# Atomo Diagnostics Limited

**(formerly Atomo Diagnostics Pty Limited)**

ABN 37 142 925 684

Interim Financial Report

31 December 2019

Atomo Diagnostics Limited

## Contents


| | |
|---|---|
| Directors' report | 1 |
| Lead auditor's independence declaration | 4 |
| Consolidated interim statement of profit or loss and other comprehensive income | 5 |
| Consolidated interim statement of financial position | 6 |
| Consolidated interim statement of changes in equity | 7 |
| Consolidated interim statement of cash flows | 8 |
| Notes to the consolidated interim financial statements | 9 |
| Directors' declaration | 32 |
| Independent auditor's review report | 33 |

# Atomo Diagnostics Limited

## Directors' report

**For the half year ended 31 December 2019**

The Directors present their report together with the consolidated financial statements of Atomo Diagnostics Limited (the "Company"), and its subsidiaries ("the Group") for the half year ended 31 December 2019 and the auditor's review report thereon.

### 1 Directors

The Directors of the Company at any time during or since the end of the financial half year are:

| Directors | Appointed | Resigned |
|---|---|---|
| John Perry Keith (Chairman) | 2 December 2011 | |
| John Michael Kelly (Chief Executive Officer) | 1 April 2010 | |
| George Alexander Sidis | 1 April 2010 | 3 February 2020 |
| Curt Harold Labelle | 21 October 2016 | |
| Doris-Ann Williams | 6 April 2017 | 22 January 2020 |
| Connie Bernadette Carnabuci | 4 February 2020 | |
| Paul Alexander Kasian | 4 February 2020 | |

The Company Secretary is Gillian Maria Nairn who was appointed on 4 February 2020. Robert Joseph Snoch was Company Secretary from 8 December 2016 until 4 February 2020.

### 2 Principal activities

The principal activities of the Group during the course of the half year were development and sale of medical devices.

There were no significant changes in the nature of the activities of the Group during the half year.

### 3 Review of operations

The loss for the Group for the half year ended 31 December 2019 amounted to $2,259,765 (2018: $2,132,247).

During the half year ended 31 December 2019, the Group recorded a significant increase in sales driven by two main factors;
(i) the acceleration of registrations and in-country rollout of HIV products by the Group's HIV products distribution partners, and
(ii) the launch in Europe of customer RDT products that utilize the Pascal device.

### 4 Significant changes in the state of affairs

During the period ended 31 December 2019, the Group raised $16 million through the issue of non-redeemable converting notes. These notes are interest bearing and convertible at the earlier of the occurrence of a significant equity raising transaction, or 12 months from the date of issue. Of this $16 million, a non-cash portion of $1.76m has been issued to Global Health Investment Fund LLC in satisfaction of the first repayment of their loan (as described in Note 14).

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Group that occurred during the half year under review.

### 5 Dividends

No dividends were paid or declared by the Company during or since the end of the half year (2018: Nil).

## 6 Matter subsequent to the end of the financial year

1. On the 21st January 2020, ASIC (and under the Corporations Act) gazetted for a month that the Company will change from a proprietary company to that of a public company. As such, on or about the 21st February 2020, the Company became a public company;

2. On 19 December 2019, the shareholders of the company approved a 1:8 split of the company's share capital;

3. On 19 December 2019, the shareholders of the company approved the conversion of all Ord+ Shares into Ordinary Shares to be effective at the time that the company becomes a public company. On or around the 21st February 2020, all Ord+ shares were converted into Ordinary Shares on a 1 for 1 basis;

4. Between the months of September 2019 and November 2019, the Group raised $16 million through the issue of non-redeemable converting notes. These notes are interest bearing and convertible at the earlier of the occurrence of a significant equity raising transaction, or 12 months from the date of issue. Of this $16 million, a non-cash portion of $1.76m has been issued to Global Health Investment Fund LLC in satisfaction of the first repayment of their loan (as described in Note 14);

5. On 28 February 2020, holders of 17,872,992 Options (post-share split basis) had accepted an early cashless exercise offer presented by the Group, resulting in the issue of 8,592,043 Ordinary Shares; and

6. On 28 February 2020, the Global Health Investment Fund exercised 21,818,184 Options (post-share split basis) on a cashless basis resulting in the issue of 10,868,183 Ordinary Shares.

Other than the matters discussed above, there has not arisen in the interval between the end of the half year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Group, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

## 7 Likely developments and expected results of operations

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

## 8 Shares under option

As at the date of this report, the following options over unissued ordinary shares in the Company have been issued and not yet exercised:

| Expiry date | Exercise price | Number of options |
|---|---|---|
| 2 years from date of vesting | $0.03 | 2,469,632 |
| 24 November 2020 | $0.16 | 5,000,000 |
| 6 April 20201 | $0.16 | 3,600,000 |
| 6 April 2022 | $0.16 | 6,800,000 |
| 15 September 2022 | $0.16 | 800,000 |
| 11 April 2023 | $0.16 | 4,800,000 |
| | | 23,469,632 |

No shares or interest in the Company or a controlled entity have been issued during or since the end of the half year as a result of the exercise of an option over unissued shares or interest.

