

Rhinomed Limited
Appendix 4D
Half-year report

1. Company details

Name of entity: Rhinomed Limited
ABN: 12 107 903 159
Reporting period: For the half-year ended 31 December 2020
Previous period: For the half-year ended 31 December 2019

2. Results for announcement to the market

			\$
Revenues from ordinary activities	up	16.7% to	1,945,537
Loss from ordinary activities after tax attributable to the owners of Rhinomed Limited	up	3.5% to	(5,486,116)
Loss for the half-year attributable to the owners of Rhinomed Limited	up	3.5% to	(5,486,116)

Dividends

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

Comments

The loss for the consolidated entity after providing for income tax amounted to \$5,486,116 (31 December 2019: \$5,299,181).

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>2.05</u>	<u>3.16</u>

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

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

Previous period

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

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Audit qualification or review

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

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

11. Attachments

Details of attachments (if any):

The Interim Report of Rhinomed Limited for the half-year ended 31 December 2020 is attached.

12. Signed

Signed



Mr Michael Johnson
Chief Executive Officer and Managing Director
Melbourne

Date: 23 February 2021

Rhinomed Limited

ABN 12 107 903 159

Interim Report - 31 December 2020

Rhinomed Limited
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Rhinomed Limited
Corporate directory

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)
Company Secretary & CFO	Mr Sean Slattery
Registered and Principal Office	Level 1, 132 Gwynne Street Cremorne VIC 3121 Australia +61 (0)3 8416 0900
Share register	Automic Pty Ltd Level 5, 126 Phillip Street Sydney NSW 2000 +61 (0)2 9698 5414
Auditor	Grant Thornton Audit Pty Ltd Collins Square, Tower 5, Level 22, 727 Collins Street Melbourne VIC 3008
Solicitors	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 listing	Rhinomed Limited shares are listed on the Australian Securities Exchange (ASX code: RNO) and the OTC Market in the USA (OTCQB: RHNMF).
Website	www.rhinomed.global

Rhinomed Limited Directors' report

The Directors are pleased to present their report, together with the financial statements, of the consolidated group consisting of Rhinomed Limited and the entities it controlled (the 'Group') at the end of, or during, the half-year ended 31 December 2020.

Directors

The following persons were Directors of Rhinomed Limited during the whole of the half-year and up to the date of this report, unless otherwise stated:

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)

Principal activities

The Group's principal activities are research, development and commercialisation of consumer and medical devices. There were no significant changes in the nature of the Group's principal activities during the half-year to 31 December 2020.

Review of operations

Rhinomed is a wearable nasal technology company.

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 on the shelves of the world's leading pharmacies with leading clinicians and practitioners who recognise the impact nose, and upper airway has on a wide range of health issues.

Key highlights for the six months ending 31 December 2020 include

- Achievement of a strong rebound in sales in the Australian and USA markets following the impact of the COVID-19 pandemic in early calendar year 2020
- Total units shipped for 1H FY21 was 145,576
- Operating revenue for 1H FY21 was A\$1.946m
- Cash reserves of A\$5.4m (as at 31 December 2020)
- Loss after income tax for 1H FY21 was A\$5.5m
- Net cash outflow from operating activities was A\$2.2m
- The Group successfully initiated and completed design of a new and novel nasal swab for sampling and use in testing processes for upper respiratory diseases including SARS-CoV-2, Influenza, etc
- Intellectual property protection of the swab and its variants was successfully achieved
- A clinical validation program began and was completed with the Melbourne based Peter Doherty Institute's Victorian Infectious Diseases References Library (VIDRL)
- The new swab was successfully registered as a Class 1 device in the USA with the FDA and in Australia with the TGA
- Commencement of the production program including initial 3D printing before tooling commenced for high volume production. Post balance date, the Group can report that injection moulding and production has commenced.
- COVID-19 related restrictions resulted in the Group executing on its COVIDSafe Plan in all locations. Pleasingly, the team worked seamlessly to continue delivering our technology to our customers despite global and local supply chain disruption.

