

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 2023
Previous period: For the half-year ended 31 December 2022

2. Results for announcement to the market

		2023	2022
		\$	\$
Other income from ordinary activities	Down 39% to	1,728,226	2,829,620
Loss from ordinary activities after tax attributable to the owners of Rhythm Biosciences Limited	Up 11% to	(4,091,415)	(3,679,386)
Comprehensive loss for the year attributable to the owners of Rhythm Biosciences Limited	Up 11% to	(4,091,415)	(3,679,386)

Dividends

There were no dividends paid, recommended or declared during the 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>0.38</u>	<u>3.80</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.

Rhythm Biosciences Limited
Appendix 4D
Preliminary final report

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 2023 is attached.

9. Signed



Otto Buttula
Executive-Chairman

Date: 28 February 2024

INTERIM FINANCIAL REPORT TO 31 DECEMBER 2023

RHYTHM BIOSCIENCES LIMITED
ACN: 619 459 335 (ASX: RHY)

Rhythm Biosciences Limited
Corporate Directory
31 December 2023

Directors	Mr Otto Buttula (Executive Chairman) Dr Trevor John Lockett Mr Louis (Lou) James Panaccio Ms Sue MacLeman (Deputy Chair)
Joint Company Secretaries	Ms Andrea Steele Mr James Barrie
Registered Office	Bio21 Molecular Science & Biotechnology Institute 30 Flemington Road Parkville VIC 3010 Australia + 61 3 8256 2880 (Phone)
Share Register	Automatic Pty Ltd 477 Collins Street, Melbourne VIC 3000
Auditor	BDO Audit Pty Ltd Collins Square Tower 4 Level 18, 727 Collins Street Melbourne VIC 3008
Securities Exchange Listing	Rhythm Biosciences Limited shares are listed on the Australian Securities Exchange (ASX code: RHY)

Rhythm Biosciences Limited

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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 and principal place of business is:

Bio21 Molecular Science & Biotechnology Institute
30 Flemington Road
Parkville VIC 3010

Rhythm Biosciences Limited
Directors' Report
31 December 2023

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 2023.

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
Dr Trevor Lockett
Lou Panaccio
Dr Rachel David (resigned 28 December 2023)
Sue MacLeman

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 2023 amounted to \$4,091,415 (2022: \$3,679,386). Refer to the review of operations that directly follows this report for further information.

Matters subsequent to the end of the financial half-year

On 9 February 2024, the Company announced on the ASX the undertaking of a non-renounceable rights issue on the basis of three (3) new shares for every ten (10) shares held at an issue price of \$0.10 (ten cents) per new share, plus (1) Option for every two (2) new shares subscribed under the Offer – to raise up to a maximum of \$6.6 million before costs. The Options will have an exercise price of \$0.20 (20 cents) and expire on 31 March 2026. An underwriting commitment has been secured on any shortfall for an additional sum by Mr Otto Buttula's associated entities, taking his potential commitment to over \$1 million. All other directors with shares have committed to take up all of their entitlement.

A Prospectus dated 19 February 2024 has been lodged with ASIC in relation to the rights issue and PAC Partners Securities Pty Ltd has been appointed as Lead Manager.

On 12 February 2024, the Company held an EGM – to vote on the position of Mr Otto Buttula, as an ongoing Director of the Company. Shareholders voted against the resolution to remove Mr Otto Buttula as a director of the Company. As a result, Mr Otto Buttula remains a director and Chairman of the Company.

No other matters or circumstances have arisen since 31 December 2023 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.

Rhythm Biosciences Limited
Directors' Report
31 December 2023

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
Executive-Chairman

28 February 2024

Highlights

- **New Chief Executive Officer final interviews underway, engendering significant interest;**
- **Clear pathway established for ColoSTAT[®], with new U.S. based Contract Manufacturing Organisation (CMO) engaged to meet more rigorous IVDR standards;**
- **ColoSTAT[®] Automation project with Nutripath and Tecan completed;**
- **Platform expansion – initial outcomes in Breast Cancer and Lung Cancer positive;**
- **1st Tranche of R&D Tax Incentive received, new secondary submission underway; and**
- **Manuscript for ColoSTAT[®] clinical performance study submitted.**

Transformative, predictive cancer diagnostics technology company, Rhythm Biosciences Ltd (ASX: RHY) (**Rhythm** or the **Company**) provides the following update on its activities for the half-year ended 31 December 2023.

