

Rhythm Biosciences Limited
Appendix 4D
Half-year report

1. Company details

Name of entity: Rhythm Biosciences Limited
ABN: 59 619 459 335
Reporting period: For the half-year ended 31 December 2018
Previous period: For the half-year ended 31 December 2017

2. Results for announcement to the market

| | 2018 | 2017 |
|--|-------------|-------------|
| | \$ | \$ |
| Revenue and other income from ordinary activities | 365,265 | 2,306 |
| Loss from ordinary activities after tax attributable to the owners of Rhythm Biosciences Limited | (1,474,286) | (681,322) |
| Comprehensive loss after tax attributable to the owners of Rhythm Biosciences Limited | (1,474,286) | (681,322) |

Dividends

There were no dividends paid, recommended or declared during the financial period.

Comments

Comments on activities during the half-year are included in the Directors' Report in the Interim Financial Report attached.

3. Net tangible assets

| | Reporting period | Previous period |
|---|-------------------------|------------------------|
| | Cents | Cents |
| Net tangible assets per ordinary security | <u>6.29</u> | <u>8.65</u> |

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Details of associates and joint venture entities

Not applicable.

7. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements have been reviewed and an unqualified conclusion has been issued.

8. Attachments

Details of attachments (if any):

The Interim Financial Report of Rhythm Biosciences Limited for the half-year ended 31 December 2018 is attached.

9. Signed



Date: 26 February 2019

Shane Tanner
Chairman

**RHYTHM BIOSCIENCES
LIMITED
(ASX: RHY)**

**INTERIM FINANCIAL REPORT
TO 31 DECEMBER 2018**



Rhythm Biosciences Limited
Corporate Directory
31 December 2018

| | |
|------------------------|---|
| Directors | Mr Shane Francis Tanner Dr Trevor John Lockett Mr Louis (Lou) James Panaccio Mr David John White |
| Company secretaries | Adrien Wing Pauline Moffatt |
| Registered office | Level 17, 500 Collins Street Melbourne VIC 3000 Australia + 61 3 9614 0600 (Phone) + 61 3 9614 0550 (Facsimile) |
| Share register | Link Market Services Limited QV1, Level 12, 250 St. Georges Terrace Perth WA 6000 |
| Auditor | BDO East Coast Partnership Collins Square Tower 4 Level 18, 727 Collins Street Melbourne VIC 3008 |
| Stock exchange listing | Rhythm Biosciences Limited shares are listed on the Australian Securities Exchange (ASX code: RHY) |

Rhythm Biosciences Limited

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31 December 2018

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General information

The financial statements cover Rhythm Biosciences Limited as a consolidated entity consisting of Rhythm Biosciences Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is Rhythm Biosciences Limited's functional and presentation currency.

Rhythm Biosciences Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office is:

Level 17
500 Collins Street
Melbourne VIC 3000

Rhythm Biosciences Limited
Directors' Report
31 December 2018

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Rhythm Biosciences Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2018.

Directors

The following persons were directors of Rhythm Biosciences Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Shane Tanner
Dr Trevor Lockett
David White
Lou Panaccio

Principal activities

Rhythm Biosciences Limited is developing and commercialising Australian medical diagnostics technology for sale in domestic and international markets. Its ColoSTAT product in development aims to provide an accurate and early detection test for colorectal cancer.

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$1,474,286 (2017: \$681,322).

As at 31 December 2018, the Company held \$6.426 million in cash.

Refer to detailed review of operations that directly follows this report.

Matters subsequent to the end of the financial half-year

No matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out elsewhere in the financial report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