Rhinomed Limited Directors' report

Business Overview

Sales of the Mute Snoring and sleep technology continued to grow in both the USA and Australian markets. While the COVID-19 pandemic has impacted consumer behaviour, reducing the number and frequency of store visits, sales from ecommerce channels, and in particular, via Amazon, continue to grow.

The Group continues to observe a challenging retail environment in its core markets. With most markets either recovering from or entering into COVID-19 induced restrictions and lockdowns, consumer behaviour has changed significantly as consumers seek to limit their exposure to the virus by consolidating store visits.

Despite the challenges, in addition to operating revenue for the six months to 31 December 2020 of \$1.95 million, the Group recorded a further \$50k as 'unrecognised revenue' as at 31 December 2020. This amount represents those goods that have been shipped and invoiced to customers that will be recorded as recognised revenue in the future. Gross profit margins on our products also continue to remain strong.

Continued underlying growth and the maturing of the business and impact of sell through from our USA store base is creating a strong business case for new retailers to stock our products.

Rhinoswab

The new nasal swab program has made significant progress having received registration as a Class 1 device by the FDA (USA) and the TGA (Australia). The program is an extension of the Rhinomed platform and represents a radical change in the way that nasal samples are collected. A user study performed during the period showed that 97% of participants found the swab to be painless and 74% found it either comfortable or very comfortable.

The Group commenced working with the Melbourne based Doherty Institute and its Victorian Infectious Disease Research Laboratory (VIDRL) to validate the Rhinomed nasal swab effectiveness. The results of the study performed established 100% category detection of SARS-CoV-2 for the Rhinomed swab (Rhinoswab) with no difference in the mean Ct value for detection of SARS-CoV-2 at both low and high virus burdens.

Prototype production of the novel nasal swab was initially undertaken via 3D printing. During the six months to 31 December 2020 the Group commenced a tooling project to enable mass production of the swab. Rhinomed is actively engaging with both Federal and State Governments as it seeks support for establishing an Australian based manufacturing facility that will create skilled employment opportunities, lower the existing reliance on imported swabs, improve the National health system's response capability and provide a compelling export opportunity via a world leading technology.

Having secured FDA/TGA registration, positive results from the user study, and clinical validation confirmed, we expect Rhinoswab will be able to remove the barriers to mass, high frequency testing while being price competitive and affordable.

Outlook

The Group remains focused on delivering growth based on four key metrics:

- Increasing distribution amongst our existing key accounts in our three key markets.
- Increasing the overall retail footprint through a strategic focus on high value retail pharmacy and grocery networks.
- Leverage our significant intellectual property and platform technology to create new high value products and solutions.
- Delivering strong high margin revenue growth.

Rhinomed is well placed to continue to execute its strategy of commercialising its platform technology by expanding its strong and growing retail presence in the USA, Australian and UK markets. With increased global demand for nasal swabs, the Rhinoswab is a perfect addition to the Group's pipeline of opportunity.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Rhinomed Limited
Directors' report

This report is made in accordance with a resolution of directors.

On behalf of the directors



Mr Michael Johnson
Chief Executive Officer and Managing Director

23 February 2021

Auditor's Independence Declaration

To the Directors of Rhinomed Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of Rhinomed Limited for the half-year ended 31 December 2020, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.



