# ASX Announcement

ASX code: RHY
ACN: 619 459 335

# Appendix 4D Half-year report & Interim Financial Report to 31 December 2019

**26 February 2020, Melbourne**: Rhythm Biosciences Limited **("RHY"** or **"the Company"),** a transformative diagnostic company focused on the early detection of colorectal cancer, using a simple, low-cost, mass screening blood test for the global market, hereby attaches its Appendix 4D Half-year report including the Interim Financial Report to the 31 December 2019.

With the authority of the Board

For and on behalf of Rhythm Biosciences Ltd
**Adrien Wing**
**Company Secretary**

**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 2019 |
| Previous period: | For the half-year ended 31 December 2018 |

## 2. Results for announcement to the market

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Revenue and other income from ordinary activities | 25,856 | 365,265 |
| Loss from ordinary activities after tax attributable to the owners of Rhythm Biosciences Limited | (1,917,168) | (1,474,286) |
| Comprehensive loss after tax attributable to the owners of Rhythm Biosciences Limited | (1,917,168) | (1,474,286) |

*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 Cents | Previous period Cents |
|---|---|---|
| Net tangible assets per ordinary security | 3.33 | 6.29 |

## 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 2019 is attached.

---

## 9. Signed

Date: 26 February 2020

Otto Buttula
Chairman

# RHYTHM BIOSCIENCES LIMITED

# (ASX: RHY)

# INTERIM FINANCIAL REPORT

# TO 31 DECEMBER 2019

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

## 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

The major operations of the Company are located at:

Bio21 Institute
30 Flemington Road
Parkville VIC 3010

**Rhythm Biosciences Limited**
**Directors' Report**
**31 December 2019**

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 2019.

## 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:

Otto Buttula (appointed 28 October 2019)
Dr Trevor Lockett
David White
Lou Panaccio
Shane Tanner (resigned 25 October 2019)

## 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 for the half-year ended 31 December 2019 amounted to $1,917,168 (2018: $1,474,286). As at 31 December 2019, the Company had $3.647 million in cash (30 June 2019: $4.728m).

Refer to the 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 2019 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

Otto Buttula
Chairman

26 February 2020

**Rhythm Biosciences Limited**
**Review of Operations**
**31 December 2019**

## Overview and Background:

In the six months to 31 December 2019, medical diagnostics company Rhythm Biosciences Limited (ASX: RHY) continued to progress the development of its simple, low-cost, blood test for the early detection of colorectal cancer, ColoSTAT®.

Based on over 13 years of research and development by the CSIRO, ColoSTAT® is targeted as an alternative, and potential eventual replacement, to the current faecal immunochemical test (FIT). FIT is used widely both locally and internationally for the assessment of colorectal cancer risk (circa +24 million tests annually), however, testing participation and compliance rates are consistently sub-optimal and well below both targeted and expected levels across the globe. It is worth noting that the current faecal test (FIT) only detects the presence of blood in the faeces, that can occur for several reasons other than cancer, whereas ColoSTAT® will be testing for specific biomarkers that are reported to vary in concentration in patients with and without colorectal cancer. Hence, the Company is confident that once ColoSTAT® achieves commercial outcomes that there will be widespread, global potential for its product.

Colorectal cancer is a significant global health risk: it is the second most prevalent cancer in the US, EU and Australia. 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.

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, circa 60% of people in the risk category do not take the test. Providing a simple, low cost and practical alternative blood test pathway for these people is an important market opportunity for Rhythm's ColoSTAT® blood test.

ColoSTAT® has the potential to be the diagnostic tool that could increase global compliance of participating countries national bowel cancer screening programs, allowing for an uncomplicated widening of potentially screened population ages. In Australia, the national bowel screening program is offered only to those between 50-74 years of age. Initially, we envisage market-entry of ColoSTAT® into these programs, via supplementing the current faecal test (FIT).

Further, 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. Additionally, ColoSTAT® has the potential to attract reimbursement by both governments and health insurance companies.

