RHINOMED

CHANGING THE WAY THE WORLD BREATHES

RHINOMED LIMITED

ABN 12 107 903 159

HALF YEARLY REPORT

for the half-year 31 December 2019

RHINOMED LIMITED

Appendix 4D

Preliminary Half-year Report

Half year Ended 31 December 2019

Name of Entity: Rhinomed Limited
ABN 12 107 903 159
Half Year 31 December 2019
(Previous corresponding period: 31 December 2018)

Rhinomed Limited
Appendix 4D
Half-year ended 31 December 2019

Name of entity:	Rhinomed Limited
ABN:	12 107 903 159
Half-year ended:	31 December 2019
Previous period:	31 December 2018

Results for announcement to the market

				31 December 2019 $
Revenue from ordinary activities	Up	23.7%	to	1,667,360
Loss from ordinary activities after tax attributable to members	Up	84.9%	to	(5,299,181)
Net loss for the period attributable to members	Up	84.9%	to	(5,299,181)

Distributions

No dividends have been paid or declared by the Company for the current financial period. No dividends were paid for the previous financial period.

Explanation of results

For the half year ended 31 December 2019, $1,667,360 was recognised as revenue through profit or loss.

This information should be read in conjunction with the 2019 annual report. Additional information supporting the Appendix 4D disclosure requirements can be found in the review of operations and activities, directors' report and the financial statements for the half-year ended 31 December 2019.

Net tangible assets per security

	31 December 2019 Cents	31 December 2018 Cents
Net tangible asset backing (per share)	**1.66**	3.30

Changes in controlled entities

There have been no changes in controlled entities during the half-year ended 31 December 2019.

Other information required by Listing Rule 4.2A

a. Details of individual and total dividends or distributions and dividend or distribution payments:	N/A
b. Details of any dividend or distribution reinvestment plans:	N/A
c. Details of associates and joint venture entities:	N/A
d. Other information	N/A

Interim review

The financial statements have been reviewed by the Group's independent auditor without any modified opinion or disclaimer.

Rhinomed Limited

ABN 12 107 903 159

Interim financial report for the half-year ended 31 December 2019

Directors	Mr Michael Johnson *Executive Director and Chief Executive Officer*
	Mr Ron Dewhurst *Non-Executive Chairman*
	Mr Brent Scrimshaw *Non-Executive Director*
	Dr Eric Knight *Non-Executive Director*
Secretary	Mr Phillip Hains
Principal registered office in Australia	Level 1, 132 Gwynne Street Cremorne VIC 3121 Australia +61 (0)3 8416 0900
Share registry	Automic Pty Ltd Level 5, 126 Phillip Street Sydney NSW 2000 +61 (0)2 9698 5414
Auditor	HLB Mann Judd Level 9, 575 Bourke Street Melbourne VIC 3000 +61 (0)3 9606 3888
Solicitor	HWL Ebsworth Level 26, 530 Collins St Melbourne VIC 3000 +61 (03) 8644 3500
Bankers	National Australia Bank 330 Collins Street Melbourne VIC 3000
Stock exchange listings	Australian Securities Exchange (ASX: RNO) The OTC Market in the USA (OTCQB: RHNMF)
Website	www.rhinomed.global

Rhinomed Limited

ABN 12 107 903 159

Interim report - 31 December 2019

Contents

The Directors submit the interim financial statements of the Group for the half-year ended 31 December 2019. The Group includes Rhinomed Limited and its subsidiaries as at period end 31 December 2019. The financial report has been prepared in accordance with Australian Accounting Standards.

Directors

The following persons held office as Directors in Rhinomed Limited during the financial period:

Mr Michael Johnson, Executive Director and Chief Executive Officer
Mr Ron Dewhurst, Non-Executive Chairman
Mr Brent Scrimshaw, Non-Executive Director
Dr Eric Knight, Non-Executive Director

Review of operations

Rhinomed is actively seeking to improve the way millions of people around the world breathe. We achieve this goal by assisting people to overcome nasal breathing issues, such as congestion and obstruction, and the impact these issues have on sleep and everyday health and wellbeing.