Grant Thornton Audit Pty Ltd
Chartered Accountants



M A Cunningham
Partner – Audit & Assurance

Melbourne, 23 February 2021

Rhinomed Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2020

	Note	31 December 2020 \$	31 December 2019 \$
Revenue			
Revenue from contracts with customers		1,945,537	1,667,360
Other income	5	344,252	47,805
Expenses			
Raw materials and consumables used		(660,539)	(714,798)
Administrative expenses		(1,000,785)	(886,733)
Depreciation and amortisation		(304,623)	(290,885)
Employee benefit expense		(3,602,758)	(2,821,773)
Marketing expenses		(1,262,031)	(1,683,108)
Research and development		(254,881)	(100,869)
Other expenses		(690,242)	(515,409)
Loss before income tax expense		(5,486,070)	(5,298,410)
Income tax expense		(46)	(771)
Loss after income tax expense for the half-year attributable to the owners of Rhinomed Limited		(5,486,116)	(5,299,181)
Other comprehensive income/(loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations, net of tax		318,582	(3,016)
Other comprehensive income/(loss) for the half-year, net of tax		318,582	(3,016)
Total comprehensive loss for the half-year attributable to the owners of Rhinomed Limited		<u>(5,167,534)</u>	<u>(5,302,197)</u>
		Cents	Cents
Basic earnings per share		(2.16)	(3.38)
Diluted earnings per share		(2.16)	(3.38)

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

Rhinomed Limited
Consolidated statement of financial position
As at 31 December 2020

	Note	31 December 2020 \$	Restated 30 June 2020* \$
Assets			
Current assets			
Cash and cash equivalents		5,439,401	7,757,474
Trade and other receivables		1,064,194	944,772
Inventories	6	266,777	540,384
Other current assets		133,675	245,478
Total current assets		<u>6,904,047</u>	<u>9,488,108</u>
Non-current assets			
Other financial assets		80,853	80,853
Property, plant and equipment	7	75,254	118,344
Right-of-use assets	8	466,628	532,270
Intangible assets	9	2,412,551	2,593,367
Total non-current assets		<u>3,035,286</u>	<u>3,324,834</u>
Total assets		<u>9,939,333</u>	<u>12,812,942</u>
Liabilities			
Current liabilities			
Trade and other payables		1,054,099	557,249
Contract liabilities		50,285	317,798
Lease liabilities	10	125,539	117,687
Employee benefits obligations		141,444	117,131
Total current liabilities		<u>1,371,367</u>	<u>1,109,865</u>
Non-current liabilities			
Lease liabilities	10	405,162	470,463
Employee benefits obligations		77,984	77,984
Total non-current liabilities		<u>483,146</u>	<u>548,447</u>
Total liabilities		<u>1,854,513</u>	<u>1,658,312</u>
Net assets		<u>8,084,820</u>	<u>11,154,630</u>
Equity			
Share capital	11	71,269,023	71,274,386
Other Reserves		4,790,099	2,383,010
Accumulated losses		<u>(67,974,302)</u>	<u>(62,502,766)</u>
Total equity		<u>8,084,820</u>	<u>11,154,630</u>

*The above consolidated statement of financial position should be read in conjunction with the accompanying notes
Certain 2020 amounts have been restated to reflect adjustments relating to Note 3.

Rhinomed Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2020

	Note	Share capital	Option reserve	Foreign currency translation reserve	Accumulated losses	Total equity
		\$	\$	\$	\$	\$
Balance at 1 July 2019		59,243,447	1,571,430	(27,705)	(56,166,407)	4,620,765
Retrospective restatement for correction to prior period	3	-	-	-	296,864	296,864
Balance at 1 July 2019 – restated*		59,243,447	1,571,430	(27,705)	(55,869,543)	4,917,629
Loss for the half-year		-	-	-	(5,299,181)	(5,299,181)
Other comprehensive loss for the half-year		-	-	(3,016)	-	(3,016)
Total comprehensive loss for the half-year		-	-	(3,016)	(5,299,181)	(5,302,197)
<i>Transactions with owners in their capacity as owners:</i>						
Contributions of equity, net of transaction costs		5,683,808	-	-	-	5,683,808
Share-based payments	14	-	1,183,400	-	-	1,183,400
Balance at 31 December 2019 - restated*		<u>64,927,255</u>	<u>2,754,830</u>	<u>(30,721)</u>	<u>(61,168,724)</u>	<u>6,482,640</u>
	Note	Share capital	Option reserve	Foreign currency translation reserve	Accumulated losses	Total equity
		\$	\$	\$	\$	\$
Balance at 1 July 2020 - restated*		71,274,386	2,411,930	(28,920)	(62,502,766)	11,154,630
Loss for the half-year		-	-	-	(5,486,116)	(5,486,116)
Other comprehensive income for the half-year		-	-	318,582	-	318,582
Total comprehensive income/(loss) for the half-year		-	-	318,582	(5,486,116)	(5,167,534)
<i>Transactions with owners in their capacity as owners:</i>						
Share-based payments	14	-	2,103,087	-	-	2,103,087
Expiry of options not exercised		-	(14,580)	-	14,580	-
Share issue transaction costs		(5,363)	-	-	-	(5,363)
Balance at 31 December 2020*		<u>71,269,023</u>	<u>4,500,437</u>	<u>289,662</u>	<u>(67,974,302)</u>	<u>8,084,820</u>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes
*Certain amounts have been restated to reflect adjustments relating to Note 3.

