RHYTHM™
BIOSCIENCES

RHYTHM BIOSCIENCES LIMITED

2018 ANNUAL REPORT

ACN 619 459 335

COLORECTAL CANCER IS A SIGNIFICANT GLOBAL HEALTH RISK EARLY DETECTION CAN INCREASE CURE RATES BY 90%

CONTENTS

RHYTHM BIOSCIENCES IS HITTING ITS MILESTONES AND REMAINS ON TRACK

- IPO Listing in December 2017 – Well funded to hit business milestones
- Solid cash position – $7.8M, in bank 30 June 2018
- Strong management and Board
- Strong global patent position
- Engagement with CSIRO to develop key reagents
- Strong progress on reagent development
- Kit development and optimisation on track
- Trials 6 and 7 are on track

Company Overview

Rhythm Biosciences Snapshot

Rhythm Biosciences Limited is striving to develop and commercialise Australian medical diagnostics technology for sale to national and international markets. Rhythm currently has one wholly owned subsidiary, Vision Tech Bio Pty Ltd. Vision Tech holds the Licence underpinning the current colerectal diagnostic technology and is translating it to clinical application on behalf of Rhythm.

After considering the colorectal cancer diagnostic and screening market, Rhythm believes that a new, simple blood test for colorectal cancer, whether used as a first-step screening test or in the triage of persons with a positive FIT result before colonoscopy, could play an important role in reducing the morbidity, mortality and healthcare costs associated with colorectal cancer.

Rhythm has global patent rights to the technology, creating an enviable position and an ideal platform to make a global difference.

Rhythm Biosciences

An Australian medical diagnostics technology company

Initial Proposed Product

ColoSTAT™ — a test being developed for the accurate early detection of colorectal cancer

Aim

To reduce the impact of colorectal cancer globally through improved diagnosis

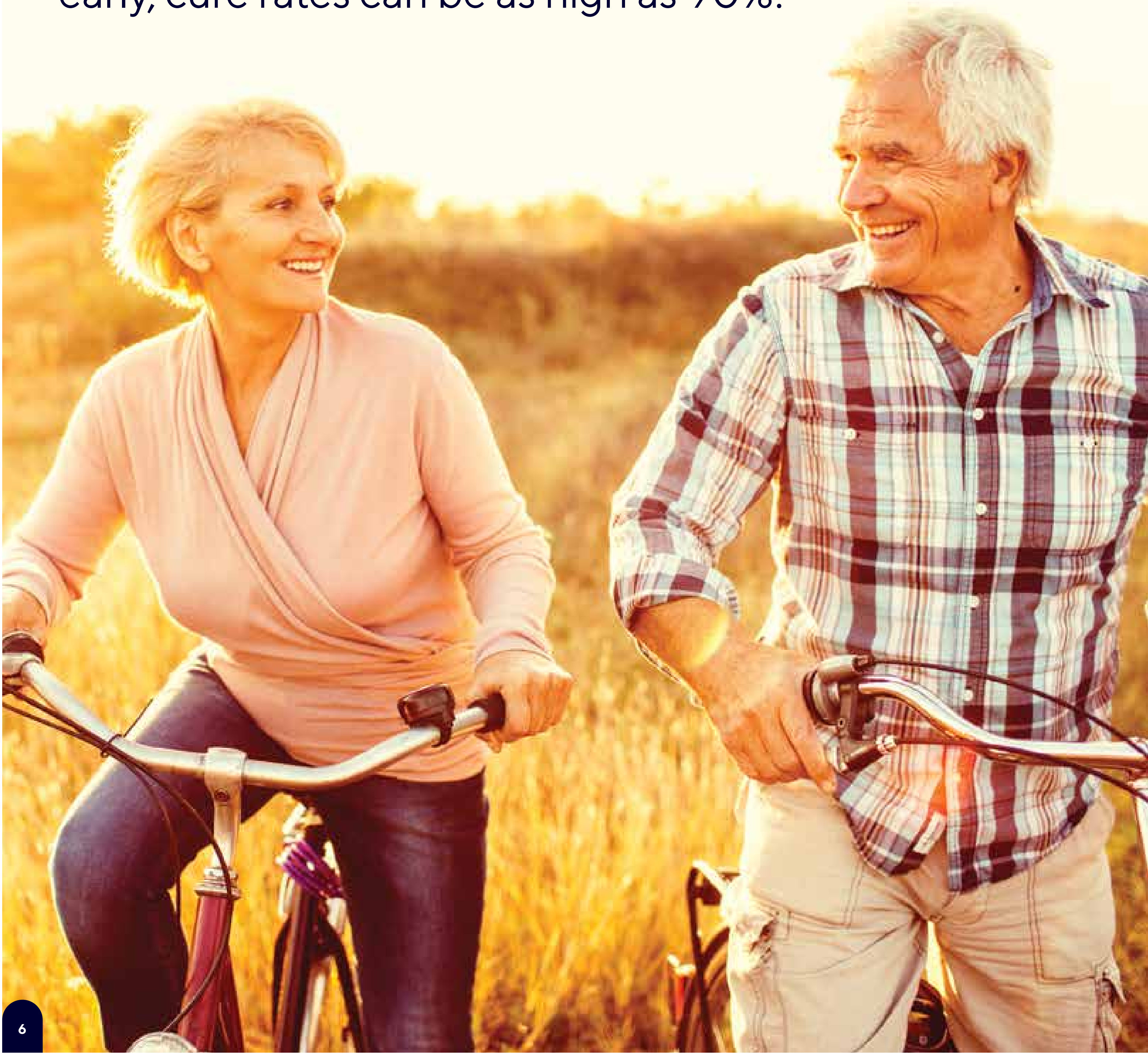
Path to Commercialisation

13 years of research has been directed toward the ColoSTAT™ technology. Rhythm is now applying the significant product development and commercialisation expertise of its Board and management to seek to take the potentially life-saving technology from the research laboratory into an in-market In Vitro Diagnostic (IVD) medical device.

1. Reagent Development
2. IVD Kit Development and Production Transfer
3. Clinical Trial
4. Regulatory Submissions (Europe and Australia)

COLORECTAL CANCER IS A SIGNIFICANT GLOBAL HEALTH RISK

Colorectal cancer is currently the 2nd most prevalent in Australia, Europe and the United States, and 3rd largest cause of cancer related deaths globally. If detected early, cure rates can be as high as 90%.



The risk of developing colorectal cancer rises dramatically above the age of 50. In countries such as Australia, UK, US and much of the EU, colorectal cancer screening is recommended for everyone between the ages of 50 and 74 years but the majority of this elevated-risk section of the population remain under-screened. Colonoscopies, the most reliable diagnostic test for colorectal cancer, are invasive and expensive, while faecal tests can be off-putting lowering take-up.

Rhythm is striving to address this market opportunity with its prospective product, ColoSTAT™, a proposed lower cost, lower risk screening blood test for the accurate and early detection of colorectal cancer.

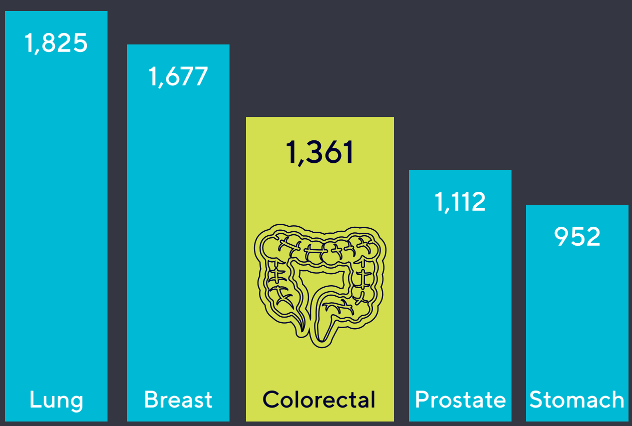
Colorectal Cancer is the
2nd most prevalent cause of cancer related deaths
in the US, UK and EU

Elevated risk people
remain under-screened
as current tests can be either off-putting or expensive

ColoSTAT™ —
a prospective blood test for the
accurate early detection of
colorectal cancer

New cases of various cancers globally and deaths for colorectal cancers globally in 2012

Number of new cancer cases diagnosed globally ('000s)



Number of colorectal cancer deaths
Global: 694,000
3rd largest cause of cancer death