## Development Update:

Operationally, Rhythm has continued to build upon the CSIRO research, where scientists identified and evaluated in excess of 68 biomarkers across multiple studies. The studies found that when certain combinations of these biomarkers are measured in a blood sample, and their concentrations are weighted using an appropriate internally generated algorithm, a relevant and valuable colorectal cancer risk score can be determined.

Across the last six months, Rhythm has progressed internal test development, which has been buoyed by the announcement on 19 September 2019 indicating the antibodies detecting the key lead biomarker had successfully shown the ability to differentiate between cancer and healthy samples. This is a significant step forward, as it now allows Rhythm to focus further on the adjunct biomarker antibodies, that will serve to support the lead biomarker.

We wish to reiterate that this significant success represents a critical step in the progression of completing the ColoSTAT® blood test as this key lead biomarker is known to be the majority contributor of the algorithm that will ultimately generate a colorectal cancer risk score for an individual. Securing the effectiveness of this proportion of the algorithm – which forms the cornerstone of the ColoSTAT® blood test kit – has significantly de-risked Rhythm's technology from a scientific point of view.

The path forward for the final ColoSTAT® test will require Rhythm to prove-up a panel of selected biomarkers from the original CSIRO research. Rhythm's ColoSTAT® test will use its own version of antibodies which are intended to be combined in the one final test kit. This enables Rhythm to maintain and generate new intellectual property, potentially improving the performance of the test and providing greater control over the quality, supply and cost of materials. Subsequent to period-end, the company has reviewed the resourcing requirements to expedite this development work and as such has restructured the internal R&D work streams and have hired additional staff with the team expanding from 3 to 7. The goal of the Company is to accelerate the technology development for the lead panel of individual biomarker tests, aiming for the validation of each individual biomarker assay by mid-2020, as previously indicated.

Following the development and identification of a lead panel, the performance will be then verified via a series of further analytical tests (using a mix of cancer & healthy patient blood samples) that will make up Study 6, which is on track, as previously indicated, for completion in late 2020. These tests will further de-risk the science and will continue the training and development of the algorithm.

**<u>Clinical Trial (Study 7) Update:</u>**

The clinical trial (Study 7) is currently being conducted at four sites; Adelaide's Lyell McEwin Hospital and three Melbourne hospitals, namely Monash Health, The Alfred Hospital and Royal Melbourne Hospital. Patient recruitment for the trial is ongoing.

As previously outlined, Rhythm relies heavily on the participating trial sites to identify, recruit and obtain consent from volunteer patients. This includes ensuring patients meet the protocol acceptance criteria, take further details of the participant, including medical history, personal and family colorectal cancer history and other such information. Noting that whilst there are many general colonoscopies conducted for a variety of reasons, the acceptance criteria for the Rhythm clinical trial are specific, and therefore the potential recruitment pool is somewhat limited and requires highly motivated trial sites to prioritise Rhythm's clinical trial against the many other clinical trials that the hospitals have ongoing.

Rhythm have internally assessed the factors impacting recruitment and as such have commissioned its Contract Research Organisation ('CRO') to complete formal feasibility assessments on adding several additional sites, across various states, with the expectation of expanding the capacity for patient recruitment and accelerating its completion. The formal feasibility work, up to the appointment of trial sites, is a process that is conducted by the CRO and needs to be performed in line with the formal guidelines of Good Clinical Practice (GCP). We expect this initial phase of feasibility to be completed by the end of April and the formal appointment of further sites thereafter. The formal appointment stage requires ethics approval, trial site internal governance approval, staff training and other typical associated tasks.

Further, Rhythm have reviewed the broader trial cost to the sites, and as such, will look to cover additional costs that will help with patient identification and recruitment acceleration.

This feasibility will also apply for the existing sites and we would anticipate an increase in recruitment rates following the review. Rhythm will also increase its presence within the existing sites and to work with them to optimise their current recruitment processes. Based on recruitment rates to date and the above initiatives, we anticipate the recruitment for the trial to be completed, barring any unexpected delays, by late 2020. As previously indicated, the company will provide regular updates on patient recruitment in ensuing periodic reports.