Rhinomed Limited
Consolidated statement of cash flows
For the half-year ended 31 December 2020

	Note	31 December 2020 \$	31 December 2019 \$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		1,612,415	1,554,691
Payments to suppliers and employees (inclusive of GST)		(4,130,402)	(5,082,559)
Interest received		18,598	7,805
Interest and other finance costs paid		-	(15,362)
COVID-19 government incentives received		224,000	-
Other government grants received		100,000	40,000
		<u> </u>	<u> </u>
Net cash outflow from operating activities		<u>(2,175,389)</u>	<u>(3,495,425)</u>
Cash flows from investing activities			
Payments for property, plant and equipment	7	(15,215)	(10,088)
Payments for financial assets		-	(45,853)
		<u> </u>	<u> </u>
Net cash outflow from investing activities		<u>(15,215)</u>	<u>(55,941)</u>
Cash flows from financing activities			
Proceeds from issue of shares	11	-	6,000,002
Share issue transaction costs		(24,108)	(316,194)
Repayment of lease principal		(57,450)	(31,771)
		<u> </u>	<u> </u>
Net cash (outflow)/inflow from financing activities		<u>(81,558)</u>	<u>5,652,037</u>
Net (decrease)/ increase in cash and cash equivalents		(2,272,162)	2,100,671
Cash and cash equivalents at the beginning of the half-year		7,757,474	1,421,315
Effects of exchange rate changes on cash and cash equivalents		(45,911)	(8,765)
		<u> </u>	<u> </u>
Cash and cash equivalents at the end of the half-year		<u><u>5,439,401</u></u>	<u><u>3,513,221</u></u>

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

Rhinomed Limited
Notes to the consolidated financial statements
For the half-year ended 31 December 2020

Note 1. Basis of preparation of half-year report

Reporting entity

The reporting entity is the consolidated group of Rhinomed Limited and the entities it controls, together referred to as Rhinomed Limited or the Group.

Rhinomed Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 1, 132 Gwynne Street
Cremorne VIC 3121
Australia
+61 (0)3 8416 0900

A description of the nature of the consolidated group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

Rhinomed Limited is registered under the Corporations Act 2001 and is listed on the Australian Stock Exchange (ASX) and the OTC Markets (OTCQB).

The interim report is presented for the six-months ended 31 December 2020 and are authorised for issue, in accordance with a resolution of directors, on 23 February 2021.

Basis of preparation

This consolidated interim report for the half-year reporting period ended 31 December 2020 has been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

The consolidated interim report has been prepared as follows:

- All transactions at historical cost, except for intangibles which have been revalued to fair value
- All figures have been reported in Australian Dollars (AUD)

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

The interim report does not include all the notes of the type normally included in annual financial statements. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Going concern

Key drivers used to assess the Group's going concern assumption

There are significant risks associated with product development and regulatory approvals required by biotechnology companies, as such it is difficult to predict the exact timing and quantum of income from the commercialisation of products and technology and there are inherent uncertainties involved in raising funds from investors within forecasted timelines.