**9 Indemnity and insurance of officers**

The Group has indemnified the Directors and executives of the Group for costs incurred, in their capacity as a Director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial half year, the Group paid a premium in respect of a contract to insure the Directors and executives of the Company against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability covered and the amount of the premium.

**10 Indemnity and insurance of auditor**

The Company and the Group have not, during or since the end of the financial half year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

**11 Lead auditor's independence declaration**

The Lead auditor's independence declaration is set out on page 4 and forms part of the Directors' report for the financial half year ended 31 December 2019.

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

John Michael Kelly
*Director*

Dated at Sydney this 2nd day of March 2020

# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

## To the Directors of Atomo Diagnostics Limited, formerly known as Atomo Diagnostics Pty Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Atomo Diagnostics Limited for the half-year ended 31 December 2019 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Tony Nimac

*Partner*

Sydney

2 March 2020

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

# Atomo Diagnostics Limited

## Consolidated interim statement of profit or loss and other comprehensive income

**For the half year ended 31 December 2019**

| *In AUD* | *Note* | For the half year ended 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| Revenue | *4* | 937,324 | 64,808 |
| Cost of sales | | (544,005) | (45,855) |
| Gross profit | | 393,319 | 18,953 |
| Other income | *4* | - | 390,725 |
| Employee benefits expenses | *5(a)* | (1,096,127) | (1,233,649) |
| Depreciation and amortisation | *5(b)* | (318,858) | (265,424) |
| Research and development expense | | (42,885) | (804,550) |
| Inventory obsolescence expense | | (2,044) | (3,190) |
| Occupancy expenses | | (21,471) | (33,675) |
| Professional fees expense | | (375,682) | (285,928) |
| Other expenses | | (558,579) | (343,993) |
| **Results from operating activities** | | (2,022,326) | (2,560,731) |
| Finance income | *5(c)* | 2,005 | 19,209 |
| Finance costs | *5(c)* | (487,683) | 12,759 |
| **Net finance income** | *5(c)* | (485,678) | 31,968 |
| **Loss before income tax** | | (2,508,004) | (2,528,763) |
| Income tax benefit | *12(a)* | 248,239 | 396,516 |
| **Loss for the year** | | (2,259,765) | (2,132,247) |
| **Other comprehensive income** | | | |
| Foreign currency translation differences | | (83,685) | (56,719) |
| **Total comprehensive income for the year** | | (2,343,450) | (2,188,966) |
| **Earnings per share** | *24* | | |
| From continuing operations | | *cents* | *cents* |
| Basic and diluted earnings per share | | (6.21) | (6.46) |

The notes on pages 9 to 31 are an integral part of these financial statements

Atomo Diagnostics Limited

# Consolidated interim statement of financial position

**As at 31 December 2019**

| *In AUD* | ***Note*** | **31 December 2019** | **Restated and Reissued* 30 June 2019** |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | *6* | 12,440,269 | 1,855,706 |
| Trade and other receivables | *7* | 1,083,929 | 582,005 |
| Inventories | *8* | 1,200,114 | 787,718 |
| Current tax assets | *12(b)* | 248,000 | 771,177 |
| **Total current assets** | | 14,972,312 | 3,996,606 |
| **Non-current assets** | | | |
| Property, plant and equipment | *9* | 1,034,263 | 1,153,296 |
| Intangible assets | *10* | 1,408,740 | 900,396 |
| Right of use asset | *11* | 113,027 | - |
| **Total non-current assets** | | 2,556,030 | 2,053,692 |
| **Total assets** | | 17,528,342 | 6,050,298 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | *13* | 963,523 | 1,049,876 |
| Borrowings | *14* | 20,273,244 | 3,928,101 |
| Lease liabilities | *15* | 94,452 | - |
| Employee benefits | *16* | 81,850 | 74,369 |
| **Total current liabilities** | | 21,413,070 | 5,052,346 |
| **Non-current liabilities** | | | |
| Borrowings | *14* | 3,600,754 | 6,410,560 |
| Lease liabilities | *15* | 18,641 | - |
| Employee benefits | *16* | 66,612 | 58,978 |
| **Total non-current liabilities** | | 3,686,007 | 6,469,538 |
| **Total liabilities** | | 25,099,077 | 11,521,885 |
| **Net liabilities** | | (7,570,735) | (5,471,587) |
| **Equity** | | | |
| Share capital | *18(a)* | 17,110,055 | 17,110,055 |
| Foreign currency translation reserve | | (139,178) | (55,493) |
| Share based payment reserve | | 829,406 | 585,105 |
| Accumulated losses | | (25,371,018) | (23,111,254) |
| **Total deficiency in equity** | | (7,570,735) | (5,471,587) |