**<u>Regulatory Update:</u>**

Following recruitment, the completion of analytical testing and the final clinical trial report will form supporting evidence for ColoSTAT®'s suitability for use in detecting colorectal cancer, which will then underpin applications for a CE mark in the European Union (EU) and Therapeutic Goods Administration (TGA) approval in Australia. We expect filing in these jurisdictions to occur in late 2021.

Further out, we expect to seek approval for ColoSTAT® in the United States. Preliminary assessment work is occurring, along with various go-to-market plans that may include FDA approval and/or early entry via a CLIA laboratory (lab developed test) pathway.

**Intellectual Property Update:**

During the period Rhythm was granted a divisional patent for ColoSTAT® in China. Granting of the divisional patent expands the combinations of biomarkers that can be used in the ColoSTAT® test kit marketed in China beyond those covered by the original granted Chinese patent. Together, these patents cover Rhythm's preferred sets of biomarker combinations and will provide protection until 2031.

Previously, Rhythm has been granted patents for the diagnosis of colorectal cancer in Australia, China, Europe and Japan, and has patent applications pending in the US, Brazil and India.

**Financial Update:**

Rhythm received $743,822 from the company's R&D Tax Incentive claim for FY19 and expects this to increase for FY20, in line with expenditure. Rhythm finished the period with a cash balance of $3.65 million.

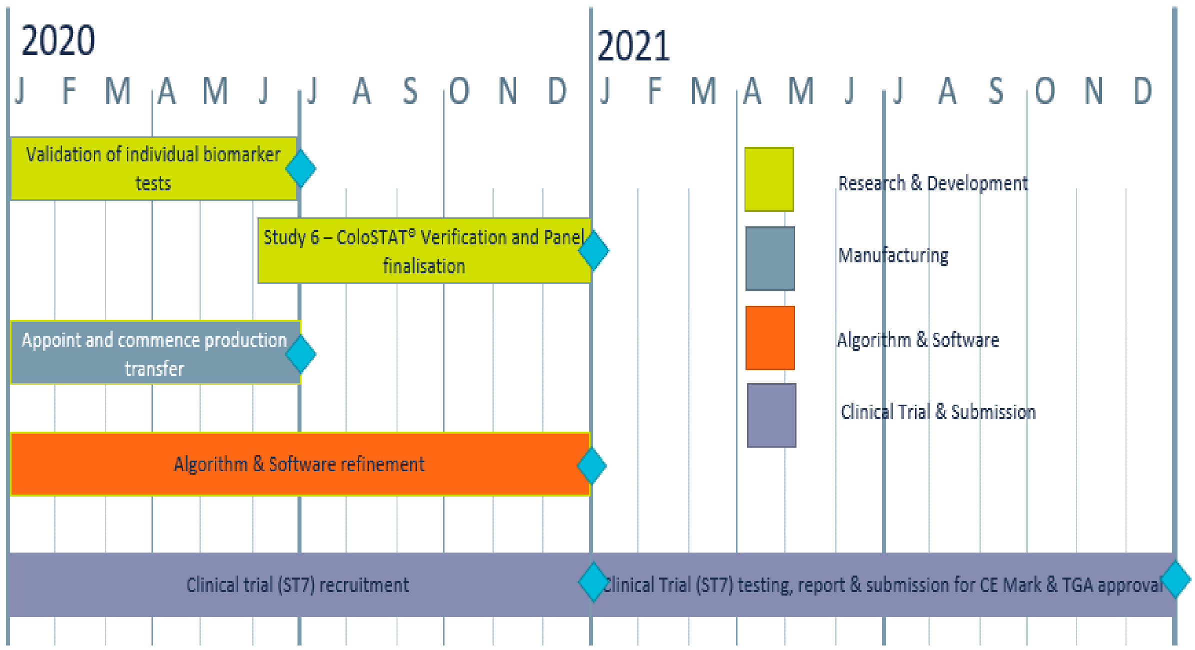
As outlined in prior releases and throughout this report, Rhythm's immediate focus is to continue to augment its scientific development team in order to accelerate the development of the adjunct biomarkers within the ColoSTAT® test kit and to increase patient recruitment rates for the clinical trial.