US: 55,000
2nd most prevalent cause of cancer death

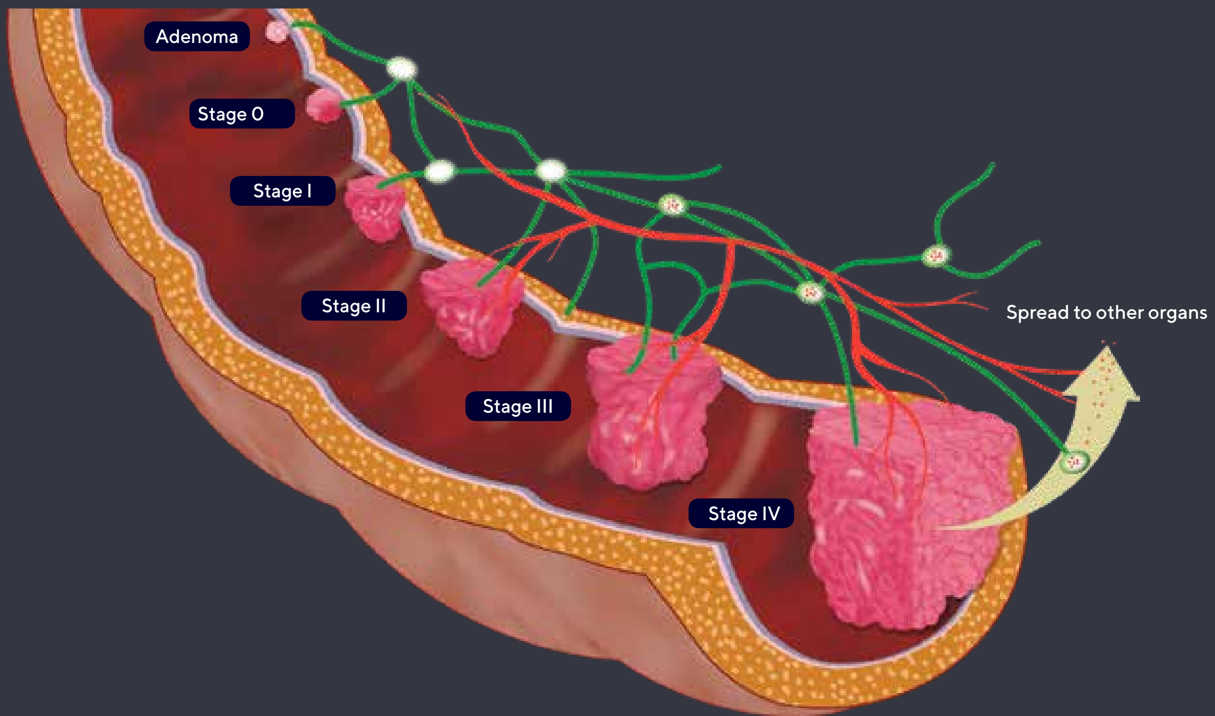
Europe: 152,000
2nd most prevalent cause of cancer death

Australia: 4,100
2nd most prevalent cause of cancer death

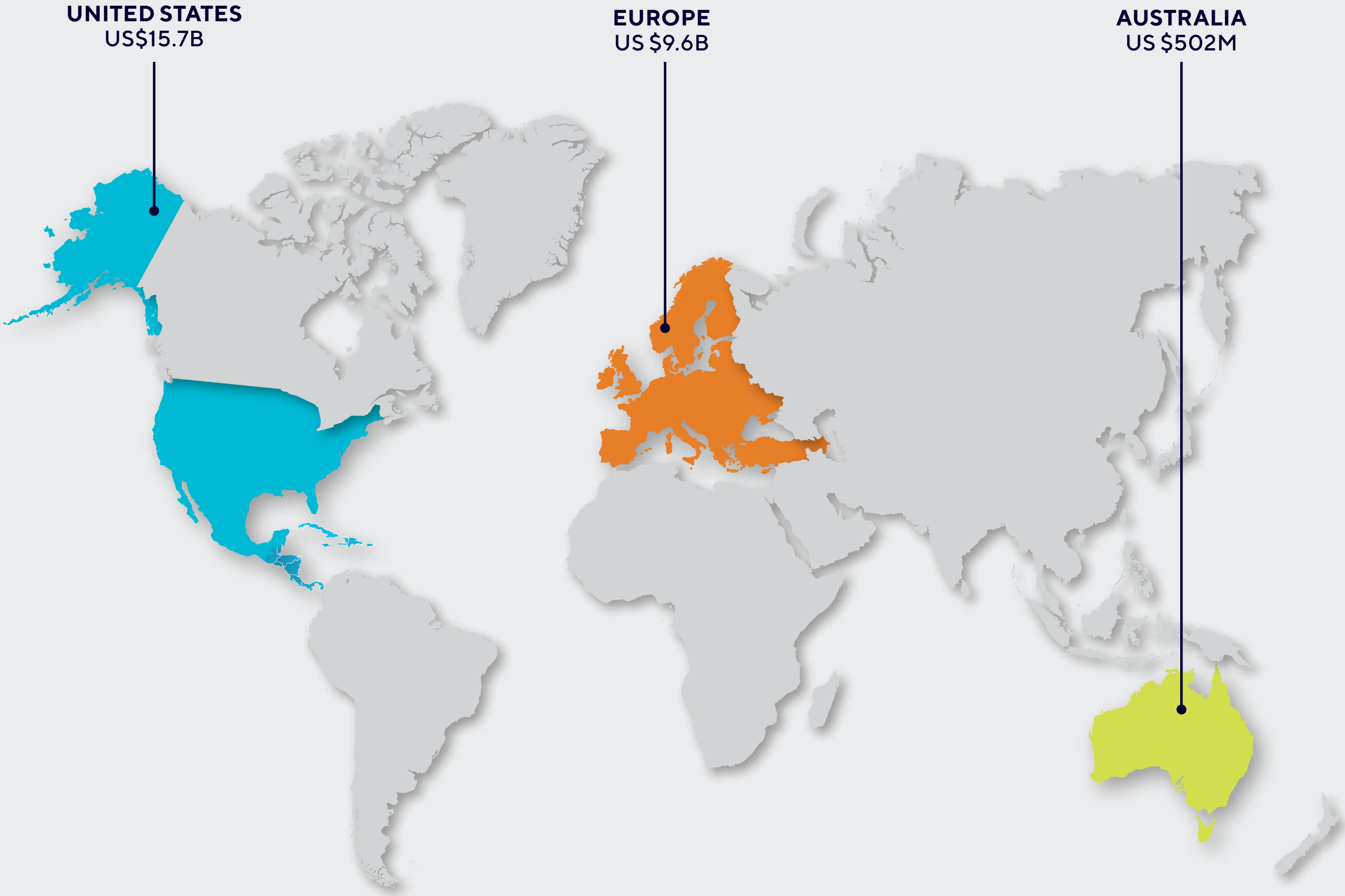
Source: *World Cancer Research Fund International, WHO 2015.*

Description of colorectal cancer by stage and associated survival rates

Stage	0	I	II	III	IV
Description	Abnormal cells are found in the epithelium (mucosal layer) lining the bowel wall, most often outgrowths (adenomas or polyps). These abnormal cells may become cancer and spread.	Tumour has invaded beyond the epithelium of bowel into the muscle layers below but has not spread past the bowel wall.	Cancer has grown through the muscle layer of the bowel and invaded nearby tissue, but has not spread to the lymph nodes	Cancer has spread to the nearby lymph nodes but not to other parts of the body	Metastatic bowel cancer where it has spread beyond the colon and rectum to other organs such as the liver or lung.
5-year % survival rate	>96%	93%	82%	59%	8%
Treatment	Typically, surgery to remove the adenoma or local excision through a colonoscope. Removing part of the colon (partial colectomy) is occasionally needed if a tumour is larger.	Cancers of this stage require removal of the affected section of the large bowel and sometimes lymph node clearance but typically no additional treatment is necessary.	Partial colectomy along with dissection of nearby lymph nodes may be the only treatment needed. Adjuvant chemotherapy may also be required.	Partial colectomy along with dissection of nearby lymph nodes, along with adjuvant chemotherapy. If rectal, radiation therapy and/or chemo may be options for people not healthy enough for surgery.	Neoadjuvant chemotherapy to reduce tumour size, surgery and/or tumour stenting. Additional therapies also needed as well as radiation therapy and still only an 8% chance of survival.