The notes on pages 9 to 31 are an integral part of these financial statements

* Refer to note 2 (a) for the background to the error which led to the reissue of the financial statements for the year ended 30 June 2019

Atomo Diagnostics Limited

## Consolidated interim statement of changes in equity

**For the half year ended 31 December 2019**

| *In AUD* | **Share capital** | **Accumulated losses** | **Foreign currency translation reserve** | **Share based payment reserve** | **Total deficiency in equity** |
|---|---|---|---|---|---|
| **Reissued balance at 1 July 2018** | 13,194,931 | (18,056,142) | (27,270) | - | (4,888,481) |
| Loss for the half year | - | (2,132,247) | - | - | (2,132,247) |
| Other comprehensive income | - | - | (56,719) | - | (56,719) |
| Total other comprehensive income | - | - | (56,719) | - | (56,719) |
| Total comprehensive income for the year | - | (2,132,247) | (56,719) | - | (2,188,966) |
| *Transactions with owners, recorded directly in equity* | | | | | |
| Ordinary shares issued during the year | 3,923,122 | - | - | - | 3,923,122 |
| Capital raising costs | 2,500 | - | - | - | 2,500 |
| Equity-settled share baed payments | - | - | - | 474,862 | 474,862 |
| Total transactions with owners | 3,925,622 | - | - | 474,862 | 4,400,484 |
| **Restated balance at 31 December 2018** | 17,120,553 | (20,188,389) | (83,989) | 474,862 | (2,676,964) |
| **Reissued balance at 1 July 2019*** | 17,110,055 | (23,111,254) | (55,493) | 585,105 | (5,471,587) |
| Loss for the half year | - | (2,259,765) | - | - | (2,259,765) |
| Other comprehensive income | - | - | (83,685) | - | (83,685) |
| Total other comprehensive income | - | - | (83,685) | - | (83,685) |
| Total comprehensive income for the year | - | (2,259,765) | (83,685) | - | (2,343,450) |
| *Transactions with owners, recorded directly in equity* | | | | | |
| Ordinary shares issued during the year | - | - | - | - | - |
| Capital raising costs | - | - | - | - | - |
| Equity-settled share based payments | - | - | - | 244,301 | 244,301 |
| Total transactions with owners | - | - | - | 244,301 | 244,301 |
| **Balance at 31 December 2019** | 17,110,055 | (25,371,018) | (139,178) | 829,406 | (7,570,735) |

The notes on pages 9 to 31 are an integral part of these financial statements

* Refer to note 2 (a) for the background to the error which led to the reissue of the financial statements for the year ended 30 June 2019

# Atomo Diagnostics Limited

## Consolidated interim statement of cash flows

**For the half year ended 31 December 2019**

| *In AUD* | *Note* | For the half year ended 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 568,085 | 23,939 |
| Receipts from grant donors | | - | 390,725 |
| Payments to suppliers and employees | | (2,934,979) | (2,831,557) |
| Cash used in operations | | (2,366,894) | (2,416,893) |
| Interest received | | 2,005 | 19,209 |
| Interest paid | | (579,602) | (689,948) |
| Income tax (R&D rebate received) | | 771,416 | 1,800,000 |
| **Net cash used in operating activities** | | (2,173,075) | (1,287,632) |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | *9* | (124,199) | (295,672) |
| Payments for intangible assets | *10* | (552,093) | (44,813) |
| **Net cash used in investing activities** | | (676,292) | (340,485) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of share capital | *18(a)* | - | 2,447,315 |
| Proceeds from issue of converting notes | *14* | 14,344,107 | - |
| Payments for transaction costs | *14* | (911,803) | (2,500) |
| **Net cash from financing activities** | | 13,432,304 | 2,444,815 |
| Net increase in cash and cash equivalents | | 10,582,936 | 816,698 |
| Cash and cash equivalents at beginning of the half year | *6* | 1,855,706 | 1,993,596 |
| Effect of exchange rate fluctuations on cash held | | 1,627 | 74,272 |
| **Cash and cash equivalents at end of the half year** | *6* | 12,440,269 | 2,884,566 |

The notes on pages 9 to 31 are an integral part of these financial statements

## 1 Corporate information

Atomo Diagnostics Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is Level 2, 701-703 Parramatta Road, Leichhardt, NSW 2040. These consolidated financial statements comprise the Company and its subsidiaries (collectively the "Group" and individually "Group companies").