The Group has a track record in accessing capital to fund its operations as evidenced through the capital raised of \$12.5 million before costs in the financial year ended 30 June 2020. This represents the continued support from major shareholders and the Group's ability to raise additional capital if required. A cashflow forecast is presented and discussed at each board meeting and the need to raise additional funds is monitored on an ongoing basis.

Rhinomed Limited
Notes to the consolidated financial statements
For the half-year ended 31 December 2020

Note 1. Basis of preparation of half-year report (continued)

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.

While the COVID-19 pandemic has impacted consumer behaviour, reducing the number and frequency of store visits, sales from ecommerce channels have continued to grow. In addition, the Group has also been eligible to access Government support.

However, the impact of the COVID-19 pandemic has resulted in the Group experiencing challenging and uncertain times and as a result, actual economic events and conditions in future may be materially different from those estimated by the group at the reporting date. In the event the COVID-19 pandemic impacts are more severe or prolonged than anticipated, this may have further adverse impacts to the Group. At the date of the financial report an estimate of the future effects of the COVID-19 pandemic on the group cannot be made, as the impact will depend on the magnitude and duration of the economic downturn, with the full range of possible effects unknown.

Judgement has been exercised in considering the impacts that the COVID-19 pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the COVID-19 pandemic.

Despite the above matters, the Directors remain confident that the group will be able to continue as a going concern which assumes it will be able to continue trading and realise assets and discharge liabilities in the ordinary course of business for at least 12 months from the date of the consolidated financial statements.

Based on the above management do not believe there is a material uncertainty in relation to going concern and therefore, have prepared the financial report on a going concern basis.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting any standards.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Note 2. Critical accounting judgements, estimates and assumptions

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

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the consolidated entity based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the consolidated entity operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Rhinomed Limited
Notes to the consolidated financial statements
For the half-year ended 31 December 2020

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

Share-based payment transactions

The value attributed to share options and remuneration shares issued is an estimate calculated using an appropriate mathematical formula based on an option pricing model. The choice of models and the resultant option value require assumptions to be made in relation to the likelihood and timing of the conversion of the options to shares and the value and volatility of the price of the underlying shares.

Allowance for expected credit losses

The decision whether or not to provide for the impairment of a receivable (provision for expected credit losses) requires a degree of estimation and judgement. The level of provision is assessed by taking into account the ageing of receivables and specific knowledge of the individual debtor's financial position.

Goodwill and other indefinite life intangible assets

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in Note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets 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.

Key assumptions used for value-in-use calculations for impairment assessment of intangible assets

The Group estimates the value-in-use of Rhinomed Limited's Cash Generating Unit ('CGU') using discounted cash flows. As at 31 December 2020, the recoverable amount of the CGU was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a one-year period. Cash flows beyond the one-year period are extrapolated using the estimated growth rates and assumptions used in the value-in-use calculations are stated below:

(i) *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 shows that market share is also growing in the category. Externally sourced data used 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 data 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. The Group's 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.

During the half-year to 31 December 2020, the new Pronto Clear was stocked in 6,000 stores of a major US based drug store chain which brought the Group's total store count to over 20,000 stores.

This endorsement provides the Group with confidence that the underlying strategy and assumptions that drive the strategy are sound.

Rhinomed Limited
Notes to the consolidated financial statements
For the half-year ended 31 December 2020

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

(ii) *Sales Growth Rate*

Weekly customer data from major customers shows year on year sales growth for Mute of 46%. Sales growth rates incorporated in the value-in-use model are below these levels with an average annual growth rate of 31% 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.

(iii) *Discount Rate*

In performing the value-in-use calculation, the Group 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 grow margins based on past performance and its expectations for the future. The weighted average growth rates used are consistent with forecasts included in the 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, including an adjustment of the pre-tax discount rate applied from 5% - 10% would not cause the Group's assets to exceed their recoverable amounts.