Strategy Update

As foreshadowed at the 2023 Annual General Meeting (AGM), following an in-depth strategic review (utilising both internal and contracted, external resources) on 18 December 2023, the Company released a synopsis of its resulting, Board approved, key decisions.

These included:

- **Appointment of a suitably qualified Chief Executive Officer (CEO)** – this process is formally underway. As disclosed on 15 November 2023, following a handover period, the current Executive Chairman, Mr Otto Buttula, will relinquish his executive duties.
- **Reclassification of ColoSTAT[®] kits in inventory to Research Use Only (RUO), rather than for commercial sales** – following an executive recommendation, the Board has agreed that the Company's existing IVDD ColoSTAT[®] kits would not be made available for commercial sales, but rather for RUO.
- **Manufacture of a consistent, newly designed ColoSTAT[®] kit**, encompassing cost savings and automation features and importantly meeting new regulatory IVDR standards.
- **Engagement of a new U.S. based Contract Manufacturing Organisation (CMO) to undertake design and development work on ColoSTAT[®] completing IVDR transition works; following which Rhythm intends to obtain regulatory approvals for the new IVDR compliant kits** - this is aimed to replace the Company's current IVDD regulatory approvals (CE & CA Mark and Medsafe). Further, the Company continues to evaluate various options to participate in the U.S. market, despite FDA regulatory uncertainty.
- **The IVDR transition work and newly manufactured kits** remains the Company's highest priority for CY24.
- **Transfer and implementation of recently adopted IVDR transition works to the Company's technology pipeline including in breast, lung and gastric cancer.**
- **Reviewing the R&D tax incentive (RDTI), following the receipt of Tranche 1 of \$1.69m** – in particular the Company is planning to formally lodge an amended RDTI claim for its international component of R&D given the current kits reclassification to RUO.
- **Implementation of a significant cost reduction strategy** - consistent with the Company's strategic intent of implementing the new regulatory standards in Europe and its proposed adoption in Australia, it was resolved to realign current operations and resources to best realise the Company's objectives in adopting the new stringent IVDR (In Vitro Diagnostic Medical Device Regulation) requirements for all products in development.

This has involved the Company taking decisive action to reduce corporate overheads, via an organisational restructure and the engagement of contracted external expertise to assist the reduced and more focussed internal team. Despite incurring some higher one-off initial expenses, significant progress has been achieved in lowering fixed, ongoing operating costs, with further savings expected to be realised as the cost base is realigned to meet the new strategic direction.

Activities going forward will be highly focused on the high-priority ColoSTAT® completion, and platform expansion, where resources and opportunities allow.

Commercialisation

- ***Establishment of UK Subsidiary***

As announced on 3 July 2023, to assist with the Company's launch into the UK marketplace, Rhythm Biosciences UK Limited, a 100% wholly owned subsidiary was established.

- ***Advisory Board with UK Key Opinion Leaders***

In September an Advisory Board meeting was held with Link Medical and 11 influential UK based medical specialists to discuss and advise on how to position and utilise ColoSTAT® in the UK.

Due to the IVDR transition works, the next Advisory Board meeting with Link Medical and influential UK based medical specialists to discuss and advise on how to position and utilise ColoSTAT® in the UK, is deferred until 4Q'FY24.

- ***Automation Project Completed***

As announced on 13 September 2023, Rhythm executed an Automation Agreement with Melbourne-based, medical laboratory, Nutripath Pty Ltd a specialty clinical laboratory, that supports healthcare providers in health and wellbeing pathology testing.

Collaborating with Nutripath and one of its diagnostic machine vendors, Tecan Australia Pty Ltd (a subsidiary of Swiss based Tecan Group Ltd), the parties streamlined the previously manual process of ColoSTAT® to the automated Tecan EVO machine.