As Rhythm progresses the development program and completion of its clinical trial recruitment, the company is concurrently working on identifying and selecting a high-volume manufacturing partner and developing a transfer to manufacturing program. We are also working on business development and commercialisation activities including engaging with government, developing partnerships with health insurance companies, global IVD companies and with pathology laboratories.

Whilst in the development phase, it is important to recognise the market potential for ColoSTAT® is significant and worldwide.

We look forward to updating investors and the wider market on our progress in the coming months.

**Forecast Timelines Summary:**



## Corporate Update

On 25 October 2019 Mr Shane Tanner resigned as Director and Chairman of the Company. The Board wishes to express its gratitude to Mr Tanner for his dedication and service to the Company over the last 2 years.

On 28 October 2019 Mr Otto Buttula, an eminent sector specialist, highly regarded by investors, was appointed as Director and Chairman of the Company.

Mr Buttula has had extensive experience and success in investment research, funds management and information technology 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 & Risk at Imugene Limited (ASX: IMU) between 2014 and 2016.

Tel: +61 3 9603 1700
Fax: +61 3 9602 3870
www.bdo.com.au

Collins Square, Tower Four
Level 18, 727 Collins Street
Melbourne VIC 3008
GPO Box 5099 Melbourne VIC 3001
Australia

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

As lead auditor for the review of Rhythm Biosciences Pty Ltd for the half-year ended 31 December 2019, 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
Director

**BDO Audit Pty Ltd**

Melbourne, 26 February 2020

**Rhythm Biosciences Limited**
**Statement of profit or loss and other comprehensive income**
**For the half-year ended 31 December 2019**

| | Note | Consolidated 31 December 2019 $ | 31 December 2018 $ |
|---|---|---|---|
| **Other Revenue** | | | |
| Research and development grant | | - | 283,796 |
| Interest income | | 25,856 | 81,469 |
| Total revenue | | 25,856 | 365,265 |
| | | | |
| **Expenses** | | | |
| Employment related costs | | 667,621 | 790,976 |
| Office and compliance costs | | 285,603 | 267,100 |
| Research and development costs | | 833,729 | 448,489 |
| Marketing and investor relations | | 38,217 | 246,236 |
| Occupancy costs | | 27,092 | 31,185 |
| Travel and meetings | | 22,002 | 27,653 |
| Depreciation | | 50,775 | 9,927 |
| Amortisation of intangible assets | | 17,985 | 17,985 |
| | | 1,943,024 | 1,839,551 |
| | | | |
| **Loss before income tax expense** | | (1,917,168) | (1,474,286) |
| | | | |
| Income tax expense | | - | - |
| | | | |
| **Loss after income tax expense for the half-year attributable to the owners of Rhythm Biosciences Limited** | | (1,917,168) | (1,474,286) |
| | | | |
| 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** | | (1,917,168) | (1,474,286) |
| | | | |
| | | **Cents** | **Cents** |
| | | | |
| Basic (loss) per share | | (1.90) | (1.46) |
| Diluted (loss) per share | | (1.90) | (1.46) |