Economic burden of colorectal cancer



Estimated colorectal cancer unscreened elevated-risk population in Rhythm's initial target markets[1]

	United States	Europe	Australia	Total
Population between 50-74 years old	91.2M	153.4M	6.4M	251.0M
Estimated screening participation rate[2]	62.6%	38.2%	46.6%	(52.7%)
Estimated unscreened elevated-risk population	34.1M	94.8M	3.4M	132.3M

Notes:

1. *Sources include regional census data and government statistics, and screening figures from the American Cancer Society, Australian Institute of Health and Welfare and the International Agency for Research on Cancer.*
2. *Includes FOBT/FIT for EU-28 , FOBT/FIT and colonoscopies for Australia the US.*

SHANE TANNER
CHAIRMAN

On behalf of the Rhythm Biosciences board, it gives me great pleasure to present our inaugural annual report as an ASX listed company following our successful listing last December.

I would like to highlight some key achievements, in what was a busy and productive period. With the backing of key shareholders including the CSIRO, Rhythm listed in December last year, having raised $9m by issuing 45m shares at 20 cents a share.

In its short listed life, the company made great progress on its core objective of developing its lead product ColoSTAT, a simple, low cost and effective blood test for colorectal cancer.

With the initial stage of the reagent development program approaching completion, our focus now turns to developing the commercial testing kits.

Among the year's highlights, in May we received a confirmation that our European patent had been listed in the patent offices of the 13 key European countries targeted by Rhythm. This adds to our existing patent protection in Australia, China and Japan and to applications still pending in the US, Brazil and India.

Achieving patent protection is an important milestone for the company. With our IP secured, we can move to commercialising our ColoSTAT strategy in the UK and in Europe.

We also expect to apply to the local Therapeutics Goods Administration, in view of a listing for ColoSTAT on the Australian Register of Therapeutic Goods.

Financially, we finished the 2017-18 financial year with a cash balance of $7.8m – enough to fund our operations for the foreseeable future. Our strong financial position has also been supported by some key management appointments in the period.

In May, Rhythm bolstered its management team by appointing experienced health sector executive Glenn Gilbert as chief operating officer. Mr Gilbert has held various roles at the ASX listed pharmaceutical company Medical Developments International, most recently as head of sales and marketing with oversight of global product commercialisation. Previously, Mr Gilbert held leadership roles at CSL's biotherapeutics arm, now known as Seqirus.

Rhythm Biosciences is ably led by our CEO, Dr Trevor Lockett, who has wide experience in multidisciplinary research including prostate cancer gene therapies and colorectal cancer prevention. Trevor was a member of the CSIRO and clinical team that developed ColoSTAT.

Dr Lockett will outline Rhythm's clinical and commercial progress in detail in his report.

I would also like to thank fellow directors Lou Panaccio and David White for their diligent efforts and wise counsel during the period.

I also take the opportunity to thank all of our shareholders for their support, both ahead of and after the listing.

We especially acknowledge the ongoing backing of Merchant Group's specialist life sciences fund, which owns 8% of the company having increased its stake from 5% in June.

Of course we also have the ongoing backing of our collaboration partner, the CSIRO (from which our IP derived).

In the meantime colorectal cancer remains the third biggest cause of cancer death in the world. By detecting the cancer earlier, ColoSTAT promises to be an important tool for early detection – and thus early treatment – of the disease.

Aimed at being affordable and effective, ColoSTAT has the potential to play an important role in reducing morbidities, mortalities and healthcare costs associated with colorectal cancer. The coming year shapes up as a pivotal and exciting one for Rhythm in achieving this aim.

Shane Tanner
Chairman

TREVOR LOCKETT
MANAGING DIRECTOR

The 2017-18 year was a transformative one for Rhythm Biosciences. From acquiring a shiny new ABN on 1 June 2017 to ASX listed company status last December, the listing has enhanced the Company's profile and provided improved access to capital as well as demands for higher standards of corporate governance and compliance.

Rhythm is developing and commercialising ColoSTAT as a global screening tool for the early detection of colorectal cancer, the third biggest cause of cancer-related deaths globally and the second biggest in Australia, the US and Europe.

When detected at its earliest stages colorectal cancers can be removed during a colonoscopy procedure with cure rates as high as 90%.

As the cancer progresses and grows deeper into the bowel wall, the surgical procedures required become increasingly complex, the likelihood of metastasis rises and the need for adjunct treatments such as radiation and chemotherapy increases with cure rates falling as low as 8% for patients presenting with advanced stage colorectal cancer.

Early stage sufferers may have no symptoms and the absence of bleeding can make the disease difficult to diagnose at this stage using conventional faecal screening tests (faecal immunochemical tests, or FITs) which measure the level of blood in stool.

Globally, the clinical benefits of early detection and surgical intervention in colorectal cancer are well recognised. But uptake rates from the National Bowel Cancer Screening Program have been disappointing, due in part to people's reticence to collect and manipulate their own stool as is required for performance of the faecal test.

The incidence of colorectal cancer increases rapidly after the age of 50 years. It's estimated that 250 million people in the main western geographies we will be targeting, could benefit from participating in a regular colorectal cancer screening program, – yet more than half – don't. That's where ColoSTAT has a life-saving role to play.

ColoSTAT is intended to be a simple, affordable, minimally invasive and effective blood test to identify those at a high risk of having colorectal cancer.

Patients with a positive test result will be recommended to progress to colonoscopy for a definitive diagnosis and treatment if required.

From clinical trial results to date, ColoSTAT's performance is expected to be comparable to, if not better than the faecal test currently approved for screening asymptomatic individuals over the age of 50 years in many countries around the world, including Australia.

ColoSTAT works by using antibodies to measure the levels of several proteins in the blood which can be indicative of colorectal cancer when present in certain concentrations. When these concentration values are combined using a proprietary algorithm, the resultant cancer risk index is compared to a predetermined threshold value. ColoSTAT today builds on 13 years of research by highly trained CSIRO scientists.

While still in development phase, ColoSTAT has the potential to be used either as a first-step screening test, or a prioritisation (triage) tool for colonoscopy follow-up in the event of positive FIT result.

In the meantime, our two-year strategy to deliver applications for regulatory approval to sell ColoSTAT in Europe and Australia to be lodged in early 2020, as outlined in our prospectus, is on track.

But to achieve commercialisation, there's plenty of detailed ground work currently underway in building a test that is robust, reproducible, affordable and market-ready. I'm happy to report our recently appointed scientists – as well as our CSIRO collaborators – are making excellent progress.

The first stage of the ColoSTAT program has centered on reagent development; replicating the monoclonal antibody and target protein ´ingredients´ that will form the core reagents for our test kits.

The company always intended to develop its own antibodies and target proteins to ensure it controls the supply, quality and cost of these key reagents. This will ensure reliable, long term, scalable manufacture of the kits.

As part of the technology licence from CSIRO, Rhythm already had access to cell lines necessary for the production of its own its reagents for most of the targets for its lead ColoSTAT test. Under a contract with CSIRO signed in January, CSIRO researchers have been developing antibodies for the last of these targets and evaluating their performance relative to commercially available reagents.

We are pleased to report that the first component of this key program, the development of cell lines producing monoclonal antibodies that recognize that target protein, was completed successfully, on budget and ahead of schedule.

Generating, cloning and screening the antibody-producing cell lines has been a major technical achievement.

This work was assisted significantly by a $50,000 CSIRO Kick Start grant awarded to Rhythm and CSIRO to offset some of the $413,000 cost of this project. The CSIRO Kick-Start program has been designed to help start-ups and small businesses access research expertise and capabilities and for Rhythm, it has proven very helpful.

The CSIRO and Rhythm teams have done an excellent job in carrying out this R&D, putting Rhythm in a strong position to develop quality assay kits.

The next component of this program – the detailed characterisation of the monoclonal antibodies produced by the cell lines – at the time of writing was on schedule to be completed in late-September 2018.

The key outcome from this phase of our broader product development program will be a 'biobank' of cell lines that will underpin the long term, sustainable capacity to produce the antibody and target protein reagents critical to our ColoSTAT test. Delivery of these key reagents and cell lines is expected by late November 2018.

On completion of laboratory scale reagent production and purification, we will develop standard operating procedures to support up-scaled production of the reagents by a contract manufacturer.

We will also develop and refine specifications for a set of enzyme-linked immunosorbent assays that will form the basis for our commercial ColoSTAT test kit.

This kit qualification data will form one important component of the information dossier that will be submitted to the European and Australian regulators in Rhythm's pursuit of a CE mark and listing on the Australian Register of Therapeutic Goods respectively.