(iv) *Estimation of useful lives of assets*

The estimation of the useful lives of assets has been based on the 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.

Note 3. Restatement of comparatives

During the financial year ended 30 June 2019, late stage therapeutic products sold to end consumers had not been allocated correctly to revenue from customers. The comparatives shown in the interim financial statements for the half-year ended 31 December 2020 has been restated to correct this error.

The effect of the restatement on the financial statements is summarised below.

(i) *Impact on consolidated statement of financial position*

	Previously reported \$	Adjustment \$	Restated \$
30 June 2019			
Contract liabilities	556,297	(296,864)	259,434
Current liabilities	1,199,292	(296,864)	902,428
Total liabilities	1,250,262	(296,864)	953,398
Net assets	4,620,765	296,864	4,917,629
Accumulated losses	(56,166,407)	296,864	(55,869,543)
Total equity	4,620,765	296,864	4,917,629

Rhinomed Limited
Notes to the consolidated financial statements
For the half-year ended 31 December 2020

Note 3. Restatement of comparatives (continued)

	Previously reported \$	Adjustment \$	Restated \$
30 June 2020			
Contract liabilities	614,662	(296,864)	317,798
Current liabilities	1,406,729	(296,864)	1,109,865
Total liabilities	1,955,176	(296,864)	1,658,312
Net assets	10,857,766	296,864	11,154,630
Accumulated losses	(62,799,630)	296,864	(62,502,766)
Total equity	10,857,766	296,864	11,154,630

(ii) *Impact of consolidated profit or loss and other comprehensive income increase*

	\$
30 June 2019	
Revenue from customers	322,574
Other operating expenses	(25,710)
Loss before income tax expense	296,864
Total comprehensive loss for the period, net of income tax	296,864

There was no impact on the profit or loss and other comprehensive income for the year ended 30 June 2020.

(iii) *Impact of basic and diluted earnings per share (EPS) increase*

	¢
30 June 2019	
Basic earnings per share (cents per share)	0.22
Diluted earnings per share (cents per share)	0.22

There was no impact on the basic or diluted earnings per share for the year ended 30 June 2020.

Note 4. Operating segments

Identification of reportable operating segments

The Group has identified one reportable operating segment; that is, the identification, acquisition and revenue generation of nasal stent delivery technologies at Rhinomed group level as one consolidated operation. The board currently allocates resources and decisions based on the nasal stent technology brand and its commercialisation to the market. The products are rolled out by the Group globally. Due to nature of the products sold the Group assessed that analysis and reporting of its operations by geographical areas or countries has very limited impact on CODM's decision-making process. This along with taking into consideration the cost to develop this reporting, the group opted not to report its operations by geographical areas.

The segment details are therefore fully reflected in the body of the financial report.

Rhinomed Limited
Notes to the consolidated financial statements
For the half-year ended 31 December 2020

Note 5. Other income

	31 December 2020	31 December 2019
	\$	\$
Government grants and incentives	324,000	40,000
Interest received	20,252	7,805
	<u>344,252</u>	<u>47,805</u>
Other income	<u>344,252</u>	<u>47,805</u>

Government grants and incentives above includes \$50,000 COVID-19 cashflow boost and \$174,000 JobKeeper payment assistance received from the Government.