The ColoSTAT® 5-biomarker immunoassay was successfully transferred to the Tecan EVO machine, and the total run time for 39 samples, was at < 6 hours. This was achieved with only one scientist, instead of the 3 scientists normally required to run the complete ColoSTAT® test manually (a 67% reduction saving in time / headcount).

Core Technology

- ***Platform Expansion Breast Cancer***

As previously announced (ASX: RHY – 15 December 2022) the Company together with Agilex Biolabs (a Healius Ltd subsidiary ASX: HLS) identified 4 biomarkers that exhibit a strong correlation with specific breast cancer subtypes. These encouraging results warrant confirmation in a larger sample set and justify the continuation and advancement of the project.

On 21 September 2023, the Company released the positive outcomes of preliminary data from Agilex Biolabs on its breast cancer diagnostic test. A 4 biomarker-combination had identified **an 83% Sensitivity and 90% Specificity (P ≤0.0003)**.

Verification of these results would support the case for investment in a new R&D program to develop, validate, clinically evaluate the performance of the biomarkers, and translate these results into a commercially scalable, proprietary blood test for the early detection of breast cancer.

- ***Platform Expansion Lung Cancer***

As previously announced (ASX: RHY - 15 December 2022), together with the Baker Institute, Rhythm had identified a 5-biomarker combination that exhibits an effective correlation with various stages of lung cancer.

On 24 November 2023, the Company released the positive outcomes of a preliminary case/control study performed by the Baker Institute on lung cancer patients and healthy controls. A 5 biomarker-combination identified cancer-derived samples with **greater than 85% Sensitivity and 90% Specificity (P ≤0.00001)**. This feasibility study assessed 17 biomarkers using “research use only” immunoassays in blood samples from 70 lung cancer patients and 71 healthy volunteers.

These encouraging results warrant confirmation in a larger population and justify the continuation and advancement of the project. Therefore, verification of these results would support the case for investment in a new R&D program to develop, validate, clinically evaluate the performance of the biomarkers, and translate these results into a commercially scalable, proprietary blood test to detect lung cancer early when it is most responsive to potentially curative treatments.

Corporate

- On 4 July 2023, the Board appointed Ms Sue MacLeman to the new position of Independent Deputy Chair.
- On 25 July 2023, the Company presented at the 2023 Bioshares Summit in Hobart, Tasmania.
- Rhythm received further TGA Freedom of Information (FOI) requests relating to the ColoSTAT® TGA application. The Company completed and filed its response in conjunction with the TGA.
- On 31 August 2023, the Company released its 2023 Annual Report.
- On 14 November 2023, the Company advised that it had received the first tranche of its research and development tax incentive (RDTI) totalling \$1.69m. This forms part of the Australian government's R&D tax incentive program. This initial receipt of the R&D tax incentive recognises the Australian based activities undertaken by Rhythm during the financial year ended 30 June 2023. The receipt of the \$1.69m, is expected to be complemented by a further receipt for research and development activities undertaken overseas. The second receipt is expected in 2H'FY24, once verified and lodged by the Company's tax advisers.
- On 15 November 2023, the Company announced executive management changes, including:
 - The resignation, for personal reasons, of Mr Paul Smith as Chief Financial Officer and Joint Company Secretary;
 - Dr Trevor Lockett ceasing his executive director duties as Technical Director on 15 December 2023;
 - The commencement of the process to appoint a new full-time Chief Executive Officer ('CEO'); and
 - The intention of Mr Otto Buttula to relinquish executive duties, following a handover period, post the appointment of the new CEO.
- On 14 December 2023, the Company advised that Mr James Barrie would be appointed Joint Company Secretary of the Company, effective 1 January 2024. Mr Barrie is a professional Company Secretary and Director, and the Board welcomes his assistance moving forward. Ms Andrea Steele will continue in her role as Joint Company Secretary and General Counsel of RHY and work with Mr Barrie to ensure a smooth transition into the role. For the purposes of ASX Listing Rule 12.6, Mr Barrie will be the person responsible for communications with the ASX in relation to ASX Listing Rule matters.
- On 14 December 2023, a 603 Form notice alerted the Company to a new Notice of initial substantial shareholder, comprising 3 parties together (Daniel Eddington and Julie Eddington as trustee for DJ Holdings Trust (Eddington Parties); JAWAF Enterprises Pty Ltd ACN 607 150 130 as trustee for Hall Family Trust, Julia Hall and Anthony Hall (Hall Parties); and Loumea Investments Pty Ltd ACN 618 379 329 and Richard Vom (Vom Parties). Despite significant discussions, on 14 December 2023, these 3 parties together lodged a s249D notice, requesting an Extraordinary General Meeting (EGM) to remove Otto Buttula as a director of the Company.
- On 29 December 2023, the Company announced the resignation of Dr Rachel David as a Non-Executive Director of the Company given extracurricular events of recent times and other corporate roles and responsibilities. It should be noted Dr David, retains a demanding full-time executive position, as Chief Executive Officer of Private Healthcare Australia.
- Cash at bank at the end of the half-year was ~\$1.22m.