Our strategy is to ensure our products are not only on the shelves of the world's leading pharmacies but that we also gain the endorsement and recommendation of leading sleep clinicians and dental practitioners who recognise the impact nasal obstruction issues have on their patients.

Pleasingly, your directors can report that the half year period to the end December 2019 saw the company make significant strides in achieving these outcomes. The following major milestones were achieved:

● Continued growth through our global retail network of 9,000+ stores in the USA, totaling approximately 12,000+ stores globally. Specifically, during the first half we saw major US account Walgreens start stocking the new Pronto Sleep device. Additionally, the business is pleased to report that industry data would indicate that the Mute technology is growing at approximately 62% year on year for the 52 weeks ended January 2020.

● The company's decision at the end of 2018 to bring the Australian distribution in house is paying dividends with the Australian business recording record growth to end the first half

● The value of stock Invoiced during the period was up significantly to $1,713,213 reflecting the total units shipped to customers during the half year period - 141,072 - which set a new half yearly record.

● Recognised revenues of $1,667,360 were recorded, while invoiced distributions to retail stores but not yet recognised due to retail trading terms was $945,978. The increase in recognised revenues can be attributed to the timing of when revenues are recognised under current retail trading terms and in line with Accounting standards. As the business grows within major accounts there is an expectation that these initial terms will move to standard trading terms.

● Invoiced distributions to retail stores (consignment/pay on scan) is growing significantly reflecting the new retail relationships being developed and the significant underlying growth attributable to the growing retail footprint:

○ 30 Dec 2019: $945,978

○ 31 December 2018: $360,483

● Gross profits/margins on our products during this formative sell in and growth period remain strong

● The company recorded a Loss of $5.3 m reflecting the continuing investment in positioning the technology at the forefront of the sleep market.

● The company is continuing to invest strategically in promotional programs - with a particular focus on the US market. We envisage that the impact of these activities will result in long term growth as brand awareness grows.

● The Company successfully released the new Pronto range which includes the Pronto Sleep and the Pronto Clear. Both these products are targeting multibillion-dollar opportunities in the global OTC sleep markets and the global OTC nasal congestion markets.

Review of operations (continued)

- Underlying growth remains strong and the maturing of the business and impact of sell through from our US store base is creating a strong business case for new retailers to begin stocking Mute. Industry data reflects this with the Rhinomed brand growing at 62% for 52 weeks to the end of January and 68% for the half yearly to the end of January 2020. Pleasingly during the period Mute's market share of the US nasal strip(dilator) market grew by 79%.

- R&D:

  - In September of 2018 the company announced a new partnership with leading US based medical cannabis company Columbia Care - this agreement will see the parties create a range of nasally delivered medical cannabis formulation products. During the first half of FY20 the company finalised the application of its technology for the release of the Columbia Care product.

- The Company held cash reserves of $3.5m, an increase of $2.1m since 30 June 2019

- The company conducted a capital raise in September 2019 which was strongly supported by both existing and new shareholders. $6m was raised at an issue price of $0.21 through a private placement. Funds raised strengthen Rhinomed's balance sheet and allows the company to better prosecute its growth agenda.

- The Group's net assets grew during the period to $6,185,776 compared with $4,620,765 at 30 June 2019. The net carrying value of the Group's intangible assets of $2,774,181 remains consistent with the previous period allowing for amortisation charges.

Outlook

The company is well placed to continue to execute its strategy of commercialising its platform technology. The Rhinomed nasal platform has a wide range of applications from simple stenting of the nose to alleviate snoring and improve sleep through to vapour and drug delivery. The company will continue to seek to expand its strong and growing retail presence in the North American, Australian and UK markets while also strongly supporting the Sleep medical and sleep dental community who are, in increasing numbers, using Mute to overcome nasal obstruction issues associated with existing sleep apnea and oral advancement therapies.

During the second half of FY20 the company looks forward to updating investors about changes to its Mute, Pronto Sleep and Pronto Clear technology retail store presence.

New Accounting Standards Implemented

The Group has implemented a new accounting standard that is applicable for the current reporting period AASB 16: Leases have been applied with the modified retrospective method, with the cumulative effect of initially applying the standard recognised as an adjustment to the opening balance of retained earnings at 1 July 2019. Therefore, the comparative information has not been restated and continues to be reported under AASB 117: Leases.