Note 6. Inventories

	31 December 2020	30 June 2020
	\$	\$
Inventory available for sale -at cost	167,389	335,026
Inventory on consignment - at cost	99,388	205,358
	<u>266,777</u>	<u>540,384</u>
	<u>266,777</u>	<u>540,384</u>

Note 7. Property, plant and equipment

	31 December 2020	30 June 2020
	\$	\$
Plant and equipment - at cost	553,835	553,835
Less: Accumulated depreciation	(510,596)	(454,730)
	<u>43,239</u>	<u>99,105</u>
Fixtures and fittings - at cost	96,403	81,707
Less: Accumulated depreciation	(64,388)	(62,468)
	<u>32,015</u>	<u>19,239</u>
	<u>75,254</u>	<u>118,344</u>
	<u>75,254</u>	<u>118,344</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

	Plant and Equipment	Furniture, fittings and equipment	Total
	\$	\$	\$
Balance at 1 July 2020	99,105	19,239	118,344
Additions	-	15,215	15,215
Exchange differences	-	(140)	(140)
Depreciation expense	(55,866)	(2,299)	(58,165)
	<u>43,239</u>	<u>32,015</u>	<u>75,254</u>
Balance at 31 December 2020	<u>43,239</u>	<u>32,015</u>	<u>75,254</u>

Rhinomed Limited
Notes to the consolidated financial statements
For the half-year ended 31 December 2020

Note 8. Right-of-use assets

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

	31 December 2020	30 June 2020
	\$	\$
Leased properties - right-of-use	651,781	651,781
Less: Accumulated depreciation	<u>(185,153)</u>	<u>(119,511)</u>
	<u><u>466,628</u></u>	<u><u>532,270</u></u>

Note 9. Intangible assets

	Goodwill	Development Costs	Intellectual Property	Total
	\$	\$	\$	\$
As at 30 June 2020				
Cost	4,951,996	602,503	9,516,217	15,070,716
Accumulated amortisation and impairment	<u>(3,386,992)</u>	<u>(440,576)</u>	<u>(8,649,781)</u>	<u>(12,477,349)</u>
Net book value	<u><u>1,565,004</u></u>	<u><u>161,927</u></u>	<u><u>866,436</u></u>	<u><u>2,593,367</u></u>
Half-year ended 31 December 2020				
Opening net book value	1,565,004	161,927	866,436	2,593,367
Amortisation charge	<u>-</u>	<u>(22,844)</u>	<u>(157,972)</u>	<u>(180,816)</u>
	<u><u>1,565,004</u></u>	<u><u>139,083</u></u>	<u><u>708,464</u></u>	<u><u>2,412,551</u></u>
At 31 December 2020				
Cost	1,565,004	431,049	2,981,138	4,977,191
Accumulated amortisation and impairment	<u>-</u>	<u>(291,966)</u>	<u>(2,272,674)</u>	<u>(2,564,640)</u>
Net book value	<u><u>1,565,004</u></u>	<u><u>139,083</u></u>	<u><u>708,464</u></u>	<u><u>2,412,551</u></u>

Impairment of intangibles

The Directors conducted an impairment assessment of the Group's intangible assets as at 31 December 2020 and concluded that an impairment charge was not necessary. The Directors assessed that intellectual property and development costs have a finite useful life of 9.5 years. Intangible assets have been subject to an impairment test whereby the recoverable amount was compared to their written-down value. Recoverable amount has been determined by the Board by preparing a value-in-use calculation using cash flow projections over a five-year period with a terminal value calculated on a perpetual growth basis, a fair value calculation using cash flow projections over a five-year period applying a terminal value on EBIT multiple basis, and taking the higher of the two in accordance with Australian Accounting Standards.

In performing the impairment review, the Directors have determined that the cash generating unit (CGU) is to be assessed on a Group level, consistent with the Group's single segment as disclosed in Note 4.

The value-in-use approach is consistent with the methods used as at 30 June 2020. For details on the key assumptions used for value-in-use calculations for impairment assessment, see Note 2 of the Group's Annual report.

Rhinomed Limited
Notes to the consolidated financial statements
For the half-year ended 31 December 2020

Note 10. Lease liabilities

	31 December 2020	30 June 2020
	\$	\$
Lease liability- Current	125,539	117,687
Lease liability- non-current	405,162	470,463
Total lease liability	<u>530,701</u>	<u>588,150</u>

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 (Note 8) 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.