The Group is a for-profit entity and primarily involved in the development and sale of medical devices.

## 2 Basis of preparation

### (a) Reissued financial statements

The previously issued financial statements of the Group for the year ended 30 June 2019 dated 24 October 2019 have been withdrawn and are replaced by financial statements dated 2 March 2020. The financial report has been reissued due to the warrants issued to third party lenders not previously being recognised as a liability measured at fair value with changes recorded in profit and loss.

### (b) Basis of accounting

These general purpose financial statements for the interim half-year reporting period ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*, as appropriate for for-profit entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

These interim financial statements do not include all of the information required for a complete set of annual financial statements and should be read in conjunction with the consolidated annual financial statements of the Group as at and for the year ended 30 June 2019. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and financial performance since the last consolidated annual financial statements of the Group as at and for the year ended 30 June 2019.

The financial statements were approved by the Board of Directors and authorised for issue on the same date as the signing of the Directors' declaration.

### (c) Basis of measurement

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments which have been recognised at fair value through profit and loss.

**(d) Functional and presentation currency**

The financial statements are presented in Australian dollars, which is the Group's functional currency.

**(e) Use of judgements and estimates**

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income, expenses and disclosure of contingent liabilities. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

The specific judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the consolidated financial statements are:

*Impairment of intangible assets*

The Group tests intangible assets for impairment for each reporting period or more frequently if events or changes in circumstances indicate it has suffered any impairment, in accordance with the accounting policy stated in Note 3 (o). The recoverable amount of a cash generating unit ("CGU") is determined based on value-in-use calculations whereby cash flows are projected and extrapolated over a five year period with growth rates that do not exceed the long-term average growth rate for the market in which the Group operates. The discount rate used reflects the Group's pre-tax weighted average cost of capital.

*Share-based payments*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of options is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted and includes assumptions which require judgement.

The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

*Derivative financial instruments*

The Group measures the cost of equity-settled transactions with financiers by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of options is determined by using approporiate financial models taking into account the terms and conditions upon which the instruments were granted and includes assumptions which require judgement. The accounting estimates and assumptions impact on the carrying value of liabilities and profit or loss.

**(f) Going concern**

The financial report has been prepared on the going concern basis of accounting, which assumes the Group will be able to continue trading, realise assets and settle liabilities in the ordinary course of business for a period of at least twelve months from the date of signing these financial statements.

The Group recorded a loss for the half year ended 31 December 2019 of $2,259,765 (2018: $2,132,247 loss), net liabilities of $7,570,735 (30 June 2019: net liabilities of $5,471,587) and had cash outflows from operating activities of $2,173,075 (2018: $1,287,632 outflow).

At 31 December 2019, the Group had cash available of $12,440,269. Forecasts have been prepared which indicate that the Group will have adequate cash to continue its operations, particularly because within liabilities are converting notes, issued between September 2019 and November 2019, with a face value of $16,048,378. The converting notes will mandatorily convert into shares at the converting date (being the earlier of 12 months from issue or a "Conversion Event" - see note 14 for further details) and will therefore, not result in a cash outflow. Accordingly, the Directors believe the Group will have sufficient cash reserves to be able to fulfil all obligations as and when they fall due for the foreseeable future, being at least twelve months from the date of approval of these financial statements.

## 3 Significant accounting policies

The Group has consistently applied the following accounting policies to all periods in these financial statements.

### (a) Principles of consolidation

*(i) Business combinations*

The Group accounts for business combinations using the acquisition method when control is transferred to the Group, unless it is a combination involving entities or businesses under common control. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

*(ii) Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it 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 over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

*(iii) Loss of control*

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

*(iv) Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**(b) Changes in accounting policies**

The Group has initially applied AASB 16 Leases from 1 July 2019 using the modified retrospective approach with no adjustments to the comparative information.

*AASB 16 Leases*

AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group has opted to recognise a lease expense on a straight-line basis as permitted by AASB 16.

AASB 16 replaces existing leases guidance, including AASB 117 *Leases,* IFRIC 4 *Determining whether an Arrangement contains a Lease,* SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluation the Substance of Transactions Involving the Legal Form of a Lease.*

Previously, the Group recognised operating lease expenses on a straight-line basis over the term of the lease. Under AASB 16, the Group will recognise new assets and liabilities for its operating leases of rented premises. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities, included in finance costs, based on the interest rate implicit in the contract.

Following the adoption of AASB 16, the Group has recognised additional lease liabilities of $144,652 equal to the corresponding right of use assets.

**(c) Foreign currency**

*(i) Foreign currency transactions*

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in profit or loss. Non-monetary items that are measured based at historical cost in a foreign currency are not translated.

*(ii) Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the functional currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into the functional currency at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income ("OCI") and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interests ("NCI").