Events after the balance date

No matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* in relation to the review for the half-year is provided with this report.

Signed in accordance with a resolution of the Directors.

Mr Michael Johnson
Chief Executive Officer and Managing Director
Melbourne

HLB MANN JUDD

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the interim financial report of Rhinomed Limited for the half-year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) any applicable code of professional conduct in relation to the review.

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

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

Nick Walker
Partner

Melbourne
1 March 2020

HLB Mann Judd (VIC Partnership) ABN 20 696 861 713
Level 9, 575 Bourke Street, Melbourne VIC 3000 | GPO Box 2850, Melbourne VIC 3001
T: +61 (0) 3 9606 3888 F: +61 (0) 3 9606 3800 E: mailbox@hlbvic.com.au

Rhinomed Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2019

	Notes	Consolidated entity 31 December 2019 $	31 December 2018 $
Revenue			
Revenue from contracts with customers	2	**1,667,360**	1,347,805
Other income	2	**47,805**	47,211
Expenses			
Raw materials and consumables used		**(714,798)**	(464,947)
Share-based payments expense		**(1,183,400)**	(1,035,000)
Employee benefits expenses		**(1,638,373)**	(970,981)
Depreciation and amortisation expenses		**(290,885)**	(186,128)
Administrative expenses		**(886,733)**	(764,958)
Marketing expenses		**(1,683,108)**	(502,143)
Research and development expenses		**(100,869)**	(110,402)
Other expenses		**(494,486)**	(225,264)
Finance costs		**(20,923)**	-
Loss before income tax		**(5,298,410)**	(2,864,807)
Income tax expense		**(771)**	(728)
Loss for the period from continuing operations		**(5,299,181)**	(2,865,535)
Other comprehensive loss that will be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**(3,016)**	6,468
Total comprehensive loss for the period		**(5,302,197)**	(2,859,067)
		Cents	Cents
Loss per share for loss from continuing operations attributable to the ordinary equity holders of the Company:			
Basic/diluted loss per share		**(3.38)**	(2.30)

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

Rhinomed Limited
Consolidated balance sheet
As at 31 December 2019

	Notes	Consolidated entity 31 December 2019 $	30 June 2019 $
ASSETS			
Current assets			
Cash and cash equivalents		**3,513,221**	1,421,315
Trade and other receivables		**543,711**	581,674
Inventories	4(a)	**441,128**	336,972
Other current assets		**196,007**	266,742
Total current assets		**4,694,067**	2,606,703
Non-current assets			
Financial assets at amortised cost	3	**133,023**	87,170
Property, plant, equipment and right of use assets	4(b)	**773,957**	222,159
Intangible assets	4(d)	**2,774,181**	2,954,995
Total non-current assets		**3,681,161**	3,264,324
Total assets		**8,375,228**	5,871,027
LIABILITIES			
Current liabilities			
Trade and other payables		**875,580**	594,777
Contract liabilities - deferred revenue		**522,824**	556,297
Employee benefit obligations		**86,826**	48,218
Other current liabilities	4(c)	**86,417**	-
Total current liabilities		**1,571,647**	1,199,292
Non-current liabilities			
Employee benefit obligations		**63,289**	50,970
Other non-current liabilities	4(c)	**554,516**	-
Total non-current liabilities		**617,805**	50,970
Total liabilities		**2,189,452**	1,250,262
Net assets		**6,185,776**	4,620,765
EQUITY			
Issued capital	5	**64,927,255**	59,243,447
Reserves		**2,724,109**	1,543,725
Accumulated losses		**(61,465,588)**	(56,166,407)
Total equity		**6,185,776**	4,620,765

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Rhinomed Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2019