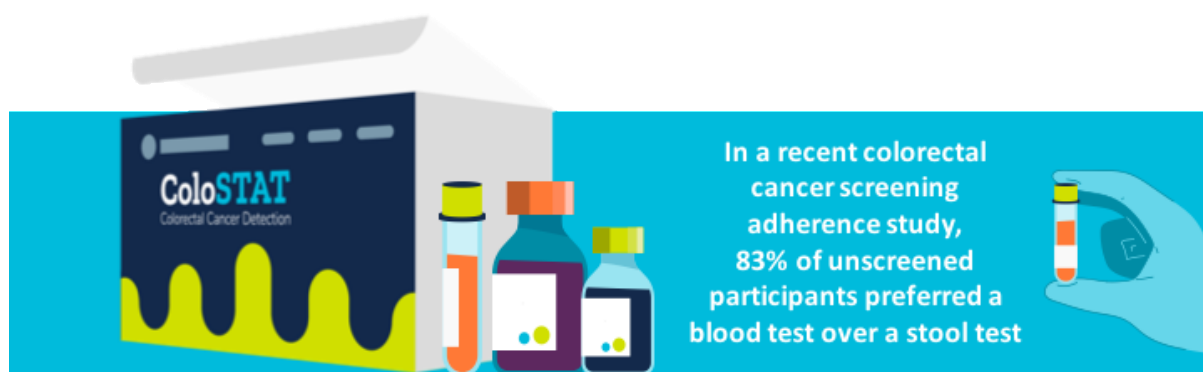
Shane Tanner
Chairman

26 February 2019

Rhythm Biosciences Limited
Review of operations
31 December 2018

In the six months to 31 December 2018, Rhythm Biosciences Limited delivered on plans in developing its lead product, ColoSTAT®. Rhythm's mission is to take this life-saving technology from the research laboratory into the market as an accurate, low cost blood test for colorectal cancer mass-screening.

This minimally invasive antibody-based blood test, ColoSTAT®, based on 13 years of research and development by the CSIRO, is targeted as an alternative to the current faecal immunochemical test (FIT). FIT is used widely both locally and internationally for the pre-assessment of colorectal cancer risk, however, testing participation and compliance rates are well below targeted and expected levels. Based on published results, over time, ColoSTAT® can become the new standard in the screening and surveillance for bowel cancer globally.



Colorectal cancer is a significant global health risk: it is the second most prevalent cancer in the US, EU and Australia with almost 4.8 million people living with the disease world-wide. Around the world more than 850,000 people die from the disease each year. Early detection and intervention can lead to cure in up to 90 per cent of new cases.

The World Health Organisation (WHO) predicts cancer rates will almost double within the next 20 years, resulting in a major increase in the human and financial costs of these diseases.

Colorectal cancer risk increases dramatically after the age of 50. Recognising this and the high healthcare costs associated with the management of the disease, countries such as Australia have introduced publicly funded colorectal cancer screening programs. When fully implemented, Australia's National Bowel Cancer Screening Program (NBCSP) will invite all eligible Australians in the 50-74 age bracket to take a faecal test every two years.

Screening helps detect those most likely to have colorectal cancer, providing an opportunity for early intervention and improved treatment outcomes. Despite these benefits many people don't participate, for clinical, cultural or personal reasons, thus compromising the effectiveness of such important health programs. In Australia, almost 60% of people in the risk category do not take the test. Providing a minimally invasive and practical alternative testing pathway for these people is one important market opportunity for Rhythm's ColoSTAT® blood test.

Additionally, ColoSTAT® may be used as a 'triage' tool by clinicians for those who have returned a positive FIT test, helping make best use of limited endoscopy services by ensuring that those in greatest need of colonoscopy are assessed first.

A significant market opportunity lies in the potential to add a ColoSTAT® test to the standard panel of blood tests a GP may run for their patients as part of their annual check-up. A large number of this patient population are those 50 years and above.

In the six-month period to December 2018, Rhythm built significantly on the major work completed in the 2017-18 financial year, completing a crucial component with its key reagent development program. Particular achievements included:

- Completion of its research program with CSIRO that resulted in the identification of candidate antibodies for the detection of the third of its leading target protein biomarkers for the ColoSTAT® test.
- Selection of a preferred pair of antibodies for this target to take forward into detailed analytical testing.
- Securing antibody and protein target sources for the three lead biomarkers contemplated for the ColoSTAT® test as outlined in the prospectus.
- Preparation, at lab scale, of key reagents (antibodies and target proteins) for detection of the lead 3 biomarkers providing preliminary data that will help inform Rhythm's reagent scale up and manufacturing program and lessen its reliance on third party providers.
- Established seed banks of antibody-producing cell lines to support the immediate and longer-term production of antibodies against its lead biomarker targets.

Rhythm Biosciences Limited
Review of operations
31 December 2018

With candidate reagents now successfully identified and generated, the company's attention now shifts to manufacturing scale-up and assay optimisation, and integrating them into a robust, reproducible ColoSTAT® test.

The performance of the finalised tests will be verified using cancer patient blood samples in Study 6, which is on track for completion during 2019.

Completion of Study 6 will provide verification for Rhythm's test, for use prior to the analytical component of Rhythm's pivotal clinical trial (Study 7). A 1000-patient clinical trial, using blood samples drawn prospectively from patients referred to a number of colonoscopy clinics in both Melbourne and Adelaide, also expected to be completed in late 2019.

