Rhythm Biosciences Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. 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 also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

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. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

BDO

Carrying Value and Useful Life of Intangible Asset

Key audit matter	*How the matter was addressed in our audit*
Note 9 to the financial report discloses the individual intangible asset, and Note 1 discloses the policy used by the Group for its recognition, measurement and assessment for indicators of impairment. This is a key audit matter due to the materiality of the recorded asset, and the degree of estimation required to be made by the Group, regarding its amortisation period and impairment assessment.	Our procedures included, but were not limited to: • Evaluating whether management's estimate of the amortisation period and amortisation method had changed in the period • Recalculating the amortisation charge for the period • Evaluating management's assessment of indications of impairment at the reporting date • Checking the completeness and appropriateness of the disclosures included in the financial report.

Going Concern

Key audit matter	*How the matter was addressed in our audit*
Note 1 to the financial statements outlines the basis of preparation of financial statements. The financial statements have been prepared on a going concern basis which contemplates that the Group will continue to meet its commitments and can therefore continue normal business activities and realise its assets and settle its liabilities in the ordinary course of business. As the Group generates no operating revenue and is reliant on funding from other sources such as capital raising, there is significant judgement involved in determining whether the going concern basis adopted is appropriate and is critical to the understanding of the financial statements as a whole. As a result, this matter was considered key to our audit.	Our procedures included, but were not limited to: • Reviewing cash-flow forecasts and challenging management's assumptions around future capital raising and expenditure; • Applying sensitivities to future cash outflows to assess the impact of forecast cash inflows not being achieved; • Sighting supporting documentation confirming commitments to subscribe to the share placement and to take up shortfall of the right issue; • Vouching the receipt of funds from the rights issue; and • Assessing the adequacy of the Group's disclosures within the financial statements.

Research and Development (R&D) Grant Revenue Recognition

Key audit matter	*How the matter was addressed in our audit*
Other income includes a Research and Development ("R&D") Tax Refund and Note 1 discloses the accounting policy used by the Group for its recognition and measurement of its R&D revenue. Accuracy of the calculation of R&D claimed was considered a key audit matter due to the materiality of the recorded amount and the inherent subjectivity associated with the calculation of R&D tax incentives.	Our procedures included, but were not limited to: • Updating our understanding of the revenue recognition policies in order to ensure continued compliance with applicable Accounting Standards and consistent application from previous financial years; • Assessing the adequacy of procedures and key internal controls surrounding the recording of revenue; • Engaging an R&D tax specialist to evaluate the assessment by management and management's external expert of its allowable R&D expenditure claimed under Australian Tax Office rules; • Vouching a sample of R&D expenditure claimed to underlying support documents; and • Checking the completeness and appropriateness of the disclosures included in the financial report.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2021, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

BDO

Auditor's responsibilities for the audit of the Financial Report

Our objectives are 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this 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 (http://www.auasb.gov.au/Home.aspx) 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 on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 21 of the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Rhythm Biosciences Limited, for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

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

BDO Audit Pty Ltd

James Mooney
Director

Melbourne, 31 August 2021

Rhythm Biosciences Ltd is quoted on the Australian Securities Exchange (ASX) under the ticker code RHY. The following information was extracted from the Company's records as at 10 August 2021 and is required by the ASX Listing Rules. Rhythm's securities are not quoted on any other stock exchange.

Twenty Largest Holders of Ordinary Shares

Rank	Shareholder	Number of Fully Paid Ordinary Shares	Percentage of Total Issued Capital
1	WEBINVEST PTY LTD	16,666,667	8.24
2	NEWFOUND INVESTMENTS PTY LTD	10,733,333	5.31
3	FERNDALE SECURITIES PTY LTD	10,100,000	4.99
4	LOUMEA INVESTMENT PTY LTD	9,915,000	4.90
5	NORTHERN STAR NOMINEES PTY LTD	7,200,000	3.56
6	MRS SARAH CAMERON	6,300,000	3.12
7	ROJO NERO CAPITAL PTY LTD	4,166,668	2.06
8	GIOKIR PTY LTD	3,400,000	1.68
9	MR HSIEN MICHAEL SOO	3,224,783	1.59
10	JAWAF ENTERPRISES PTY LTD	3,150,000	1.56
11	COMMONWEALTH SCIENTIFIC & INDUSTRIAL RESEARCH ORGANISATION	2,500,000	1.24
12	MR DANIEL EDDINGTON & MRS JULIE EDDINGTON	2,460,000	1.22
13	MS NATALIE LOUISE PATTERSON	2,416,666	1.19
14	GARNSWORTHY PENSION FUND PTY LTD	2,250,000	1.11
15	DR GAVIN JAMES SHEPHERD & MRS CATHERINE SHEPHERD	2,000,000	0.99
15	E & W NOMINEE PTY LTD	2,000,000	0.99
17	DC & PC HOLDINGS PTY LTD	1,750,000	0.87
18	MR RICHARD STANLEY DE RAVIN	1,600,000	0.79
19	DR PAUL MAXWELL MILLER & MRS LOUISE MONIQUE MILLER	1,509,188	0.75
20	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,491,945	0.74
	Total	**94,834,250**	**46.89**
	Balance of register	**107,411,561**	**53.11**
	Grand total	**202,245,811**	**100.00**

Distribution Schedule

The following is a distribution schedule of the number of holders of fully paid ordinary shares in the Company, within the bands of holding specified by the ASX Listing Rules:

Range	No. of Shareholders	No. of Ordinary Shares	Percentage of Total Issued Capital
100,001 and Over	222	158,441,170	78.34
10,001 to 100,000	1,057	35,823,000	17.71
5,001 to 10,000	565	4,542,037	2.25
1,001 to 5,000	1,058	3,020,941	1.49
1 to 1,000	635	418,663	0.21
Total	**3,537**	**202,245,811**	**100.00**

233 shareholders held less than a marketable parcel of fully paid ordinary shares.

Substantial Shareholdings Register

Shareholder	Number of fully paid ordinary shares	Percentage of Total Issued Capital
Otto Buttula	27,400,000	13.55%
Michelle Wing	18,749,761	9.27%

A substantial holder is a shareholder who either alone or together with their associates has an interest in 5% or more of the voting shares of the Company.

Options Over Ordinary Shares

Rhythm has options granted under the company's Employee Share Option Plan (ESOP). Each option entitles the holder to purchase one ordinary share in the Company at a predetermined price. No voting rights attach to options. Further details are provided below:

Share Option Type	Number of Options	Number of Holders	Exercise Price (Cents)
Unlisted (ESOP)	7,400,000	12	20

Escrow Arrangements

There are no shares subject to mandatory escrow arrangements.

Voting Rights

The voting rights attached to ordinary shares are set out below:

Ordinary Shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

Directors

Mr Otto Buttula
Dr Trevor Lockett
Mr Louis (Lou) Panaccio
Mr Eduardo Vom

Company Secretaries

Mr Adrien Wing
Ms Pauline Moffatt

Registered Office

Level 2
480 Collins Street
Melbourne VIC 3000

The major operations of the Company are located at:

Bio21 Institute
30 Flemington Road
Parkville VIC 3010

Auditor

BDO Audit Pty Ltd
Level 18
727 Collins Street
Melbourne VIC 3000

Legal Advisers

Quinert Rodda and Associates
Level 6
400 Collins Street
Melbourne VIC 3000

K & L Gates
Level 25
525 Collins Street
Melbourne VIC 3000

Share Registry

Link Market Services Limited
Level 12
250 St Georges Terrace
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