	Note	Issued capital $	Option reserve $	Foreign exchange reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2018		54,366,251	824,089	(21,254)	(50,402,174)	4,766,912
Loss for the period		-	-	-	(2,865,535)	(2,865,535)
Other comprehensive income/(loss) for the period		-	-	6,468	-	6,468
Total comprehensive income for the period		**-**	**-**	**6,468**	**(2,865,535)**	**(2,859,067)**
Transactions with equity holders in their capacity as equity holders:						
Contributions of equity, net of transaction costs		4,877,197	-	-	-	4,877,197
Options issued/expensed		-	1,035,000	-	-	1,035,000
		4,877,197	1,035,000	-	-	5,912,197
Balance at 31 December 2018		**59,243,448**	**1,859,089**	**(14,786)**	**(53,267,709)**	**7,820,042**
Balance at 30 June 2019		59,243,447	1,571,430	(27,705)	(56,166,407)	4,620,765
Balance at 1 July 2019		**59,243,447**	**1,571,430**	**(27,705)**	**(56,166,407)**	**4,620,765**
Loss for the period		-	-	-	(5,299,181)	(5,299,181)
Other comprehensive income/(loss) for the period		-	-	(3,016)	-	(3,016)
Total comprehensive income for the period		**-**	**-**	**(3,016)**	**(5,299,181)**	**(5,302,197)**
Transactions with equity holders in their capacity as equity holders:						
Contributions of equity, net of transaction costs	5	5,683,808	-	-	-	5,683,808
Options issued/expensed	6	-	1,183,400	-	-	1,183,400
		5,683,808	1,183,400	-	-	6,867,208
Balance at 31 December 2019		**64,927,255**	**2,754,830**	**(30,721)**	**(61,465,588)**	**6,185,776**

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

Rhinomed Limited
Consolidated statement of cash flows
For the half-year ended 31 December 2019

	Notes	Consolidated entity 31 December 2019 $	31 December 2018 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**1,554,691**	978,906
Payments to suppliers and employees (inclusive of GST)		**(5,082,559)**	(3,283,509)
Interest received		**7,805**	7,110
Interest and other cost of finance paid		**(15,362)**	(8,250)
Other government grants received		**40,000**	40,101
Net cash (outflow) from operating activities		**(3,495,425)**	(2,265,642)
Cash flows from investing activities			
Payments for property, plant and equipment		**(10,088)**	-
Payments for financial assets at amortised cost (deposits)		**(45,853)**	-
Net cash (outflow) from investing activities		**(55,941)**	-
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		**6,000,002**	4,985,009
Principal elements of lease payments		**(31,771)**	-
Share issue transaction costs		**(316,194)**	(207,312)
Net cash inflow from financing activities		**5,652,037**	4,777,697
Net increase in cash and cash equivalents		**2,100,671**	2,512,055
Cash and cash equivalents at the beginning of the period		**1,421,315**	1,263,122
Effects of exchange rate changes on cash and cash equivalents		**(8,765)**	42,992
Cash and cash equivalents at end of period		**3,513,221**	3,818,169

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

1 Summary of significant accounting policies

(a) Statement of compliance

These interim consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001 and accounting standards including AASB 134 ('Interim Financial Reporting'), Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'. The Group or consolidated entity includes Rhinomed Limited, ("the Company") and its subsidiaries as at 31 December 2019 and during the period ended on that date. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This consolidated interim report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Group as in the full financial report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2019 and any public announcements made by the Group during the half-year and up to the date of this report in accordance with continuous disclosure requirements arising under the (Corporations Act 2001) and the ASX Listing Rules.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except those noted in note 1(b).

(b) Adoption of new and revised Accounting Standards

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make modified retrospective adjustments as a result of adopting AASB 16 Leases. The impact of the adoption of leasing standard and the new accounting policies are disclosed in note 10 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

(i) AASB Interpretation 23 "Uncertainty over Income Tax Treatments"

Interpretation 23 requires the assessment of whether the effect of uncertainty over income tax treatments should be included in the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The Interpretation outlines the requirements to determine whether an entity considers uncertain tax treatments separately, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances. The Group has adopted Interpretation 23 from 1 July 2019, based on an assessment of whether it is 'probable' that a taxation authority will accept an uncertain tax treatment. This assessment takes into account that for certain jurisdictions in which the Group operates, a local tax authority may seek to open a Group's books as far back as inception of the Group. Where it is probable, the Group has determined tax balances consistently with the tax treatment used or planned to be used in its income tax filings. Where the Group has determined that it is not probable that the taxation authority will accept an uncertain tax treatment, the most likely amount or the expected value has been used in determining taxable balances (depending on which method is expected to better predict the resolution of the uncertainty). There has been no impact from the adoption of Interpretation 23 in this reporting period. Other accounting pronouncements which have become effect from 1 July 2019 and have therefore been adopted do not have a significant impact on the Group's financial results or position.