*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 2019**

| | Note | Consolidated 31 December 2019 $ | Consolidated 30 June 2019 $ |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 3,647,043 | 4,728,315 |
| Trade and other receivables | | 55,461 | 797,697 |
| Other financial assets – term deposits | | 45,000 | 45,000 |
| Prepayments | | 84,098 | 34,298 |
| Total current assets | | **3,831,602** | **5,605,310** |
| **Non-current assets** | | | |
| Intangible assets | 4 | 515,971 | 533,957 |
| Right-of-use assets | | 70,020 | - |
| Property, plant and equipment | | 73,339 | 90,165 |
| Total non-current assets | | **659,330** | **624,122** |
| **Total assets** | | **4,490,932** | **6,229,432** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | 340,197 | 302,133 |
| Borrowings | | 57,655 | - |
| Provisions | | 66,505 | 70,862 |
| Lease liabilities | | 62,316 | - |
| Total current liabilities | | **526,673** | **372,995** |
| **Non-current liabilities** | | | |
| Provisions | | 9,744 | 6,719 |
| Lease liabilities | | 10,739 | - |
| Total non-current liabilities | | **20,483** | **6,719** |
| **Total liabilities** | | **547,156** | **379,714** |
| **Net assets** | | **3,943,776** | **5,849,718** |
| **Equity** | | | |
| Issued capital | 5 | 10,037,245 | 10,037,245 |
| Reserves | 6 | 188,901 | 184,239 |
| Accumulated losses | | (6,282,370) | (4,371,766) |
| **Total equity** | | **3,943,776** | **5,849,718** |

*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 2019**

| **Consolidated** | **Issued capital $** | **Reserves $** | **Accumulated losses $** | **Total equity $** |
|---|---|---|---|---|
| Balance at 30 June 2019 | 10,037,245 | 184,239 | (4,371,766) | 5,849,718 |
| Adjustment on adoption of new accounting standard* | - | - | (2,267) | (2,267) |
| Balance at 1 July 2019 | 10,037,245 | 184,239 | (4,374,033) | 5,847,451 |
| | | | | |
| Loss after income tax expense for the half-year | - | - | (1,917,168) | (1,917,168) |
| Other comprehensive income for the half-year, net of tax | - | - | - | - |
| | | | | |
| Total comprehensive income for the half-year | - | - | (1,917,168) | (1,917,168) |
| | | | | |
| Transactions with owners in their capacity as owners: | | | | |
| Lapse of performance rights | - | (8,831) | 8,831 | - |
| Share based payments | - | 13,493 | - | 13,493 |
| | | | | |
| Balance at 31 December 2019 | **10,037,245** | **188,901** | **(6,282,370)** | **3,943,776** |
| | | | | |
| 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) |
| | | | | |
| *Transactions with owners in their capacity as owners:* | | | | |
| Share based payments | - | 61,990 | - | 61,990 |
| | | | | |
| Balance at 31 December 2018 | 10,037,245 | 151,476 | (3,299,893) | 6,888,828 |

* The opening balances have been restated as a result of the initial application of AASB 16 as discussed in note 1.

*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 2019**

| | Consolidated | |
|---|---|---|
| | **31 December 2019 $** | **31 December 2018 $** |
| **Cash flows from operating activities** | | |
| Research and development grant | 743,822 | 283,796 |
| Interest received | 26,254 | 81,469 |
| Interest paid | (3,934) | (1,543) |
| Payments to suppliers and employees (inclusive of GST) | (1,778,309) | (1,584,517) |
| Net cash used in operating activities | (1,012,167) | (1,220,795) |
| **Cash flows from investing activities** | | |
| Payments for property, plant and equipment | (3,940) | (99,468) |
| Net cash used in investing activities | (3,940) | (99,468) |
| **Cash flows from financing activities** | | |
| Repayments for borrowings | (35,923) | (33,742) |
| Repayment of lease liabilities | (29,242) | - |
| Net cash used in financing activities | (65,165) | (33,742) |
| **Net (decrease) in cash and cash equivalents** | (1,081,272) | (1,354,005) |
| Cash and cash equivalents at the beginning of the financial half-year | 4,728,315 | 7,780,173 |
| **Cash and cash equivalents at the end of the financial half-year** | 3,647,043 | 6,426,168 |

*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 2019 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 2019 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 2019, 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 reporting periods beginning on or after 1 July 2019.

As a result the Group has applied AASB 16 from 1 July 2019 using the modified retrospective approach. AASB 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, with the exception of short-term leases and leases of low value assets.