Clinical support for these applications will come in the form of two ways. The first of these will be validation of the performance of Rhythm's kits in blood samples previously collected from patients with known colorectal cancer and health controls. This study is planned to commence late 2018.

We then intend to carry out a 1000-patient clinical trial (referred to as Study 7) on blood samples drawn prospectively from volunteers referred for colonoscopy at a limited number of major colonoscopy clinics in Adelaide and Melbourne.

Along with the background information gathered in studies 1-5, these new data from Studies 6 and 7 will form the critical keystone of our information dossiers for submission to the European and Australian regulators

We are confident of the science behind our tests and are moving as fast as we can to progress to and through the clinical testing phase.

As we look forward, our product development program is expected to transition to test verification, validation and technology transfer that will facilitate manufacture and clinical validation.

Importantly our new appointments have enabled us to ramp up establishment of our quality assurance management systems as we strive towards ISO13485 certification by the end of Q2 CY2019.

They are also allowing us to begin refining our commercialisation strategies for each of our key target jurisdictions to facilitate their timely implementation in concert with the achievement of key technological milestones for our lead ColoSTAT test.

I am indebted to our strong, experienced board and the whole Rhythm team, all of whom have worked with energy and purpose to position the company strongly to deliver on its goal of bringing a simple, accurate affordable blood test for colorectal cancer to the market where it can be used by millions to save thousands of lives worldwide.

Along with building shareholder value, we will continue to be driven by this key imperative.

We look forward to updating investors on clinical and commercial progress in the coming months.

Directors' Report

The Directors of Rhythm Biosciences Limited (Rhythm, the Group, or the Company) present their report for the financial year ended 30 June 2018.

Directors

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

Mr Shane Tanner
Dr Trevor Lockett
Mr Louis (Lou) Panaccio (appointed 1 August 2017)
Mr David White

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.

The Company commenced trading on the Australian Securities Exchange on 7 December 2017.

Corporate Information

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

The registered office and principal place of business is located at Level 17, 500 Collins Street, Melbourne Victoria, Australia, 3000.

Review of Operations

The Group incurred a loss after income tax of $1,753,480 for the year ended 30 June 2018 (2017: $72.127).

The Chairman's Letter and Managing Director's Report contain a review of operations on pages 10 and 12..

Significant Changes in the State of Affairs

On 25 August 2017, the consolidated entity executed its Licence Agreement with CSIRO.

On 29 August 2017, the Company issued 15,000,000 fully paid ordinary shares raising $1,500,000.

On 1 September 2017, the Company issued 2,500,000 fully paid ordinary shares to finalise the licence agreement.

On 4 December 2017, the Company was officially listed on the Australian Securities Exchange. As part of this process, the Company issued 45,000,000 fully paid ordinary shares raising $9,000,000 before associated costs. 750,000 ordinary shares were also issued to settle certain IPO expenses.

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

Future Developments

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

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

Dividends

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

Directors and Company Secretary

Names, qualifications and experience

Name	Shane Tanner
Title	Non-Executive Chairman
Experience and expertise	An experienced, accomplished and highly-respected professional in the Australian Healthcare sector, Shane has orchestrated and been responsible for numerous small and large scale acquisitions. He also has helped to establish and guide a number of significant businesses where he was deeply involved in growth and management upskilling.
Other current directorships	Paragon Care Limited Zenitas Healthcare Limited Funtastic Limited
Former directorships (last 3 years)	None
Interests in shares	1,600,000 fully paid ordinary shares
Interests in options	Nil

Name	Dr Trevor Lockett
Title	Chief Executive Officer and Managing Director
Experience and expertise	A molecular biologist by trade, Trevor Lockett received his PhD in biochemistry from the University of Adelaide and postdoctoral experience at the Rockefeller University in New York. With over 30 years of research experience, predominantly at the CSIRO, Trevor has led large, multidisciplinary research efforts in the areas of prostate cancer gene therapy, colorectal cancer prevention and the promotion of gastrointestinal health. In his role as Theme Leader, Colorectal Cancer and Gut Health, Trevor oversaw the research efforts leading to the technology that is to become ColoSTAT™.
Other current directorships	None
Former directorships (last 3 years)	None
Interests in shares	100,000 fully paid ordinary shares
Interests in options	2,000,000 options with an exercise price of 30 cents expiring on 7 December 2020

Name	David White
Title	Non-Executive Director
Experience and expertise	David is based in Chicago in the US and is currently the Vice President of Business Development for Bluechiip Limited. Bluechiip is an ASX listed company with unique technology that assists Biotech and Pharmaceutical companies to track biological samples in and out of cryogenic storage. Prior to Bluechiip, David spent 4 years with Planet Innovation in Project Management and Business Development roles, assisting PI in commercializing their IP in the Point of Care diagnostics space. David brings over 20 years' experience with diverse companies such as GenMark Diagnostics and Leica Biosystems in developing, marketing and selling IVD products in regulated markets. David's experience, networks and contacts within the US diagnostics market will accelerate the path to commercialization in this key geography.

Other current directorships	None
Former directorships (last 3 years)	None
Interests in shares	500,000 fully paid ordinary shares
Interests in options	Nil

Name	Lou Panaccio (appointed 1 August 2017)
Title	Non-Executive Director
Experience and expertise	A chartered accountant with extensive management experience in business and healthcare services. He is currently on the boards of ASX listed companies Sonic Healthcare Limited, Genera Biosystems Limited and Avita Medical Limited. Lou is also on the board of Unison Housing Limited. Lou has more than twenty years' experience as a board member of both public and private, for profit and not for profit companies. Previously, Lou was the CEO of Melbourne Pathology and Monash IVF, and also executive Chairman of Health Networks Australia.
Other current directorships	Sonic Healthcare Limited Genera Biosystems Limited Avita Medical Limited
Former directorships (last 3 years)	None
Interests in shares	500,000 fully paid ordinary shares
Interests in options	Nil

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

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

Company Secretary

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

Meetings of Directors

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

Director	Directors' Meetings	
	Held	Attended
Mr S Tanner	9	9
Dr T Lockett	9	9
Mr L Panaccio	9	8
Mr D White	9	9

Corporate Governance

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

The Remuneration Report, which forms part of the Directors' report, sets out information about the remuneration of the Company's Directors and its Key Management Personnel for the financial year ended 30 June 2018.

Remuneration Report (Audited)

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

Name	Position	Date Appointed to Position
Mr Shane Tanner	Non-Executive Chairman	1 June 2017
Dr Trevor Lockett	Managing Director	1 June 2017
Mr Louis (Lou) Panaccio	Non-Executive Director	1 August 2017
Mr David White	Non-Executive Director	1 June 2017
Mr Glenn Gilbert	Chief Operating Officer	21 May 2018
Mr Adrien Wing	Company Secretary	1 June 2017

Directors' and Key Management Personnel Interests in Shares and Options

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

Name	Position	Total Number of Ordinary Shares	Total Number of Options
Mr Shane Tanner	Non-Executive Chairman	1,600,000	-
Dr Trevor Lockett	Managing Director	100,000	2,000,000
Mr Louis (Lou) Panaccio	Non-Executive Director	500,000	-
Mr David White	Non-Executive Director	500,000	-
Mr Glenn Gilbert	Chief Operating Officer	-	1,000,000
Mr Adrien Wing	Company Secretary	11,100,000	-
		13,800,000	**3,000,000**

Remuneration Policy

The aim of the Company's remuneration policy is to align the interests of directors and employees with those of shareholders. To do this Rhythm:

Sets remuneration levels that attract and retain highly skilled and experienced directors and employees; and

Motivates and rewards performance that advances the Company's strategic goals.

Remuneration Structure

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

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

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

Short-Term Incentive Plan

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

Directors' Report

Long-Term Incentive Plan

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

During the year, 3,000,000 Options were issued to key management personnel. The fair value of employee share options is $194,100 (2017: $nil). This amount is expensed over the life of the relevant vesting periods. $89,486 was expensed in the current financial year (2017: $nil).

The options are issued for nil consideration and are granted in accordance with performance guidelines established by the Board.

The following share-based payment arrangements existed at 30 June 2018:

Number of Options	Exercise Price ($)	Grant Date	Vesting Period	Vesting Date	Expiry Date	Holder	Fair Value per Option at Grant Date
2,000,000	$0.30	21.7.2017	1 year	21.7.2018	7.12.2020	Dr T Lockett	$0.045
1,000,000	$0.20	21.5.2018	Within 2 years	Various	21.5.2021	G Gilbert	$0.105
3,000,000	**TOTAL ESOP OPTIONS**						

Vesting basis: to remain employed by Rhythm at vesting date (ranging from 12 to 24 months).