Subsequent to Period-End

- **Proposed Capital Raising**

On 9 February 2024, the Company announced on the ASX the undertaking of a non-renounceable rights issue on the basis of three (3) new shares of every ten (10) shares held at an issue price of \$0.10 (ten cents) per new share, plus (1) Option for every two (2) new shares subscribed under the offer – to raise up to a maximum of \$6.6 million before costs. The Options will have an exercise price of \$0.20 (20 cents) and expire on 31 March 2026. An underwriting commitment has been secured on any shortfall for an additional sum by Mr Otto Buttula’s associated entities, taking his potential commitment to over \$1 million. All other directors with shares have committed to take up all of their entitlement.

A Prospectus dated 19 February 2024 has been lodged with the ASIC in relation to the rights issue and PAC Partners Securities Pty Ltd has been appointed as Lead Manager.

- **EGM**

On 12 February 2024, the Company held an EGM – to vote on the position of Mr Otto Buttula, as an ongoing Director and Chairman of the Company. Shareholders voted against the resolution to remove Mr Otto Buttula as a director of the Company. As a result, Mr Otto Buttula remains a director of the Company.

- **R&D Tax Incentive**

The Company with its professional advisers is in the process of resubmitting a portion of its’ R&D Tax Incentive claim for overseas activities, given the reclassification of current product inventories to research use only (‘RUO’). The outcome of this claim will be advised upon determination.

Review of Prior (1H’FY24) Stated Value Inflection Points

- Finalise Automation Project with Nutripath – **COMPLETED**
- Research & Development Tax Incentive – **1ST TRANCHE RECEIVED, SUBMISSION OF OVERSEAS ACTIVITIES UNDERWAY, GIVEN RECLASSIFICATION OF COLOSTAT® KITS TO RUO**
- Commercialisation / partnering agreements with third parties – **DEFERRED – AS A RESULT OF THE COLOSTAT® RE-DESIGN, THOUGH DISCUSSIONS CONTINUE**
- Progression of the Company’s technology platform expansion program – **INITIAL OUTCOMES RELEASED ON BREAST & LUNG CANCER SCREENING COMPLETED**
- Submit ColoSTAT® publication - **COMPLETED**
- Resubmission plan for ColoSTAT®, incorporating IVDR standards both within Australia and the EU – **SYNOPSIS RELEASED AND ACTIVITIES UNDERWAY**
- Further progress with validation centre project rollout in the UK - **DEFERRED – GIVEN COLOSTAT® RE-DESIGN, NEXT MEETING SET FOR 4Q’FY24**

Matters expected to be delivered upon in 2HFY’24, include:

- Appointment of a suitably qualified CEO;
- ISO Audit;
- Progress updates from our U.S. based CMO on ColoSTAT®;
- 2ND Tranche Research & Development Tax Incentive receipt;
- New patent applications lodgement, extending the duration for ColoSTAT® protection in a broader set of jurisdictions; and
- Establishment of ColoSTAT® Medical Advisory Committee.