The impact of the adoption of AASB 16 on the Group's consolidated financial statements is as follows:

- Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss; and
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

*(a) Impact on loss*

| **Impact on loss for the period** | **31 December 2019 $** |
|---|---|
| Increase in depreciation of right-of-use asset | 30,009 |
| Increase in finance costs | 2,230 |
| Decrease in operating lease expenses | (31,472) |
| **Increase in loss for the period** | 767 |

*(b) Impact on assets, liabilities and equity as at 1 July 2019*

On transition to AASB 16, the Group recognised $100,029 of right-of-use assets and $102,296 of lease liabilities, recognising the difference in accumulated losses. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate of 4.99%.

| | **30 June 2019 $** | **AASB 16 adjustments $** | **1 July 2019 $** |
|---|---|---|---|
| Property, plant and equipment | 90,165 | 100,029 | 190,194 |
| **Total Assets** | **6,229,432** | **100,029** | **6,329,461** |
| Lease liabilities | - | 102,296 | 102,296 |
| **Total Liabilities** | **379,714** | **102,296** | **482,010** |
| Accumulated losses | (4,371,766) | (2,267) | (4,374,033) |
| **Total Equity** | **5,849,718** | **(2,267)** | **5,847,451** |

**Note 1. Significant accounting policies (continued)**

**New or amended Accounting Standards and Interpretations adopted (continued)**

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

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

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

Lease liabilities – accounting policy:
A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

*Standards and Interpretations in issue not yet adopted*
The Directors have not yet assessed the impact from the adoption of these Standards on the financial performance or position of the Group.

**Going Concern**

The consolidated entity incurred an operating loss of $1,917,168 (2018: $1,474,286) and had cash outflows from operating activities of $1,012,167 (2018: $1,220,795) for the half-year ended 31 December 2019. The consolidated entity is in start-up phase and does not yet have an income stream. These conditions indicate a material uncertainty that may cast significant doubt about the company’s ability to continue as a going concern. The ability of the company to continue as a going concern is dependent on a number of factors, one being the continuation and availability of funds.

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 31 December 2019, the consolidated entity had a strong cash position of $3.6 million;
- a research and development refund, based on expenditure incurred, is expected in the second half of 2020;
- the consolidated entity is still in the early stages of operations and is able to scale back activity if required; and
- the Directors will consider raising further capital via a share placement or other alternatives when appropriate.

Should the company be unable to continue as a going concern it may be required to realise its assets and discharge its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements.

## 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.

*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 – intangible assets

| | 31 December 2019<br>Licences<br>$ |
|---|---|
| Balance at the beginning of the period | 533,957 |
| Amortisation | (17,986) |
| Balance at the end of the period | 515,971 |

## Note 5. Equity - issued capital

| | Consolidated | | | |
|---|---|---|---|---|
| | 31 December 2019<br>Shares | 30 June 2019<br>Shares | 31 December 2019<br>$ | 30 June 2019<br>$ |
| 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.

## Note 6. Equity - reserves

| | Consolidated | |
|---|---|---|
| | 31 December 2019 $ | 30 June 2019 $ |
| Share-based payments reserve | 188,901 | 184,239 |

*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 2019 | 184,239 |
| Lapse of performance rights | (8,831) |
| Share-based payments | 13,493 |
| Balance at 31 December 2019 | 188,901 |

## Note 7. Events after the reporting period

No matter or circumstance has arisen since 31 December 2019 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.

**Rhythm Biosciences Limited**
**Directors' declaration**

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 2019 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

____________________________
Otto Buttula
Chairman

26 February 2020

Tel: +61 3 9603 1700
Fax: +61 3 9602 3870
www.bdo.com.au

Collins Square, Tower Four
Level 18, 727 Collins Street
Melbourne VIC 3008
GPO Box 5099 Melbourne VIC 3001
Australia

# 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 consolidated statement of financial position as at 31 December 2019, 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 half-year then ended, 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 2019 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 *Corporations Regulations 2001*.

### Emphasis of matter – Material uncertainty relating to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

### 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 2019 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 Audit Pty Ltd**

BDO

**James Mooney**
**Director**

Melbourne, 26 February 2020