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

Movement in the number of share options on issue

	2018 Number of Options	2018 Weighted Average Exercise Price (cents)	2017 Number of Options	2017 Weighted Average Exercise Price (cents)
Opening balance	-	-	-	-
Granted	3,000,000	26.67	-	-
Outstanding at year-end	**3,000,000**	**26.67**	**-**	**-**
Exercisable at year-end	-	-	-	-

Non-Executive Director Remuneration

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

For the 2018 financial year, the Australian based Non-executive Chairman's fees were $84,000 per annum while the Australian based Non-executive Directors' fees were $38,500 for 11 months from 1 August 2017 ($42,000 per annum). The United States based Non-executive Directors' fees were $36,000 per annum. No options were issued to Non-Executive Directors under the ESOP during the 2018 financial year.

Key Terms of the CEO's employment contract

The Company entered into an executive services agreement on 23 June 2017 for Dr Trevor Lockett to receive an annual salary of $200,000 (plus 15% superannuation). Trevor's engagement as Managing Director was for an initial term of one year, with an option for a further term of 12 months if agreed by both parties. The Company has also issued Trevor 2,000,000 unlisted Options exercisable at 30 cents on or before 7 December 2020. Trevor may also receive short-term and/or long-term incentives. The payment of incentives is dependent upon Trevor's performance, as assessed by the Board, against key performance indicators relating to the Company's commercial, business and research and development goals. The Company may terminate Trevor's employment upon 3 months' written notice.

Key Terms of the COO's employment contract

The Company entered into an executive services agreement commencing on 21 May 2018 for Mr Glenn Gilbert to receive an annual salary of $190,000 (plus 9.5% superannuation). Glenn's employment as Chief Operating Officer is subject to an annual salary review to be conducted by the Company. The Company has also issued Glenn 1,000,000 unlisted Options which vest over a 2 year period, exercisable at 20 cents on or before 21 May 2021. Glenn may also receive short-term incentives dependent upon performance, as assessed against key performance indicators. The Company may terminate Glenn's employment upon 3 months' written notice.

Details of the remuneration of Directors and Key Management Personnel for the 2018 financial year are provided below:

	Short-term Benefits							
	Cash salary and fees ($)	Cash bonus ($)	Non-monetary benefits ($)	Consultancy ($)	Post-employment Superannuation ($)	Equity-based compensation Options ($)	Total ($)	% of Total Performance Based
Non-Executive Directors								
S Tanner	84,000	-	-	-	-	-	84,000	-
D White	36,000	-	-	-	-	-	36,000	-
L Panaccio	38,500	-	-	-	-	-	38,500	-
Managing Director and Executives								
T Lockett	192,064	-	-	-	28,810	83,879	304,753	27.5
G Gilbert	23,406	-	-	-	2,224	5,607	31,237	17.9
Company Secretary								
A Wing	114,400	-	-	-	-	-	114,400	-
TOTAL	**488,370**	**-**	**-**	**-**	**31,034**	**89,486**	**608,890**	

Details of the remuneration of Directors and Key Management Personnel for the 2017 financial year are provided below:

	Short-term Benefits							
	Cash salary and fees ($)	Cash bonus ($)	Non-monetary benefits ($)	Consultancy ($)	Post-employment Superannuation ($)	Equity-based compensation Options ($)	Total ($)	% of Total Performance Based
Non-Executive Directors								
S Tanner	7,000	-	-	-	-	-	7,000	-
D White	-	-	-	-	-	-	-	-
Managing Director and Executives								
T Lockett	-	-	-	-	-	-	-	-
Company Secretary								
A Wing	-	-	-	-	-	-	-	-
TOTAL	**7,000**	**-**	**-**	**-**	**-**	**-**	**7,000**	**-**

There were no bonuses paid to key management personnel for the current or prior financial year.

Share-Based Payments

The Group operates an Employee Share Option Plan (ESOP). Each option provides the holder with the right to purchase an ordinary share in the parent entity at a pre-determined price. During the financial year ended 30 June 2018, 3,000,000 (2017: nil) new options were issued pursuant to the Group's ESOP. Options offered to Rhythm Directors and staff are subject to a number of conditions which can restrict both vesting and the exercising of the options. At the date of the Directors Report a total of 3,000,000 options were on issue.

There were no ordinary shares issued during the financial year from the exercise of employee share options.

Option Holdings

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

	Balance at Beginning of Year	Granted During Year	Exercised During Year	Lapsed During Year	Balance at End of Year	Vested and Exercisable at End of Year	Unvested at End of Year
Non-Executive Directors							
S Tanner	–	–	–	–	–	–	–
D White	–	–	–	–	–	–	–
L Panaccio	–	–	–	–	–	–	–
Managing Director and Executives							
T Lockett	–	2,000,000	–	–	2,000,000	–	2,000,000
G Gilbert	–	1,000,000	–	–	1,000,000	–	1,000,000
Company Secretary							
A Wing	–	–	–	–	–	–	–
TOTAL	**–**	**3,000,000**	**–**	**–**	**3,000,000**	**–**	**3,000,000**

Shareholdings

The number of ordinary shares in the Company held during and at the end of the 2018 financial year by each Director and Key Management Personnel of the Group, including related parties, are set out below.

	Balance at Beginning of Year	Share-based compensation	Exercise of Options	Other transactions with Company	On-market and other transactions	Balance at End of Year
Non-Executive Directors						
S Tanner	1,000,000	–	–	–	600,000	1,600,000
D White	500,000	–	–	–	–	500,000
L Panaccio	–	–	–	–	500,000	500,000
Managing Director and Executives						
T Lockett	–	–	–	–	100,000	100,000
G Gilbert	–	–	–	–	–	–
Company Secretary						
A Wing	11,000,000	–	–	–	100,000	11,100,000
TOTAL	**12,500,000**	**–**	**–**	**–**	**1,300,000**	**13,800,000**

The numbers of ordinary shares in the Company held during and at the end of the 2017 financial year by each Director and Key Management Personnel of the Group, including related parties, are set out below:

	Balance at Beginning of Year	Share-based compensation	Exercise of Options	Other transactions with Company	On-market and other transactions	Balance at End of Year
Non-Executive Directors						
S Tanner	–	–	–	–	1,000,000	1,000,000
L Panaccio	–	–	–	–	500,000	500,000
Managing Director and Executives						
T Lockett	–	–	–	–	–	–
Company Secretary						
A Wing	–	–	–	–	11,000,000	11,000,000
Total	**–**	**–**	**–**	**–**	**12,500,000**	**12,500,000**

Additional information

The earnings of the consolidated entity are summarised below:

Loss after income tax of $1,753,480 for the year ended 30 June 2018 (2017: $72.127).

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

Share price at the end of the financial year was 20.5 cents (Listing price 20 cents).

Basic Loss per share (cents per share) of 2.25 for the year ended 30 June 2018 (2017: 0.19).

This concludes the remuneration report, which has been audited.

Voting and comments made at the Company's 2017 Annual General Meeting

As an unlisted entity at the end of the 2017 financial year, the Group was not required to have a Remuneration Report voted upon by shareholders.

Environmental Issues

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

Related Party Transactions

During the 2018 and 2017 financial years there were no transactions with related parties other than remuneration.

After Balance Date Events

There has been no matter or circumstance which has arisen since 30 June 2018 that has significantly affected or may significantly affect:

- The operations, in financial years subsequent to 30 June 2018, of the consolidated entity, or
- The results of those operations, or
- The state of affairs, in financial years subsequent to 30 June 2018, of the consolidated entity.

Proceedings on Behalf of the Company

No person has applied for leave of court to bring proceedings on behalf of the Company to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of these proceedings. Indemnifying and insurance of Directors and other Officers

Indemnity and Insurance of officers

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

Under the Company's constitution:

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

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

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

Indemnity and Insurance of Auditor

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor. During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Auditors' Independence Declaration

A copy of the auditors' independence declaration as required under s307C of the Corporations Act 2001 is set out on page 25.

Non-Audit Services

BDO East Coast Partnership were paid $45,800 (2017: $13,750) for non-audit services during the 2018 financial year.

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

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

Officers of the Company ho are Former Partners of BDO East Coast Partnership

There are no officers of the company who are former partners of BDO East Coast Partnership.