Rhythm also made a series of management changes that will help drive the company's transition from a technology to commercialisation focus over the course of 2019. In November, Mr Glenn Gilbert, was promoted from chief operating officer to chief executive officer, with Dr Trevor Lockett moving to technical director.

This enables Rhythm to take full benefit from Glenn Gilbert's strong business experience commercialising pharmaceuticals and medical devices across the UK, Europe, Asia and North America while allowing Dr Lockett to focus more fully on the technical and scientific imperatives of the business.

On the technology front, the crucial next steps for Rhythm are:

- assay optimisation with technical and clinical performance verification
- manufacturing scale up for reliable reagent production
- prospective clinical evaluation in the Study 7 clinical trial
- gaining regulatory approvals.

Concurrently, the Company is advancing its commercial plans both locally and in international markets including:

- engaging Governments for a screening mandate
- developing partnerships with health insurance companies
- developing partnerships with IVD / Pharma companies
- working with pathology laboratories

In other positive news for the company, the ColoSTAT® trade mark was registered to Rhythm's wholly owned subsidiary, Vision Tech Bio Pty Ltd. The ColoSTAT® trade mark has now been registered in Australia, the UK and Europe, and is now pending only in the US.

Rhythm's two-year strategy to lodge, in early 2020, applications for regulatory approval to sell ColoSTAT® in Europe and Australia – as outlined in the 2017 prospectus – remains on track.

On the financial front, the major development in the six-month period was the company receiving \$283,796 from its R&D Tax Incentive claim for the 2017-18 financial year. This was Rhythm's inaugural R&D refund and based on R&D spend incurred in the year. The refund will contribute to Rhythm's investment in assay optimisation, kit development, manufacturing scale-up and clinical trials.

Rhythm expects the refund for the 2019 financial year to be higher than that in 2018, in line with expenditure.

In summary, and looking forward:

- Reagent development and completion in 2018 was a crucial milestone that has enabled and kept 2019 plans on track
- Trade marks registered in key markets - Australia and Europe
- Both Test-Kit Development and Study 6 activities remain on track for completion during 2019.
- Study 7 (clinical trial) remains on track and is expected to be completed late 2019.
- Rhythm's ISO13485 quality certification is expected to be completed in 2019.
- In 2020 Rhythm expects marketing approval for ColoSTAT® via CE mark in Europe, and to register the test on the Australian Register of Therapeutic Goods.

Given the significant opportunity for the test across wide-ranging applications globally, the company is reviewing its commercial pathway to ensure its activities align with the completion of these key milestones.

Rhythm is well-placed in its path to making ColoSTAT® a commercial reality and potentially saving thousands of lives annually.

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

As lead auditor for the review of Rhythm Biosciences Limited for the half-year ended 31 December 2018, 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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



James Mooney
Partner

BDO East Coast Partnership

Melbourne, 26 February 2019

Rhythm Biosciences Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2018

| | Consolidated | |
|---|-------------------------|-------------------------|
| Note | 31 December 2018 | 31 December 2017 |
| | \$ | \$ |
| Other Revenue | | |
| Research and development grant | 283,796 | - |
| Interest income | 81,469 | 2,306 |
| Total revenue | <u>365,265</u> | <u>2,306</u> |
| Expenses | | |
| Research and development | 448,489 | 8,940 |
| Corporate and administration | 294,753 | 228,493 |
| Employee benefits | 728,986 | 185,950 |
| Employee benefits - share based payments | 61,990 | 35,908 |
| Marketing and investor relations | 246,236 | 30,973 |
| Occupancy and office costs | 31,185 | 3,472 |
| Depreciation and amortisation | 27,912 | 570 |
| Listing expenses | - | 189,322 |
| Total expenses | <u>1,839,551</u> | <u>683,628</u> |
| Loss before income tax expense | (1,474,286) | (681,322) |
| Income tax expense | - | - |
| Loss after income tax expense for the half-year attributable to the owners of Rhythm Biosciences Limited | (1,474,286) | (681,322) |
| Other comprehensive income for the half-year, net of tax | - | - |
| Total comprehensive income for the half-year attributable to the owners of Rhythm Biosciences Limited | (1,474,286) | (681,322) |
| | Cents | Cents |
| Basic (loss) per share | (1.46) | (1.23) |
| Diluted (loss) per share | (1.46) | (1.23) |