DECLARATION OF INDEPENDENCE BY DAVID GARVEY TO THE DIRECTORS OF RHYTHM BIOSCIENCES LIMITED

As lead auditor for the review of Rhythm Biosciences Limited for the half-year ended 31 December 2023, 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.



David Garvey
Director

BDO Audit Pty Ltd

Melbourne, 28 February 2024

Rhythm Biosciences Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2023

		Consolidated	
	Note	31 December 2023	31 December 2022
		\$	\$
Other Revenue			
Research and development grant		1,690,144	2,705,943
Interest income		38,082	108,677
Other grant income		-	15,000
Total revenue		<u>1,728,226</u>	<u>2,829,620</u>
Expenses			
Employment related costs		1,524,026	1,666,005
Share based payments remuneration - options	7	(810,053)	1,909,232
Office and compliance costs		674,639	530,883
Research and development costs		1,210,701	2,220,478
Marketing and investor relations		70,225	89,214
Depreciation		84,601	75,208
Amortisation of intangible assets	5	17,986	17,986
Impairment of inventory	4	3,047,516	-
		<u>5,819,641</u>	<u>6,509,006</u>
Loss before income tax expense		(4,091,415)	(3,679,386)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of Rhythm Biosciences Limited		(4,091,415)	(3,679,386)
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		(4,091,415)	(3,679,386)
		Cents	Cents
Basic (loss) per share		(1.85)	(1.70)
Diluted (loss) per share		(1.85)	(1.70)

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 2023

		Consolidated	
	Note	31 December 2023 \$	30 June 2023 \$
Assets			
Current assets			
Cash and cash equivalents		1,217,988	4,124,181
Trade and other receivables		76,552	65,513
Other financial assets – term deposits		45,000	45,000
Prepayments		45,416	117,569
Inventories – raw materials	4	4,100	2,766,682
Total current assets		<u>1,389,056</u>	<u>7,118,945</u>
Non-current assets			
Intangible assets	5	372,087	390,073
Right-of-use assets		37,041	81,490
Property, plant and equipment		145,869	104,913
Total non-current assets		<u>554,997</u>	<u>576,476</u>
Total assets		<u>1,944,053</u>	<u>7,695,421</u>
Liabilities			
Current liabilities			
Trade and other payables		573,018	1,522,843
Provisions		67,409	158,139
Lease liabilities		38,937	84,606
Total current liabilities		<u>679,364</u>	<u>1,765,588</u>
Non-current liabilities			
Provisions		21,706	55,382
Total non-current liabilities		<u>21,706</u>	<u>55,382</u>
Total liabilities		<u>701,070</u>	<u>1,820,970</u>
Net assets		<u>1,242,983</u>	<u>5,874,451</u>
Equity			
Issued capital	6	31,820,602	31,550,602
Reserves	7	5,331,208	6,141,261
Accumulated losses		(35,908,827)	(31,817,412)
Total equity		<u>1,242,983</u>	<u>5,874,451</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 2023

Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2023	31,550,602	6,141,261	(31,817,412)	5,874,451
Loss after income tax expense for the half-year	-	-	(4,091,415)	(4,091,415)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(4,091,415)	(4,091,415)
Transactions with owners in their capacity as owners:				
Shares issued (net of costs)	270,000	-	-	270,000
Share based payments	-	(810,053)	-	(810,053)
Balance at 31 December 2023	31,820,602	5,331,208	(35,908,827)	1,242,983
Balance at 1 July 2022	27,834,579	3,137,326	(23,599,855)	7,372,050
Loss after income tax expense for the half-year	-	-	(3,679,386)	(3,679,386)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(3,679,386)	(3,679,386)
Transactions with owners in their capacity as owners:				
Shares issued (net of costs)	3,191,023	-	-	3,191,023
Share based payments	-	1,909,232	-	1,909,232
Balance at 31 December 2022	31,025,602	5,046,558	(27,279,241)	8,792,919