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

Shane Tanner
Chairman

Melbourne, Australia
Dated this 31st day of August 2018

Auditors' Independent Declaration

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

As lead auditor of Rhythm Biosciences Limited for the year ended 30 June 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 audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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

James Mooney
Partner

BDO East Coast Partnership

Melbourne, 31 August 2018

Financial Statements For the Year Ended 30 June 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	1 July 2017 –30 June 2018 ($)	1 June 2017 –30 June 2017 ($)
Revenue from continuing activities			
Interest Income		64,476	-
Expenses			
Employment related costs	4	(782,948)	(7,000)
Office and compliance costs		(321,948)	(35,167)
Research costs		(359,111)	(24,960)
Marketing and investor relations		(93,477)	-
Occupancy costs		(20,778)	-
Travel and meetings		(18,837)	-
Depreciation	10	(1,463)	-
IPO listing costs		(189,322)	(5,000)
Amortisation of intangibles	9	(30,072)	-
Total Expenses		**(1,817,956)**	**(72,127)**
Loss Before Income Tax		**(1,753,480)**	**(72,127)**
Income tax expense	5	-	-
Loss After Tax		(1,753,480)	(72,127)
Other comprehensive income		-	-
Total Comprehensive Loss For The Year		**(1,753,480)**	**(72,127)**
Loss Per Share			
Basic loss per share (cents per share)	6	(2.25)	(0.19)
Diluted loss per share (cents per share)	6	(2.25)	(0.19)

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

Consolidated Statement of Financial Position

	Notes	2018 ($)	2017 ($)
Current Assets			
Cash and cash equivalents	7	7,780,173	1,494,987
Trade and other receivables	8	35,232	4,369
Other financial assets – term deposit		45,000	-
Prepayments		8,872	-
Total Current Assets		**7,869,277**	**1,499,356**
Non-Current Assets			
Intangibles	9	569,928	50,000
Property, plant and equipment	10	9,298	-
Total Non-Current Assets		**579,226**	**50,000**
Total Assets		**8,448,503**	**1,549,356**
Current Liabilities			
Trade and other payables	11	138,009	126,483
Provisions	12	9,370	-
Total Current Liabilities		**147,379**	**126,483**
Total Liabilities		**147,379**	**126,483**
Net Assets		**8,301,124**	**1,422,873**
Equity			
Issued capital	13	10,037,245	1,495,000
Reserves	14	89,486	-
Accumulated losses		(1,825,607)	(72,127)
Total Equity		**8,301,124**	**1,422,873**

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

Financial Statements For the Year Ended 30 June 2018

Consolidated Statement of Changes in Equity

	Issued Capital ($)	Reserves ($)	Accumulated Losses ($)	Total ($)
Balance at 1 July 2017	1,495,000	-	(72,127)	1,422,873
Loss attributable to members	-	-	(1,753,480)	(1,753,480)
Share-based payments expense (Note 17)	-	89,486	-	89,486
Share issued (net of issue costs) (Note 13)	8,542,245	-	-	8,542,245
Balance at 30 June 2018	**10,037,245**	**89,486**	**(1,825,607)**	**8,301,124**
Balance at 1 June 2017	-	-	-	-
Loss attributable to members	-	-	(72,127)	(72,127)
Shares issued (net of issue costs)	1,495,000	-	-	1,495,000
Balance at 30 June 2017	**1,495,000**	**-**	**(72,127)**	**1,422,873**

Consolidated Statement of Cash Flows

	Notes	1 July 2017 –30 June 2018 ($)	1 June 2017 –30 June 2017 ($)
Cash Flow From Operating Activities			
Interest received		52,427	-
Payments to suppliers and employees		(1,703,726)	(13)
Net Cash Used In Operating Activities	15	**(1,651,299)**	**(13)**
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for term deposits		(45,000)	-
Payments for intangibles		(300,000)	-
Purchase of property, plant and equipment		(10,761)	-
Net Cash Used In Investing Activities		**(355,761)**	**-**
Cash Flow From Financing Activities			
Proceeds from issue of ordinary shares		9,042,500	1,495,000
Payment of share issue costs		(750,254)	-
Net Cash Provided By Financing Activities		**8,292,246**	**1,495,000**
Net Increase In Cash Held		**6,285,186**	**1,494,987**
Cash and cash equivalents at beginning of financial year		1,494,987	-
Cash And Cash Equivalents At End Of Financial Year	7	**7,780,173**	**1,494,987**

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

Notes to the Financial Statements For the Year Ended 30 June 2018

Note 1: Statement of Significant Accounting Policies

The consolidated financial statements and notes represent those of Rhythm Biosciences Limited and Controlled Entities (the 'Consolidated Group' or 'Group'). The separate financial statements of the parent entity, Rhythm Biosciences Limited, have not been presented within this financial report as permitted by amendments made to the Corporations Act 2001. The financial report covers the economic entities of Rhythm Biosciences Limited and its controlled entities as an economic entity for the year ended 30 June 2018. Comparatives are disclosed for the period from 1 June 2017 (the date of incorporation) to 30 June 2017.

The financial statements are presented in Australian dollars, which is the Group's functional and presentation currency. The financial statements were authorised for issue on 31 August 2018 by the Directors of the Company.

Statement of Compliance

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

Basis of Preparation

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

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

Accounting Policies

Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Rhythm Biosciences Limited ('company' or 'parent entity') as at 30 June 2018 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

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

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

Operating Segments

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

Revenue Recognition

Revenue is recognised at the fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

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

Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances the GST is recognised as part of the cost of acquiring the asset or as part of an item of expense.

Receivables and payables are stated with the amount of

Notes to the Financial Statements For the Year Ended 30 June 2018

GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the statement of financial position.

Cash flow is included in the statement of cash flow on a gross basis. The GST components of cash flow arising from investing and financing activities, which are recoverable from, or payable to, the taxation authority, are classified as operating cash flow.

Income Tax

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

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

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

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available, against which deductible temporary differences can be utilised. No deferred tax assets have been recognised on the balance sheet as at 30 June 2018, as the probability of deriving a benefit is uncertain.

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

Current and Non-current Classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

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

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

Trade and Other Receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

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

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

Intangibles

Research and Development

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

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

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

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

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

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

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

Other Intangible Assets

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

Property, Plant and Equipment

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

Plant and Equipment

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

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

Depreciation

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

The depreciation rates for each class of asset are:

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

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

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

Impairment of Non-Financial Assets

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

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

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

Payables

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

Employee Entitlements

Short-term and long-term employee benefits

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

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

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

Share-based compensation

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

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

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

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

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

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

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

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

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

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

Issued Capital

Ordinary shares are classified as equity.

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

Financial Instruments

Recognition

Financial instruments are initially measured at cost on transaction date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Receivables

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

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the statement of comprehensive income.

Earnings per share

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

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Comparative Figures

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

Critical Accounting Estimates and Judgments

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

Key Estimates

Share-based payments

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

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. Refer to Note 9 to the financial statements.

Adoption of New and Revised Accounting Standards

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

The adoption of these Standards has not impacted the financial statements.

New Accounting Standards for Application in Future Periods

The Board has assessed the impact of the new, but not yet mandatory, accounting standards issued by Australian Accounting Standards Board (AASB).

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures.

The consolidated entity has adopted this standard from 1 July 2018 and the impact of its adoption is expected to be minimal as the entity has no trade receivables.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer.

The consolidated entity has adopted this standard from 1 July 2018 and no impact of its adoption is expected as there are currently no revenue earned under contract as it is still in the research and development phase.

New Accounting Standards for Application in Future Periods (continued)

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

The consolidated entity will adopt this standard from 1 July 2019 and no impact of its adoption is expected as there are currently no lease agreements in place.

Note 2: Parent Information

	2018 ($)	2017 ($)
Statement of Financial Position		
Assets		
Current assets	7,846,095	1,499,356
Non-current assets	579,226	-
Total Assets	**8,425,321**	**1,499,356**
Liabilities		
Current liabilities	144,868	76,483
Total Liabilities	**144,868**	**76,483**
Equity		
Issued Capital	10,037,245	1,495,000
Reserves	89,486	-
Accumulated losses	(1,823,919)	(72,127)
Total Equity	**8,302,812**	**1,422,873**
Statement of Comprehensive Income	**1 July 2017 – 30 June 2018 ($)**	**1 June 2017 – 30 June 2017 ($)**
Total loss	(1,751,792)	(72,127)
Total Comprehensive Income	**(1,751,792)**	**(72,127)**

Guarantees

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

Commitments and Contingent Liabilities

At 30 June 2018, the Parent Company had no commitments or contingent liabilities (2017: Nil).