**(d) Revenue**

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

Customers obtain control of the HIV self-testing kits when the goods are ready and released by Quality Assurance (QA). It is then the responsibility of the customer to make the necessary arrangements for freight and the collection of goods from Atomo's warehouse. Invoices are generated once the goods are released by QA and ready for collection by the customer. Invoices are usually payable within 30 to 75 days, dependent on the contracted agreement. The contracts do not allow the customers to return the goods as the testing kits have a set shelf-life and have gone through vigorous testing prior to delivery.

Since none of the contracts permit the customer to return an item, revenue is recognised for all the goods once the goods have been released by QA and are available for collection at Atomo's warehouse.

**(e) Employee benefits**

*(i) Short-term employee benefits*

Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled within 12 months of the end of the financial year in which employees render the related service. Short-term employee benefits include salaries and wages plus related on-costs such as payroll tax, superannuation and workers compensation insurance and are measured at the undiscounted amounts expected to be paid when the obligation is settled.

*(ii) Other long-term employee benefits*

Other long-term employee benefits includes employees' long service leave and annual leave entitlements not expected to be settled within 12 months of the end of the financial year in which employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, duration of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on corporate bonds that have maturity dates that approximate the terms of the obligations. Any re-measurements for changes in assumptions of obligations for long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

*(iii) Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to employees' defined contribution plans are recognised as an expense as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

*(iv) Share-based payment arrangements*

The grant date fair value of options granted to employees (equity-settled) is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become entitled to the options. The amount recognised as an expense is adjusted to reflect the number of options for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of options that meet the related service and non-market performance conditions at the vesting date.

**(f) Finance income and finance costs**

Finance income comprises interest income, dividend income and foreign currency gains. Interest income is recognised in profit or loss as it accrues using the effective interest method.

Finance costs comprise interest expense on borrowings, foreign currency losses, fair value changes on warrants giving rise to a financial liability and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

**(g) Income tax**

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

*(i) Current tax*

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax liability arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

*(ii) Deferred tax*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, or on taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that could follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

**(h) Inventories**

Inventories are measured at the lower of cost and net realisable value. The costs of inventories is based on the first-in, first-out principle. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**(i) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and if it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

**(j) Goods and Services Tax (GST)**

Revenues, expenses and purchased assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the statement of financial position are shown inclusive of GST. Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**(k) Property, plant and equipment**

*(i) Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain and loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

*(ii) Subsequent expenditure*

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group.

*(iii) Depreciation*

Depreciation is calculated based on the cost of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of property, plant and equipment are as follows:

- Plant and equipment 2-5 years
- Software 4 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**(l) Leases**

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

**(m) Intangible assets**

*(i) Recognition and measurement*

*Computer software*

Computer software comprises computer application system software and licenses. Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to computer software. Costs capitalised include external direct costs of materials and services, direct payroll and payroll-related costs.

*Patents, trademarks and licences*

Other intangible assets, including patents, trademarks and licences that are acquired by the Group and have finite useful lives are measured at cost less any accumulated amortisation and impairment losses.

*Research and development*

Expenditure on research activities is recognised in profit or loss as incurred.

Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

**(m) Intangible assets (continued)**

*(ii) Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

*(iii) Amortisation*

Amortisation is calculated based on the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives of intangible assets are as follows:

- Patents and trademarks 10-20 years
- Other intangibles 10 years
- Capitalised development costs 10 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**(n) Financial instruments**

*Classification and measurement - non derivative financial assets and financial liabilities*

On 1 July 2018 (the date of initial application of AASB 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate AASB 9 categories.

Financial assets classified as held-to-maturity and loans and receivables under AASB 139 that were measured at amortised cost continue to be measured at amortised cost under AASB 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

In relation to the impairment of financial assets, AASB 9 requires an expected credit loss model as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. Consequently, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The Group has one type of financial assets (trade and other receivables) that are subject to AASB 9's new expected credit loss model.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Apart from the above, the application of AASB 9 has had no impact on the classification and measurement of the Group's financial assets and liabilities.

**(n) Financial instruments (continued)**

*Converting notes*

Converting notes issued by the Company will be converted to ordinary shares in accordance with the terms detailed in note 14.

The liability component of the converting notes is initially recognised at fair value. Any directly attributable transaction costs are allocated against the liability.

Subsequent to initial recognition, the liability component of a converting note is measured at amortised cost using the effective interest method.

Interest related to the financial liability is recognised in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognised.

*Warrants and derivatives embedded in converting notes at fair value through profit and loss*

The warrants and derivatives embedded in the converting notes are initially measured at fair value through profit and loss and any net gains and losses are recognised in profit and loss.