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 2023

	Consolidated	
	31 December 2023	31 December 2022
	\$	\$
Cash flows from operating activities		
Research and development incentive	1,690,144	2,705,943
Government grant	-	15,000
Interest received	38,082	103,985
Interest paid	(1,638)	(3,809)
Payments to suppliers and employees (inclusive of GST)	<u>(4,776,425)</u>	<u>(4,622,225)</u>
Net cash used in operating activities	<u>(3,049,837)</u>	<u>(1,801,106)</u>
Cash flows from investing activities		
Payments for property, plant and equipment	<u>(80,686)</u>	<u>(55,160)</u>
Net cash used in investing activities	<u>(80,686)</u>	<u>(55,160)</u>
Cash flows from financing activities		
Proceeds from shares issued	270,000	3,215,240
Payments for capital raising costs	-	(17,635)
Repayment of lease liabilities	<u>(45,670)</u>	<u>(42,121)</u>
Net cash provided by financing activities	<u>224,330</u>	<u>3,155,484</u>
Net (decrease)/increase in cash and cash equivalents	(2,906,193)	1,299,218
Cash and cash equivalents at the beginning of the financial half-year	<u>4,124,181</u>	<u>7,550,424</u>
Cash and cash equivalents at the end of the financial half-year	<u><u>1,217,988</u></u>	<u><u>8,849,642</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 2023 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 2023 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.

New or amended Accounting Standards and Interpretations adopted

In the period ended 31 December 2023, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to the Group and effective for the reporting periods beginning on or after 1 July 2023.

There was no impact on the consolidated entity arising from these new and revised Standards and Interpretations.

Standards and Interpretations in issue not yet adopted

The Directors believe there will be no significant 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 \$4,091,415 (2022: \$3,679,386) and had cash outflows from operating activities of \$3,049,837 (2022: \$1,801,106) for the half-year ended 31 December 2023. At balance date the consolidated entity has current assets including cash and cash equivalents of \$1,389,056. The consolidated entity is in start-up phase and does not yet have a commercial 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 2023, the consolidated entity had a cash position of \$1,217,988;
- a further research and development refund, based on eligible overseas expenditure incurred during the 2023 financial year, is expected to be received in the second half of FY2024;
- the company has the potential to raise additional capital from investors. After balance date the company has announced a non-renounceable rights issue seeking to raise a maximum of \$6.6 million before costs (refer to Note 9); and
- the consolidated entity is progressing towards commercialisation and is able to scale back activity if required for cash flow management purposes.

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.

Share-based payments

Rhythm operates an Employee Incentive Omnibus Plan (EIOP). 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. The probability of meeting any vesting conditions is also required to be estimated.

Research and development tax refund income

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. Significant judgement is required in determining the income tax refund eligibility. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The amounts recorded as revenue for the half-year periods ended 31 December 2023 and 2022 relate to tax refunds received in the same half-year period following tax returns lodged claiming eligible expenditure incurred in the previous financial year.

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.

Estimated Useful Lives of Other Intangible Assets

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

Provision for Impairment of Inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account expected future sales, the ageing of inventories and other factors that affect inventory obsolescence.

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. Inventories – raw materials

	31 December 2023	31 December 2022
	\$	\$
Balance at the beginning of the period	2,766,682	-
Additions	225,619	-
Transfers from prepayments	59,315	-
Impairment (i)	<u>(3,047,516)</u>	-
Balance at the end of the period	<u>4,100</u>	-

Rhythm Biosciences Limited
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(i) Following a strategic review, inventory on hand is to be used for research and development use rather than commercial sales.

Note 5. Intangible assets

	31 December 2023	31 December 2022
	Licences \$	Licences \$
Balance at the beginning of the period	390,073	426,044
Amortisation	(17,986)	(17,986)
	<hr/>	<hr/>
Balance at the end of the period	<u>372,087</u>	<u>408,058</u>

Note 6. Equity - issued capital

	Consolidated	
	31 December 2023	31 December 2023
	Shares	\$
Ordinary shares - fully paid	221,142,589	31,820,602
Movements during the period:		
Opening balance 1 July 2023	219,792,589	31,550,602
Exercise of Options	1,350,000	270,000
Capital raising costs	-	-
Closing balance 31 December 2023	<u>221,142,589</u>	<u>31,820,602</u>

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 7. Equity - reserves

	Consolidated	
	31 December 2023	30 June 2023
	\$	\$
Share-based payments reserve	<u>5,331,208</u>	<u>6,141,261</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.