(c) Basis of preparation

The interim report has been prepared on a historical cost basis, except for the revaluation of certain financial instruments to fair value. Cost is based on the fair value of the consideration given in exchange for assets. The Company is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise noted.

1 Summary of significant accounting policies (continued)

(d) Going concern

The operating loss after tax for the 6 months period ended 31 December 2019 was $5,299,181 (half-year 31 December 2018 : $2,865,535). The Group had net assets of $6,185,776 as at 31 December 2019 (30 June 2019: $4,620,765), including cash reserves of $3,513,221 (30 June 2019: $1,421,315).

At the date of this report, the Directors have considered the above and other factors and are of the opinion that the Group will be able to continue as a going concern and will be able to pay its debts as and when they fall due. The financial statements have therefore been prepared on a going concern basis which includes the presumption that sufficient funds will be available to finance the operations of the Group.

The Group has a track record in accessing capital to fund its operations and the Directors believe that the Group has the ability to access additional capital, as evidenced through the completed capital raise of $6 million before costs in September 2019.

Based on current budget assumptions the Group has sufficient funds to meet current commitments towards promoting existing commercialised technology and further development of the technology platform.

Notwithstanding the material uncertainty pertaining to the ability of the Group to continue to access additional capital and its future operating income, the financial statements have been prepared on a going concern basis. Accordingly, the financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts, or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

Based on the above considerations, the Board has assessed the resources and opportunities available to the Group, and consequently believe that the Group will be able to repay its debts as and when they fall due.

Significant accounting judgments and key estimates

The preparation of the half-year financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing the half-year financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2019.

1 Summary of significant accounting policies (continued)

(e) Significant accounting estimates and assumptions

Impairment of tangible and intangible assets

The Group performs an impairment review at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, to which the respective assets are allocated, using Trade Show Buyers meetings discounted cash flow methodology.

(a) Key assumptions used for value-in-use calculations

Store count growth:

Industry reports show the Group has the strongest growing products in its category year on year and the trend is the same for quarter on quarter and half year on half year. The data also shows that market share is growing in the category from 1.5% to 2.7% (growth rate of 79%) over the latest 52-week period. This externally sourced data is the same data used by major US chains to help them decide if they will stock product in the category. Likewise, the Group uses this externally sourced date to guide the assumptions made around growth, ROI on marketing and promotional investment and track its progress against competitors in the category.

Twice a year there are trade show buyers' meetings which drive decision making as to whether a retailer will stock a product. The Group has presented at these meetings over the last three years. Our continued attendance along with the strong industry data and proof of product growth over the last two years at key customers has resulted in other retailers taking on initially Mute, but now also the Pronto range. Specifically, the Group has seen its major customers significantly increase the store count for Mute in recent times. This endorsement provides the company with confidence that the underlying strategy and assumptions that drive the strategy are sound.

Sales growth rate:

Weekly customer data from major customers shows year on year sales growth for Mute of 50%. Sales growth rates incorporated in the value in use model are well below these levels with an average annual growth rate of 28% applied.

There are a number of key trends in the industry impacting sales growth rate assumptions. Firstly, competitors are declining after several years in the market which is seeing the Group acquire a greater market share. This supports the proposition that the useful life of products in the market is significant and can exceed their patent life. Secondly, available sales data illustrates a strong growth rate of the Mute product over the last 52 weeks, and importantly, it also highlights that the momentum of this growth is increasing. The Group believes that as awareness grows and store count increases that it is reasonable to conclude that this growth rate will continue to increase.

Discount rate:

In performing the value-in-use calculation, the Group has applied a pre-tax discount rate of 20% to pre-tax cash flows, which is considered conservative.