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

Rhythm Biosciences Limited
Statement of financial position
As at 31 December 2018

| | | Consolidated | |
|--|-------------|---------------------|---------------------|
| | Note | 31 December | 30 June 2018 |
| | | 2018 | 2018 |
| | | \$ | \$ |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 6,426,168 | 7,780,173 |
| Trade and other receivables | | 74,567 | 35,232 |
| Other financial assets – term deposits | | 45,000 | 45,000 |
| Prepayments | | 96,009 | 8,872 |
| Total current assets | | <u>6,641,744</u> | <u>7,869,277</u> |
| Non-current assets | | | |
| Property, plant and equipment | | 102,119 | 9,298 |
| Intangibles | 4 | 551,942 | 569,928 |
| Total non-current assets | | <u>654,061</u> | <u>579,226</u> |
| Total assets | | <u>7,295,805</u> | <u>8,448,503</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | | 303,865 | 138,009 |
| Borrowings | | 78,498 | - |
| Provisions | | 24,614 | 9,370 |
| Total current liabilities | | <u>406,977</u> | <u>147,379</u> |
| Total liabilities | | <u>406,977</u> | <u>147,379</u> |
| Net assets | | <u>6,888,828</u> | <u>8,301,124</u> |
| Equity | | | |
| Issued capital | 5 | 10,037,245 | 10,037,245 |
| Reserves | 6 | 151,476 | 89,486 |
| Accumulated losses | | <u>(3,299,893)</u> | <u>(1,825,607)</u> |
| Total equity | | <u>6,888,828</u> | <u>8,301,124</u> |

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

Rhythm Biosciences Limited
Statement of changes in equity
For the half-year ended 31 December 2018

| Consolidated | Issued capital \$ | Reserves \$ | Accumulated losses \$ | Total equity \$ |
|--|------------------------------------|------------------------------|--|----------------------------------|
| Balance at 1 July 2018 | 10,037,245 | 89,486 | (1,825,607) | 8,301,124 |
| Loss after income tax expense for the half-year | - | - | (1,474,286) | (1,474,286) |
| Other comprehensive income for the half-year, net of tax | - | - | - | - |
| Total comprehensive income for the half-year | - | - | (1,474,286) | (1,474,286) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Share based payments (note 6) | - | 61,990 | - | 61,990 |
| Balance at 31 December 2018 | <u>10,037,245</u> | <u>151,476</u> | <u>(3,299,893)</u> | <u>6,888,828</u> |
| Balance at 1 July 2017 | 1,495,000 | - | (72,127) | 1,422,873 |
| Loss after income tax expense for the half-year | - | - | (681,322) | (681,322) |
| Other comprehensive income for the half-year, net of tax | - | - | - | - |
| Total comprehensive income for the half-year | - | - | (681,322) | (681,322) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Contributions of equity, net of transaction costs | 8,552,245 | - | - | 8,552,245 |
| Share based payments | - | 35,908 | - | 35,908 |
| Balance at 31 December 2017 | <u>10,047,245</u> | <u>35,908</u> | <u>(753,449)</u> | <u>9,329,704</u> |

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

Rhythm Biosciences Limited
Statement of cash flows
For the half-year ended 31 December 2018

| | Consolidated | |
|---|-------------------------|-------------------------|
| | 31 December | 31 December |
| | 2018 | 2017 |
| | \$ | \$ |
| Cash flows from operating activities | | |
| Research and development grant | 283,796 | - |
| Interest received | 81,469 | 2,306 |
| Interest paid | (1,543) | - |
| Payments to suppliers and employees (inclusive of GST) | <u>(1,584,517)</u> | <u>(546,997)</u> |
| Net cash used in operating activities | <u>(1,220,795)</u> | <u>(544,691)</u> |
| Cash flows from investing activities | | |
| Payments for property, plant and equipment | (99,468) | (4,083) |
| Payments for intangibles | - | <u>(310,760)</u> |
| Net cash used in investing activities | <u>(99,468)</u> | <u>(314,843)</u> |
| Cash flows from financing activities | | |
| Proceeds from issue of shares | - | 9,042,500 |
| Share issue transaction costs | - | (885,277) |
| Repayments for borrowings | <u>(33,742)</u> | <u>-</u> |
| Net cash (used in)/from financing activities | <u>(33,742)</u> | <u>8,157,223</u> |
| Net (decrease)/increase in cash and cash equivalents | (1,354,005) | 7,297,689 |
| Cash and cash equivalents at the beginning of the financial half-year | <u>7,780,173</u> | <u>1,494,987</u> |
| Cash and cash equivalents at the end of the financial half-year | <u><u>6,426,168</u></u> | <u><u>8,792,676</u></u> |

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

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2018 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

New or amended Accounting Standards and Interpretations adopted

In the period ended 31 December 2018, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group and effective for the current reporting periods beginning on or after 1 July 2018.