Significant Accounting Policies

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

Note 3: Controlled Entities

Controlled Entities Consolidated	Country of Incorporation	Percentage Owned (%) 2018	Percentage Owned (%) 2017
Vision Tech Bio Pty Ltd	Australia	100%	100%

** Percentage of voting power in proportion to ownership*

Notes to the Financial Statements For the Year Ended 30 June 2018

Note 4: Employment Related Costs

	1 July 2017 - 30 June 2018 ($)	1 June 2017 - 30 June 2017 ($)
Loss from continuing activities before income tax after charging the following items:		
Employment Related Costs		
Staff salaries and wages	392,391	-
Non-Executive Directors' fees	158,500	7,000
Superannuation	63,690	-
Share-based payments expense (Note 17)	89,486	-
Other employment related expenses	78,881	-
Total	**782,948**	**7,000**

Note 5: Income Tax Relating to Continuing Activities

	2018 ($)	2017 ($)
Prima facie income tax benefit from continuing activities after significant items and before income tax at 27.5% (2017: 27.5%)	482,207	19,835
Add/(subtract) tax effect:		
- Share options expense	(24,609)	-
- Other non-deductible expenditure	(1,338)	-
- Tax losses and temporary differences not brought to account	(456,260)	(19,835)
Income Tax Expense	-	-

Total tax losses and temporary differences not brought to account $723,666 (2017: $19,835).

Note 6: Loss Per Share

	2018 ($)	2017 ($)
The following reflects the income and share data used in the calculations of basic and diluted loss per share:		
Loss used in calculating basic and diluted earnings per share	**(1,753,480)**	**(72,127)**
	2018 No. of Shares	**2017 No. of Shares**
Weighted average number of ordinary shares used in calculating basic loss per share	77,923,288	37,500,000
Basic and diluted loss per share (cents)	**(2.25)**	**(0.19)**

Calculation of diluted loss per share

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

Note 7: Cash and Cash Equivalents

	2018 ($)	2017 ($)
Cash at bank	780,173	1,494,987
Short term deposits	7,000,000	-
	7,780,173	**1,494,987**

Note 8: Trade and Other Receivables

	2018 ($)	2017 ($)
GST receivable	23,183	4,369
Interest receivable	12,049	-
	35,232	**4,369**

Note 9: Intangible Assets

	2018 ($)	2017 ($)
Intellectual Property		
Licences (i)	569,928	50,000
	569,928	**50,000**

	1 July 2017 – 30 June 2018 ($)	1 June 2017 – 30 June 2017 ($)
Movement in Carrying Amounts		
Balance at the beginning of the year	50,000	-
Additions	550,000	50,000
Amortisation (i)	(30,072)	-
Balance at the End of The Year	**569,928**	**50,000**

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

Notes to the Financial Statements For the Year Ended 30 June 2018

Note 10: Property, Plant and Equipment

	2018 ($)	2017 ($)
Computers – at cost	10,055	–
Accumulated depreciation	(1,453)	–
	8,602	**–**
Office equipment – at cost	706	–
Accumulated depreciation	(10)	–
	696	**–**
Total	**9,298**	**–**

	Computer Equipment ($)	Office Equipment ($)	Total ($)
Movement in Carrying Amounts			
Balance at the beginning of the year	–	–	–
Additions	10,055	706	10,761
Depreciation	(1,453)	(10)	(1,463)
Balance at the end of the year	**8,602**	**696**	**9,298**

Note 11: Trade and Other Payables

	2018 ($)	2017 ($)
Trade creditors	79,287	48,523
Accruals	58,722	77,960
	138,009	**126,483**

Note 12: Provisions

	2018 ($)	2017 ($)
Current		
Provision for annual leave	9,370	–
	9,370	**–**

Note 13: Issued Capital

	2018 (No.)	2017 (No.)	2018 ($)	2017 ($)
Ordinary Shares Fully Paid				
Balance at the beginning of the year	52,075,000	-	1,495,000	-
Issued during the year	48,675,000	37,500,000	9,442,500	37,500
Shares to be issued	-	14,575,000	-	1,457,500
Equity raising expenses	-	-	(900,255)	-
Balance at the end of the year	**100,750,000**	**52,075,000**	**10,037,245**	**1,495,000**

Ordinary Shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. 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.

Capital Risk Management

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

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

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

The capital risk management policy remains unchanged from 30 June 2017.

Note 14: Reserves

	Notes	2018 ($)	2017 ($)
Share Based Payments Reserve			
Balance at the beginning of the year		-	-
Employee share options expense	17	89,486	-
Balance at the End of the Year		**89,486**	**-**

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

Notes to the Financial Statements For the Year Ended 30 June 2018

Note 15: Cash Flow Information

	Notes	1 July 2017 – 30 June 2018 ($)	1 June 2017 – 30 June 2017 ($)
a. Cash at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:			
Cash at bank		780,173	1,494,987
Short term deposits		7,000,000	-
	7	**7,780,173**	**1,494,987**
b. Reconciliation of cash flow from operating activities with loss from continuing activities after income tax benefit			
Loss from continuing activities after significant items and income tax		(1,753,480)	(72,127)
Non-Cash Items			
Depreciation and amortisation		31,535	-
Expense recognised in respect of equity-settled share-based payments		89,486	-
Changes In Assets And Liabilities			
(Increase) in trade and other receivables		(30,863)	(4,369)
(Increase) in prepayments		(8,874)	-
Increase in trade and other payables		11,527	76,483
Increase in provision for employee entitlements		9,370	-
Net Cash Used In Operating Activities		**(1,651,299)**	**(13)**

Note 16: Related Party Transactions

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

Directors

The names of each person holding the position of director of Rhythm Biosciences Limited during the year were Mr Shane Tanner, Dr Trevor Lockett, Mr David White and Mr Lou Panaccio (appointed 1 August 2017).

	Notes	2018 ($)	2017 ($)
i. Transactions with Directors			
During the 2018 and 2017 financial years there were no transactions with related parties other than remuneration as disclosed in the Remuneration Report. Directors' report.			
ii. Share Transactions of Directors			
Directors and director-related entities hold directly, indirectly or beneficially as at the reporting date the following number of shares			
Ordinary shares		**2,700,000**	**1,500,000**
iii. Option transactions of Directors			
Directors and director-related entities hold directly, indirectly or beneficially as at the reporting date the following number of options			
Issued pursuant to Employee Share Option Plan		**2,000,000**	**-**

Note 17: Share-Based Payments

During the year, 3,000,000 Options were issued to key management personnel at a $nil issue price and a value of $89,486 included in key management personnel disclosures (Note 20) and the remuneration report in the directors' report.

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

The following share-based payment arrangements existed at 30 June 2018:

Number of Options	Exercise Price ($)	Grant Date	Vesting Period	Vesting Date	Expiry Date	Holder	Fair Value per Option at Grant Date
2,000,000	$0.30	21.7.2017	1 year	21.7.2018	7.12.2020	Dr T Lockett	$0.045
1,000,000	$0.20	21.5.2018	Within 2 years	Various	21.5.2021	G Gilbert	$0.105
3,000,000	**Total ESOP Options**						

Vesting basis: to remain employed by Rhythm at vesting date (ranging from 12 to 24 months).

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

Notes to the Financial Statements For the Year Ended 30 June 2018

Movement in the number of share options on issue

	2018 Number of Options	2018 Weighted Average Exercise Price (cents)	2017 Number of Options	2017 Weighted Average Exercise Price (cents)
Opening balance	-	-	-	-
Granted	3,000,000	26.67	-	-
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year-end	**3,000,000**	**26.67**	**-**	**-**
Exercisable at year-end	-	-	-	-

The number of options granted during the year pursuant to the ESOP was 3,000,000 (2017: nil). The fair value of issued employee share options is calculated to be $194,100 (2017: $nil). This amount is expensed over the life of the relevant vesting periods.

Included under employee costs in the income statement is a share-based payments expense of $89,486 (2017: $nil).