These liabilities will be derecognised when the warrants are exercised and the converting notes have been converted into ordinary shares, respectively. The difference between the carrying amount and the consideration paid (including any non-cash assets transferred or liabilities assume) is recognised in profit and loss.

**(o) Impairment**

*(i) Non-derivative financial assets*

Financial assets not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is evidence of impairment. Refer to 3(n).

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

**(o) Impairment (continued)**

*(ii) Non-financial assets*

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units ("CGUs"). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amount of assets in the CGU on a pro rata basis. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(p) Segment reporting**

The Group manages its operations as a single business operation and there are no parts of the Group that qualify as operating segments under AASB 8 Operating Segments. The CEO (Chief Operating Decision Maker or "CODM") assesses the financial performance of the Group on an integrated basis only and accordingly, the Group is managed on the basis of a single segment, being medical device research and development. Information presented to the CODM on a monthly basis is categorised by type of

**(q) Earnings per share**

*Basic earnings per share*

Basic earnings per share is calculated by dividing the profit or loss attributable to the owners of the Company 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*

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 consideration less than fair value in relation to dilutive potential ordinary shares.

*In AUD*

| | Note | For the half year ended 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **4 Revenue and other income** | | | |
| *Revenue* | | | |
| Revenue from sale of goods | | 883,302 | 64,808 |
| Revenue from freight | | 54,022 | - |
| | | 937,324 | 64,808 |
| *Other income* | | | |
| Grants received | | - | 390,725 |
| | | - | 390,725 |
| Total revenue and other income | | 937,324 | 455,533 |
| **5 Expenses** | | | |
| **(a) Employee benefits expenses** | | | |
| Salaries and wages | | 731,011 | 668,243 |
| Contributions to defined contribution superannuation funds | | 62,640 | 60,530 |
| Increase / (decrease) in annual leave | | 7,481 | (3,567) |
| Increase / (decrease) in long service leave | | 7,634 | 2,808 |
| Equity-settled share-based payments | | 244,301 | 474,862 |
| Other employee related expenses | | 43,060 | 30,773 |
| | | 1,096,127 | 1,233,649 |
| **(b) Depreciation and amortisation expense** | | | |
| Depreciation expense | *9* | 243,232 | 232,730 |
| Amortisation expense | *10* | 43,749 | 32,694 |
| Right of use assets | *11* | 31,877 | - |
| | | 318,858 | 265,424 |

| **(c) Net finance income** | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Interest income | 2,005 | 19,209 |
| Finance income | 2,005 | 19,209 |
| Interest expense | (2,347,691) | (519,372) |
| Amortisation of transaction costs | (196,033) | - |
| Fair value (loss)/gain on financial liabilities | 1,861,818 | 472,766 |
| Net foreign exchange loss/(gain) | 194,223 | 59,365 |
| Finance costs | (487,683) | 12,759 |
| Net finance income recognised in profit or loss | (485,678) | 31,968 |

*In AUD*

| | 31 December 2019 | 30 June 2019 |
|---|---|---|
| **6 Cash and cash equivalents** | | |
| Cash at bank | 12,440,269 | 1,855,706 |
| | 12,440,269 | 1,855,706 |

| *In AUD* | 31 December 2019 | 30 June 2019 |
|---|---|---|
| **7 Trade and other receivables** | | |
| **Current** | | |
| Receivables from trade customers | 567,666 | 314,306 |
| Other receivables | 516,263 | 267,699 |
| | 1,083,929 | 582,005 |

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

| | | |
|---|---|---|
| **8 Inventories** | | |
| Raw materials | 998,853 | 1,038,968 |
| Work in progress | 44,156 | 78,791 |
| Finished goods | 574,126 | 86,810 |
| Inventory provision | (417,021) | (416,851) |
| | 1,200,114 | 787,718 |

**9 Property, plant and equipment**

| *In AUD* | Software | Plant and equipment | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance at 1 July 2018 | 3,420 | 1,491,979 | 1,495,399 |
| Additions | - | 739,915 | 739,915 |
| **Balance at 30 June 2019** | 3,420 | 2,231,894 | 2,235,314 |
| Balance at 1 July 2019 | 3,420 | 2,231,894 | 2,235,314 |
| Additions | - | 124,199 | 124,199 |
| **Balance at 31 December 2019** | 3,420 | 2,356,093 | 2,359,513 |
| **Accumulated depreciation** | | | |
| Balance at 1 July 2018 | 3,420 | 583,378 | 586,798 |
| Depreciation | - | 495,220 | 495,220 |
| **Balance at 30 June 2019** | 3,420 | 1,078,598 | 1,082,018 |
| Balance at 1 July 2019 | 3,420 | 1,078,598 | 1,082,018 |
| Depreciation | - | 243,232 | 243,232 |
| **Balance at 31 December 2019** | 3,420 | 1,321,830 | 1,325,250 |
| **Carrying amounts** | | | |
| **At 30 June 2019** | - | 1,153,296 | 1,153,296 |
| **At 31 December 2019** | - | 1,034,263 | 1,034,263 |