As a result the Group has applied AASB 9 and AASB 15 from 1 July 2018. The Directors have determined that there is no material impact from the adoption of these Standards on the financial performance or position of the Group.

AASB 9 Financial Instruments

AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

There were no changes to the classification of financial instruments in the financial statements. In accordance with the transitional provisions in AASB 9, comparative figures have not been restated and as such there is no impact on the Groups opening retained earnings as at 1 July 2018.

The adoption of AASB 9 resulted in a change to the accounting policy for trade and other receivables. The group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

AASB 15 Revenue from Contracts with Customers

The group has adopted AASB 15 using the cumulative effect method, with any adjustment required when transitioning to the new standard being recognised on 1 July 2018 (date of initial application) in retained earnings. There are no material changes in the groups revenue recognition which means there has been no adjustments to the opening retained earnings balance.

The Groups accounting policy for revenue recognition is unchanged from 30 June 2018.

Standards and Interpretations in issue not yet adopted

AASB 16 is effective from annual reporting periods beginning on or after 1 January 2019 and the Directors are still assessing the impact of this standard at the end of the current reporting period.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial period are discussed below.

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Black-Scholes or binomial valuation model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Refer to Note 8 for the inputs used in the valuation model.

Intangible assets

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 specific criteria has been satisfied. 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.

Note 3. Operating segments

Identification of reportable operating segments

The consolidated entity is organised into one operating segment relating to the development of new diagnostic tests for colorectal cancer.

Note 4. Non-current assets - intangibles

| | Licences \$ |
|--|------------------------------|
| Balance at the beginning of the period | 569,928 |
| Amortisation | <u>(17,986)</u> |
| Balance at the end of the period | <u>551,942</u> |

Note 5. Equity - issued capital

| | 31 December 2018 Shares | Consolidated 30 June 2018 Shares | 31 December 2018 \$ | 30 June 2018 \$ |
|------------------------------|--|---|--|----------------------------------|
| Ordinary shares - fully paid | 100,750,000 | 100,750,000 | 10,037,245 | 10,037,245 |

Ordinary shares

There was no movements in ordinary shares on issue during the half-year.

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. The fully paid 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.

Share buy-back

There is no current on-market share buy-back.

Rhythm Biosciences Limited
Notes to the financial statements
31 December 2018

Note 6. Equity - reserves

| | Consolidated | |
|------------------------------|---------------------|---------------------|
| | 31 December | 30 June 2018 |
| | 2018 | 2018 |
| | \$ | \$ |
| Share-based payments reserve | <u>151,476</u> | <u>89,486</u> |

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves

Movements in each class of reserve during the current financial half-year are set out below:

| Consolidated | Share-based payments \$ |
|-------------------------------|----------------------------|
| Balance at 1 July 2018 | 89,486 |
| Share-based payments (note 8) | <u>61,990</u> |
| Balance at 31 December 2018 | <u>151,476</u> |

Note 7. Events after the reporting period

No matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 8. Share-based payments

During the financial half-year the Company granted 504,200 performance rights to Mr Glenn Gilbert as part of his remuneration. These performance rights lapse unless the market capitalisation of the Company at the end of the 12 month period (Relevant Period) after the issue is 20% more than the market capitalisation at the commencement of the Relevant Period.

Set out below are summaries of the performance rights granted:

| Grant date | Expiry date | Vesting periods | Balance at the start of the half-year | Granted | Exercised | Expired/forfeited/other | Balance at the end of the half-year |
|------------|-------------|-----------------|---------------------------------------|---------|-----------|-------------------------|-------------------------------------|
| 28/11/2018 | 27/11/2021 | various | - | 504,200 | - | - | 504,200 |

For the performance rights granted during the current financial half-year, the binomial 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 | Vesting periods | Expected volatility | Dividend yield | Risk-free interest rate | Fair value at grant date |
|------------|-------------|---------------------------|-----------------|---------------------|----------------|-------------------------|--------------------------|
| 28/11/2018 | 27/11/2021 | \$0.16 | various | 75.00% | - | 2.09% | \$0.0897 |

Rhythm Biosciences Limited
Directors' declaration
31 December 2018

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Shane Tanner
Chairman

26 February 2019

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Rhythm Biosciences Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Rhythm Biosciences Limited (the Company) and its subsidiaries (the Group), which comprises the statement of financial position as at 31 December 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the consolidated group for the half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*.

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO East Coast Partnership

A handwritten signature in black ink, appearing to read 'J Mooney', written in a cursive style.

James Mooney
Partner

Melbourne, 26 February 2019