The value of employee share options issued during the financial year has been calculated by using a black-scholes option pricing model applying the following inputs:

	T Lockett	G Gilbert
Options granted	2,000,000	1,000,000
Grant date	21.7.2017	22.5.2018
Exercise price	$0.30	$0.20
Underlying share price	$0.10	$0.175
Expiry date	7.12.2020	21.5.2021
Vesting period	1 year	25% each 6 months over a 2 year period
Expected share price volatility	100%	100%
Risk free interest rate	2.00%	2.21%
Fair value per option at grant date	$0.0445	$0.1051
Total fair value at grant date	$89,000	$105,100

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

Note 18: Financial Risk Management

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

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Notes	2018 ($)	2017 ($)
Financial Assets			
Cash and cash equivalents		7,780,173	1,494,987
Trade and other receivables		35,232	4,369
Other financial assets – term deposits		45,000	-
		7,861,405	**1,499,356**
Financial Liabilities			
Trade and other Payables		138,009	126,483
		138,009	**126,483**

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

Financial Assets Pledged as Collateral

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

Financial Risk Management Policies

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

The Group did not have any derivative instruments at 30 June 2018.

Specific Financial Risk Exposures and Management

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

Credit Risk

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

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

Credit Risk Exposures

Cash reserves form the majority of the Group's financial assets. At 30 June 2018, cash was deposited with three financial institutions, including two large Australian banks and one foreign exchange market specialist, in order to spread risk and ensure interest rate competitiveness.

Liquidity Risk

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

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

Market Risk

Interest rate risk

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

The consolidated entity's cash and cash equivalents and term deposits were $7,825,173 as at 30 June 2018 (2017: $1,494,987). An official increase/decrease in interest rates of 100 (2017: 100) basis points would have an adverse/favourable effect on loss before tax of $78,252 (2017: $14,950) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts.

Price risk

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

Currency risk

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

Note 19: Segment Reporting

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

Note 20: Key Management Personnel Compensation

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

	Share-based payments ($)	Short-term benefits ($)	Post-employment benefit ($)	Total ($)
2018				
Total compensation	89,486	488,370	31,034	608,890
2017				
Total compensation	-	7,000	-	7,000

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

Note 21: Auditor Remuneration

	2018 ($)	2017 ($)
Remuneration of the Auditor of the Group:		
Auditing or reviewing the financial report	26,000	3,000
Other services:		
- Independent Accountant's Report	27,060	-
- Taxation advice	12,650	13,750
- Other audit services	6,090	-
	71,800	**16,750**

Note 22: Events Subsequent to Reporting Date

There has been no matter or circumstance which has arisen since 30 June 2018 that has significantly affected or may significantly affect:

The operations, in financial years subsequent to 30 June 2018, of the consolidated entity; or

The results of those operations, or the state of affairs, in financial years subsequent to 30 June 2018, of the consolidated entity.

Note 23: Commitments

The Group has no commitments for expenditure as at 30 June 2018 (2017: $nil).

Note 24: Contingent Assets and Liabilities

The Group has no contingent assets or liabilities as at 30 June 2018 (2017: $nil).

Directors' Declaration

The Directors declare that:

1. The financial statements and notes, as set out on pages 26 to 45 are in accordance with the Corporations Act 2001:
   a. comply with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
   b. give a true and fair view of the Consolidated Entity's financial position as at 30 June 2018 and of its performance for the year ended on that date;
2. The attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
3. In the Directors' opinion there are reasonable grounds to believe that the entity will be able to pay its debts as and when they become due and payable; and
4. Remuneration disclosures on pages 19 to 23 comply with section 300A of the Corporations Act 2001.

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

Shane Tanner
Chairman

Melbourne, Australia
Dated this 31st day of August 2018

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INDEPENDENT AUDITOR'S REPORT

To the members of Rhythm Biosciences Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Rhythm Biosciences Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

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

(i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and

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

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
Carrying Value and Useful Life of Intangible Asset Note 9 to the financial report discloses the individual intangible asset, and Note 1 discloses the policy used by the Group for its recognition, measurement and assessment for impairment. This is a key audit matter due to the size of the recorded asset, and the degree of estimation required to be made by the Group, regarding its amortisation period and method.	Our procedures included, but were not limited to: • Vouching all costs capitalised in the period to the terms and conditions of the executed license agreement. • Assessing that the costs capitalised are permitted under AASB 138. • Evaluating management's estimate of the amortisation period and amortisation method. • Recalculating the amortisation charge from the date the intangible asset was ready for use. • Assessing if there were indications of impairment at the reporting date. • Checking the completeness and appropriateness of the disclosures included in the financial report.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Responsibilities of the directors for the Financial Report

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

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

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 19 to 23 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Rhythm Biosciences Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO East Coast Partnership

James Mooney
Partner

Melbourne, 31 August 2018

Shareholder Information

Rhythm Biosciences Ltd is quoted on the Australian Securities Exchange (ASX) under the ticker code RHY. The following information was extracted from the Company's records as at 28 August 2018 and is required by the ASX Listing Rules. Rhythm's securities are not quoted on any other stock exchange.

Twenty Largest Holders of Ordinary Shares

Rank	Shareholder	Number of fully paid ordinary shares	Percentage of total issued capital
1	LOUMEA INVESTMENT PTY LTD	10,000,000	9.93
2	THE TRUST COMPANY (AUSTRALIA) LIMITED	8,160,000	8.10
3	FERNDALE SECURITIES PTY LTD	6,500,000	6.45
4	NORTHERN STAR NOMINEES PTY LTD	4,600,000	4.57
5	KITARA INVESTMENTS PTY LTD	2,650,000	2.63
6	COMMONWEALTH SCIENTIFIC & INDUSTRIAL RESEARCH ORGANISATION	2,500,000	2.48
7	MRS SARAH CAMERON	2,175,000	2.16
8	GIOKIR PTY LTD	2,125,000	2.11
9	NATALIE LOUISE PATTERSON	2,000,000	1.99
10	MOWBRICK PTE LTD	1,650,000	1.64
11	MR DAVID CHARLES NEESHAM & MRS PAMELA CHRISTINE NEESHAM	1,500,000	1.49
12	MR GREGORY MAURICE PINKUS & MRS LISA MARIE PINKUS	1,500,000	1.49
13	SHANE FRANCIS TANNER & LISA JANE WHEELER	1,500,000	1.49
14	MR DANIEL EDDINGTON & MRS JULIE EDDINGTON	1,350,000	1.34
15	PERMANENT 4 NOMINEES PTY LTD	1,250,000	1.24
16	SINDEL NOMINEES PTY LTD	1,250,000	1.24
17	ALITIME NOMINEES PTY LTD	1,090,000	1.08
18	ARDROY SECURITIES PTY LTD	1,000,000	0.99
19	MR PETER JAMES NIXON	775,000	0.77
20	MR DAVID CHARLES NEESHAM & MRS PAMELA CHRISTINE NEESHAM	755,650	0.75
	Total	**54,330,650**	**53.93**
	Balance of register	**46,419,350**	**46.07**
	Grand total	**100,750,000**	**100.00**

Distribution Schedule

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

Range	No. of Shareholders	No. of Ordinary Shares	Percentage of total issued capital
100,001 and Over	134	82,636,516	82.02
10,001 to 100,000	371	16,681,029	16.56
5,001 to 10,000	118	1,058,062	1.05
1,001 to 5,000	113	373,745	0.37
1 to 1,000	5	648	0.00
Total	**745**	**100,750,000**	**100.00**

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

Substantial Shareholdings

Shareholder	Number of fully paid ordinary shares	Percentage of total issued capital
Michelle Wing	11,000,000	10.23%
Loumea Investments Pty Ltd	10,000,000	9.93%
Merchant Opportunities Fund	8,160,000	8.10%

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

Options Over Ordinary Shares

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

Share Option Type	Number of Options	Number of Holders	Exercise Price (Cents)
Unlisted (ESOP)	2,000,000	1	20
Unlisted (ESOP)	1,000,000	1	30

Escrow Arrangements

41,000,000 shares were subject to mandatory escrow arrangements as follows:

- 2,500,000 until 3 September 2018
- 38,500,000 until 7 December 2019

Shareholder Information

Voting Rights

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

Ordinary shares:

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

There are no other classes of equity securities.

Corporate Directory

Directors

Mr Shane Tanner
Dr Trevor Lockett
Mr Louis (Lou) Panaccio
Mr David White

Company Secretary

Mr Adrien Wing

Registered and Principal Office

Level 17
500 Collins Street
Melbourne VIC 3000

Auditor

BDO East Coast Partnership
Level 18
727 Collins Street
Melbourne VIC 3000

Legal Advisers

Quinert Rodda and Associates
Suite 1
Level 6
50 Queen Street
Melbourne VIC 3000

Share Registry

Link Market Services Limited
Level 12
250 St Georges Terrace
Perth WA 6000

RHYTHM™ BIOSCIENCES

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