## 10 Intangible assets

*In AUD*

| | Capitalised Development Costs | Patents and trademarks | Other intangibles | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 1 July 2018 | - | 1,004,948 | 91,429 | 1,096,377 |
| Additions | - | 73,442 | - | 73,442 |
| **Balance at 30 June 2019** | - | 1,078,390 | 91,429 | 1,169,819 |
| | | | | |
| Balance at 1 July 2019 | - | 1,078,390 | 91,429 | 1,169,819 |
| Additions | 513,613 | 38,480 | - | 552,093 |
| **Balance at 31 December 2019** | 513,613 | 1,116,870 | 91,429 | 1,721,912 |
| | | | | |
| **Accumulated amortisation** | | | | |
| Balance at 1 July 2018 | - | 156,651 | 47,385 | 204,036 |
| Amortisation | - | 53,531 | 11,856 | 65,387 |
| **Balance at 30 June 2019** | - | 210,182 | 59,241 | 269,423 |
| | | | | |
| Balance at 1 July 2019 | - | 210,182 | 59,241 | 269,423 |
| Amortisation | 9,112 | 28,682 | 5,955 | 43,749 |
| **Balance at 31 December 2019** | 9,112 | 238,864 | 65,196 | 313,172 |
| | | | | |
| **Carrying amounts** | | | | |
| **At 30 June 2019** | - | 868,208 | 32,188 | 900,396 |
| **At 31 December 2019** | 504,501 | 878,006 | 26,233 | 1,408,740 |

*In AUD*

| | 31 December 2019 | 30 June 2019 |
|---|---|---|

## 11 Right-of-use assets

The Group holds leases for properties with lease terms ranging from 1 to 2 years. AASB 16 *Leases* has been adopted with a modified retrospective transition approach so there are no right-of-use assets recognised for the reporting period ending 30 June 2019.

| | | |
|---|---|---|
| **Non-current** | | |
| Right-of-use assets: property - carrying value | 113,027 | - |
| | 113,027 | - |
| | | |
| *Amount recognised in profit or loss* | | |
| | | |
| Depreciation expensed for the half-year | 31,877 | - |
| Interest expense | 196 | - |
| | 32,073 | - |

| *In AUD* | For the half year ended 31 December 2019 | 31 December 2018 |
|---|---|---|

## 12 Income tax

### (a) Income tax benefit

Income tax benefit comprises current and deferred tax expense and is recognised in profit or loss, except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income. The components of income tax benefit comprise:

| | | |
|---|---|---|
| Current tax | (248,239) | (396,516) |
| Deferred tax | - | - |
| **Total income tax benefit** | (248,239) | (396,516) |

The prima facie tax on profit before income tax is reconciled to the income tax expense as follows:

| | | |
|---|---|---|
| Loss before income tax | (2,508,004) | (2,528,763) |
| Tax using the Company's domestic Australian tax rate of 30% (2018: 30%) | (752,401) | (758,629) |
| Permanent differences | (1,446,677) | (677,935) |
| Under provision of tax in prior years | - | - |
| Tax losses not brought into account | 2,199,078 | 1,436,564 |
| R&D rebate refund | (248,239) | (396,516) |
| **Total income tax benefit** | (248,239) | (396,516) |

### (b) Current tax assets

The current tax asset at 31 December 2019 of $248,000 (2018: $771,777) represents income tax rebates receivable from relevant tax authorities on the Group's research and development expenditure.

### (c) Deferred tax assets

Due to the uncertainty of the the Group generating sufficient taxable income to offset tax losses carried forward, the future tax benefits of these losses has not been brought to account in these financial statements.

| *In AUD* | 31 December 2019 | 30 June 2019 |
|---|---|---|

## 13 Trade and other payables

| | | |
|---|---|---|
| **Current** | | |
| Trade payables | 314,523 | 604,033 |
| Accrued expenses | 612,402 | 417,169 |
| Other payables | 36,598 | 28,674 |
| | 963,523 | 1,049,876 |

All amounts are short term and the carrying values are considered to be a reasonable approximation of fair value.