Note 11. Share capital

	31 December 2020	30 June 2020	31 December 2020	30 June 2020
	Shares	Shares	\$	\$
Ordinary shares - fully paid	<u>253,809,132</u>	<u>253,809,132</u>	<u>71,269,023</u>	<u>71,274,386</u>

Movements in ordinary share capital

Details	Date	Shares	\$
Total issued ordinary shares at the beginning of the period	1 July 2020	253,809,132	71,274,386
Less: transaction cost related to share issue		<u>-</u>	<u>(5,363)</u>
Authorised and issued ordinary shares at the end of the period	31 December 2020	<u>253,809,132</u>	<u>71,269,023</u>

Note 12. Contingent liabilities

The Group is not aware of any material contingent liabilities at 31 December 2020 (30 June 2020: nil).

Note 13. Events after the reporting period

The COVID-19 pandemic has developed rapidly in 2020 with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity. The Group have taken a number of measures to monitor and mitigate the effects of COVID 19 such as safety and health measures for our people (such as social distancing and working from home) and securing the supply of inventory.

For the six months ending 31 December 2020, the impact on the Group's business and results has not been significant. However, as reported at Note 1, actual economic events and conditions in the future may be materially different from those estimated by the group at the reporting date. The Group will continue to follow the various government policies and advice and, in parallel, we will do our utmost to continue our operations in the best and safest way possible without jeopardising the health of our people.

Other than noted above, the Group is not aware of any significant events that have occurred subsequent to 31 December 2020 that may affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years (30 June 2020: nil).

Rhinomed Limited
Notes to the consolidated financial statements
For the half-year ended 31 December 2020

Note 14. Share-based payments

The establishment of the 'employee share and option plan' (ESOP) was approved by shareholders at the 2017 annual general meeting. The plan is designed to provide long-term incentives for employees (including Directors) to deliver long-term shareholder returns. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Set out below are summaries of options granted under ESOP which was established to provide ongoing incentive to reward employees and consultants for their contribution to the Group's performance:

31 December
2020

Grant date	Expiry date	Exercise price	Balance at the start of the half-year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the half-year
24/01/2017	30/12/2020	\$0.4000	150,000	-	-	(150,000)	-
14/12/2018	21/12/2021	\$0.2870	9,000,000	-	-	-	9,000,000
29/11/2019	29/11/2023	\$0.2998	10,000,000	-	-	-	10,000,000
20/01/2020	20/01/2024	\$0.2998	3,000,000	-	-	-	3,000,000
23/12/2020	14/09/2024	\$0.0116	-	12,690,457	-	-	12,690,457
23/12/2020	14/09/2024	\$0.0116	-	2,538,091	-	-	2,538,091
			<u>22,150,000</u>	<u>15,228,548</u>	<u>-</u>	<u>(150,000)</u>	<u>37,228,548</u>

On 23 December 2020, Rhinomed Limited issued 12,690,457 and 2,538,091 options to Mr. Michael Johnson, CEO and Sean Slattery, CFO respectively vesting upon issue. 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. are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
20/01/2020	23/12/2024	\$0.1850	\$0.1160	96.78%	-	0.37%	\$0.1381

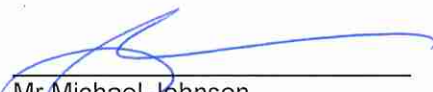
Rhinomed Limited
Directors' declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2020 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors



Mr Michael Johnson
Chief Executive Officer and Managing Director

23 February 2021

Independent Review Report

To the Members of Rhinomed Limited

Report on the review of the half year-financial report

Conclusion

We have reviewed the accompanying half-year financial report of Rhinomed Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

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

- (a) giving a true and fair view of the Rhinomed Limited's financial position as at 31 December 2020 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*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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 Group's financial position as at 31 December 2020 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*.

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.



Grant Thornton Audit Pty Ltd
Chartered Accountants



M A Cunningham
Partner – Audit & Assurance

Melbourne, 23 February 2021