In completing value-in-use calculations management determined budgeted gross margins based on past performance and its expectations for the future. The weighted average growth rates used are consistent with forecasts included in industry reports. Management believes the projected growth rate to be prudent and justified based on the Group's past and expected performance.
A reasonable change in key assumptions would not cause the Groups assets to exceed their recoverable amounts.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

2 Revenue

	Consolidated entity	
	31 December 2019 $	31 December 2018 $
Revenue from contracts with customers		
Sale of goods	**1,667,360**	1,347,805
Other income		
Interest income	**7,805**	7,110
Government grants	**40,000**	40,101
Total other income	**47,805**	**47,211**

3 Other financial assets

	Consolidated entity	
	31 December 2019 $	30 June 2019 $
Non-current assets		
Financial assets at amortised cost	**133,023**	87,170

Term deposits represent a bank guarantee/deposit in relation to a rental property lease and credit card facilities.

4 Non-financial assets and liabilities

(a) Inventories

	Consolidated entity	
	31 December 2019 $	30 June 2019 $
Current assets		
Raw materials at cost	**13,046**	13,046
Finished goods at cost	**306,911**	211,541
Inventory on consignment at cost	**121,171**	112,385
	441,128	336,972

(b) Property, plant, equipment and right of use assets

Consolidated entity	**Plant and equipment $**	**Furniture, fittings and equipment $**	**Right-of-use assets $**	**Total $**
Balance at 1 July 2019				
Opening net book amount	209,298	12,861	-	222,159
Additions	-	10,224	651,781	662,005
Depreciation charge	(53,254)	(2,370)	(54,583)	(110,207)
Balance at 31 December 2019	156,044	20,715	597,198	773,957

4 Non-financial assets and liabilities (continued)

(c) Leases

The Group entered into a five-year commercial lease in Cremorne in August 2019. The lease is for the use of office facilities.

(i) Amounts recognised in the balance sheet

	Consolidated entity	
	31 December 2019 $	30 June 2019 $
Right-of-use assets[1]		
Leased properties	**597,198**	-
	597,198	-
Lease liabilities[2]		
Current	**86,417**	-
Non-current	**554,516**	-
	640,933	-

[1] Included in the line item 'property, plant and equipment' in the consolidated balance sheet.

[2] Included in the line items 'other current liabilities' and 'other non-current liabilities' in the consolidated balance sheet.

(ii) Amounts recognised in the statement of profit or loss

	Consolidated entity	
	31 December 2019 $	31 December 2018 $
Lease interest expense	**20,923**	-

(iii) The group's leasing activities and how these are accounted for

The Group's lease agreement does not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

4 Non-financial assets and liabilities (continued)

(d) Intangible assets

	Goodwill $	Development costs $	Intellectual property $	Total $
Balance at 1 July 2019				
Opening net book amount	1,565,004	192,615	1,197,376	2,954,995
Amortisation charge	-	(15,344)	(165,470)	(180,814)
Balance at 31 December 2019	**1,565,004**	**177,271**	**1,031,906**	**2,774,181**

5 Issued capital

	31 December 2019 No.	**31 December 2019 $**	30 June 2019 No.	30 June 2019 $
Fully paid	**169,206,016**	**64,927,255**	141,933,281	59,243,447

(a) Share capital

(i) Movements in ordinary shares

Details	**Number of shares**	**$**
Balance at 1 July 2019	**141,933,281**	**59,243,447**
23/09/2019 Private Placement at $0.22	27,272,735	6,000,002
Less: transaction costs arising on share issues	-	(316,194)
Balance at 31 December 2019	**169,206,016**	**64,927,255**

(b) Other reserves

(i) Movement in options (share-based payment reserve)

Details	**Number of options**	**$**
Balance at 1 July 2019	**15,150,000**	**1,571,430**
Grant Date 29/11/19 unlisted options (ESOP)	10,000,000	1,183,400
Balance at 31 December 2019	**25,150,000**	**2,754,830**

6 Share-based payments

The following share-based payment arrangements were entered into during the half-year ended 31 December 2019 due to new options granted and vested:

Type/recipient	Grant date	Vesting date	Expiry date	Exercise price ($)	No. of options	Fair value ($)
ESOP (Michael Johnson)	29-Nov-2019	29-Nov-2019	29-Nov-2023	0.2998	5,000,000	591,700
ESOP (Ron Dewhurst)	29-Nov-2019	29-Nov-2019	29-Nov-2023	0.2998	2,000,000	236,680
ESOP (Brent Scrimshaw)	29-Nov-2019	29-Nov-2019	29-Nov-2023	0.2998	2,000,000	236,680
ESOP (Eric Knight)	29-Nov-2019	29-Nov-2019	29-Nov-2023	0.2998	1,000,000	118,340

For the options granted during the half-year ended 31 December 2019, the valuation model inputs used to determine the fair value at the grant date are outlined below:

Type/recipient	Share price at grant date ($)	Exercise price ($)	Term in years	Expected volatility	Dividend yield	Risk-free interest rate	Fair value per option at grant date ($)
Michael Johnson	0.205	0.2998	4	92.00%	0.00%	0.6500%	0.11834
Ron Dewhurst	0.205	0.2998	4	92.00%	0.00%	0.6500%	0.11834
Brent Scrimshaw	0.205	0.2998	4	92.00%	0.00%	0.6500%	0.11834
Eric Knight	0.205	0.2998	4	92.00%	0.00%	0.6500%	0.11834

(i) ESOP

On 29 November 2019, Rhinomed Limited issued 10,000,000 options vesting upon issue to Directors of the Group. The assessed fair value of options issued was determined using the Black-Scholes option pricing model that takes into account the exercise price, term of the option, security price at grant date and expected price volatility of the underlying security, the expected dividend yield, the risk-free interest rate for the term of the security and certain probability assumptions.

7 Contingent liabilities and assets

The Group had no contingent liabilities at 31 December 2019 (30 June 2019: nil).

8 Segment reporting

The Group continues to operate in one segment, being the identification, acquisition and commercialisation of late stage therapeutic delivery technologies. The segment details are therefore fully reflected in the body of the financial report.

9 Events occurring after the reporting period

No matter or circumstance has occurred subsequent to period end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial periods.

10 Changes in accounting policies

(a) Adjustments recognised on adoption of AASB 16 Leases

A number of new or amended standards became applicable for the current reporting period and the Group has adopted AASB 16 for the first time to account for the leases that the group entered into since 1 July 2019.

The Group has a lease commitment for the three year commercial lease in Richmond prior to the current reporting period. Since the remaining lease is less than one year and the Group has adopted short-term lease exemption which is allowed under AASB 16. The Group is not required to recognise lease liabilities and right-of-use assets for the short-term lease.

Short-term lease commitment as at 31 December 2019 is summarised as follows:

	31 Dec 2019
Operating lease commitments disclosed as at 30 June 2019	$77,064
(Less): short-term leases recognised on a straight-line basis as expense during the period	($51,376)
Short-term lease commitments as at 31 December 2019	$25,688

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which the group entered into during the current reporting period. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on commencement of the lease was 7.74%.

The associated right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at when leases were entered into. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. For further detail, please refer to Note 4.

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying AASB 117 and Interpretation 4 Determining whether an Arrangement contains a Lease.

Rhinomed Limited
Directors' declaration
For the half-year ended 31 December 2019

In the Directors' opinion:

(a) the interim financial statements and notes set out on pages 2 to 18 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standard AASB 134 *interim financial reporting,* and

  (ii) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date, and

(b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable taking into account the factors outlined in note 1 of these accounts.

This declaration is made in accordance with a resolution of Directors.

Mr Michael Johnson
Chief Executive Officer and Managing Director
Melbourne

28 February 2020

INDEPENDENT AUDITOR'S REVIEW REPORT
to the Members of Rhinomed Limited

REPORT ON THE HALF-YEAR FINANCIAL REPORT

We have reviewed the accompanying half-year financial report of Rhinomed Limited ("the Company") which comprises the consolidated balance sheet as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes, and the directors' declaration, for the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

HLB MANN JUDD

Independence

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

HLB Mann Judd	**Nick Walker**
Chartered Accountants	**Partner**

Melbourne
1 March 2020