Rhythm Biosciences Limited
Notes to the financial statements
31 December 2023

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 2023	6,141,261
Options	<u>(810,053)</u>
Balance at 31 December 2023	<u>5,331,208</u>

Note 7. Equity – reserves (continued)

Set out below are summaries of options granted to consultants, key management personnel and other employees:

Grant date	Expiry date	Exercise price	Balance at the start of the half-year	Granted	Exercised	Lapsed	Balance at the end of the half-year
14/9/2020	14/9/2023	\$0.20	587,500	-	(225,000)	(362,500)	-
18/11/2020	14/9/2023	\$0.20	1,125,000	-	(1,125,000)	-	-
26/7/2021	31/7/2024 *	\$1.80	807,500	-	-	(595,000)	212,500
26/7/2021	31/7/2024	\$1.80	1,000,000	-	-	-	1,000,000
24/11/2021	31/7/2024 **	\$1.80	1,450,000	-	-	-	1,450,000
29/11/2022	30/11/2025	\$1.80	150,000	-	-	(150,000)	-
31/12/2022	31/12/2025 ***	\$1.80	7,800,000	-	-	(4,800,000)	3,000,000
10/10/2023	30/11/2025 ****	\$1.80	-	200,000	-	-	200,000
			12,920,000	200,000	(1,350,000)	(5,907,500)	5,862,500

* Vesting conditions relate to 106,250 of these remaining options not yet achieved.

** Vesting conditions relate to 662,500 of these remaining options not yet achieved.

*** Vesting conditions relate to 1,500,000 of these remaining options not yet achieved.

**** Vesting conditions relate to 150,000 of these remaining options not yet achieved.

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

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
10/10/2023	30/11/2025	\$0.32	\$1.80	100.00%	-	3.97%	\$0.06

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

Note 8. Related party transactions

There were no transactions with related parties during the half-year other than directors' remuneration.

Note 9. Events after the reporting period

On 9 February 2024, the Company announced on the ASX the undertaking of a non-renounceable rights issue on the basis of three (3) new shares of every ten (10) shares held at an issue price of \$0.10 (ten cents) per new share, plus (1) Option for every two (2) new shares subscribed under the offer – to raise up to a maximum of \$6.6 million before costs. The Options will have an exercise price of \$0.20 (20 cents) and expire on 31 March 2026. An underwriting commitment has been secured on any shortfall for an additional sum by Mr Otto Buttula's associated entities, taking his potential commitment to over \$1 million. All other directors with shares have committed to take up all of their entitlement.

A Prospectus dated 19 February 2024 has been lodged with the ASIC in relation to the rights issue and PAC Partners Securities Pty Ltd has been appointed as Lead Manager.

On 12 February 2024, the Company held an EGM – to vote on the position of Mr Otto Buttula, as an ongoing Director and of the Company. Shareholders voted against the resolution to remove Mr Otto Buttula as a director of the Company. As a result, Mr Otto Buttula remains a director of the Company.

No other matters or circumstances have arisen since 31 December 2023 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
31 December 2023

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 2023 and of its performance for the financial half-year ended on that date; and
- for the reasons set out in Note 1 to the financial statements in relation to going concern, 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
Executive-Chairman

28 February 2024

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 2023, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the half-year ended on that date, material accounting policy information 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 accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2023 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*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of 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 the audit of the annual 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 the same terms if given to the directors as at the time of this auditor's review report.

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.



Responsibility of the directors for the 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether 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 2023 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*.

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.

BDO Audit Pty Ltd

A handwritten signature in blue ink, appearing to read 'David Garvey'. Above the signature, the letters 'BDO' are written in a stylized, cursive blue ink.

David Garvey
Director

Melbourne, 28 February 2024