## 14 Borrowings

| | 31 December 2019 | 30 June 2019 |
|---|---|---|
| **Current** | | |
| Loan from Global Health Investment Fund LLC | 2,997,431 | 1,758,376 |
| Warrants recognised at fair value through profit and loss | 1,365,002 | 2,169,725 |
| Converting notes | 10,238,248 | - |
| Embedded derivative of converting notes at fair value through profit and loss | 5,672,564 | - |
| | 20,273,244 | 3,928,101 |
| **Non-current** | | |
| Loan from Global Health Investment Fund LLC | 3,600,754 | 6,410,560 |
| | 3,600,754 | 6,410,560 |

*Loan from Global Health Investment Fund LLC (GHIF)*
In December 2015, the Company received a loan from GHIF for an amount of US$6,000,000. The principal of the loan is repayable: (i) 20% of the Principal Drawn by 31 December 2019, (ii) a further 35% of the Principal Drawn by 31 December 2020; and (iii) the remainder of the loan by 31 December 2021. Interest is payable at the rate of 7% annually in arrears at 31 December each year. Security is provided by a floating charge over the revolving assets (inventory, negotiable instruments and plant and equipment) of the Company and fixed charge over all other collateral (all other property).

The loan agreement requires certain performance commitments including (i) making products and services available to disadvantaged patients on a tiered pricing structure. This commitment also applies to partners, distributors of the Company or assignee of Intellectual property; and (ii) until full repayment of the loan, dividends or distributions paid by the Company cannot exceed 50% of the cumulative retained profits of the Company.

GHIF also has an option to receive up to 2,727,273 shares in the Company at an exercise price of US$0.55. The option exercise period expires on 31 December 2021. If GHIF holds 2,000,000 shares or more, it shall have the right to appoint a Board member. The impact of this warrant is recognised at fair value through profit and loss.

*Converting notes*
During the period September 2019 to November 2019, the parent entity, Atomo Diagnostics Ltd, issued converting notes with a total face value of $16.05 million. Interest on the converting notes is payable at 10% per annum.

The converting notes convert into ordinary shares at the earlier of:
(i) 12 months from the date of issue; or
(ii) on the occurrence of a Conversion Event being; either an Initial Public Offering event, a Capital Raising Event or a Change of Control Event. An Initial Public Offering Event means receipt by the Company of conditional approval from either the Australia Stock Exchange or any other financial market, as applicable. A Capital Raising Event means a capital raising undertaken by the Company to raise a minimum of AUD $15,000,000, but does not include any capital raising undertaken by the Company as part of an Initial Public Offering. A Change of Control Event is any event which has the effect of a change in Control of the Company.

**14 Borrowings (continued)**

The conversion price of converting notes to ordinary shares is:
(a) if the converting notes convert on the occurrence of an Initial Public Offering Event, the lesser of the price per share equal to 80% of the issue price of shares under the prospectus and the Maximum Conversion Price (see below);

(b) if the converting notes convert on the occurrence of a Capital Raising Event, the lesser of the price per share equal to 80% of the price at which shares are offered under the capital raising and the Maximum Conversion Price (see below);

(c) if the converting notes convert on the occurrence of a Control Event, the lesser of the price per Share equal to 80% of the last price per share at which the Control Event occurred and the Maximum Conversion Price (see below); or

(d) if the converting notes convert at maturity, the lesser of the price per share equal to 70% of the fair market value and the Maximum Conversion Price (see below).

The Maximum Conversion Price means:
(a) if the converting notes convert on the occurrence of an Initial Public Offering Event, a Capital Raising Event or a Control Event, the price per share equal to 80% of AUD$65,000,000 divided by the number of Shares on issue immediately prior to the occurrence of the Conversion Event; or
(b) if the converting notes convert on maturity, means the price per share equal to 70% of AUD$65,000,000 divided by the number of shares on issue immediately prior to the occurrence of the Conversion Event.

The Maximum Conversion Price clause gives rise to an embedded derivative. This derivative is calculated using the Monte Carlo method and recognised at fair value through profit and loss.

| *In AUD* | **31 December 2019** | **30 June 2019** |
|---|---|---|
| **15 Right-of-use lease liabilities** | | |
| **Current** | | |
| Lease liabilities | 94,452 | - |
| | 94,452 | - |
| **Non-current** | | |
| Lease liabilities | 18,641 | - |
| | 18,641 | - |

AASB 16 *Leases* has been adopted with a modified retrospective transition approach so there are no disclosures for the comparative period.

| 16 Employee benefits | 31 December 2019 | 30 June 2019 |
|---|---|---|
| **Current** | | |
| Liability for annual leave | 81,850 | 74,369 |
| | 81,850 | 74,369 |
| **Non-current** | | |
| Liability for long service leave | 66,612 | 58,978 |
| | 66,612 | 58,978 |

**17 Share-based payment arrangements**

*Employee share option plan (equity-settled)*

In November 2016, the Group established an Employee Share Option Plan ("ESOP") that allows Directors and certain key management personnel and employees to purchase shares in the Company. The holders of vested options are entitled to purchase one share for each option held at an exercise price of $1.25 per share ($0.16 per share post share-split). Options granted to employees vest in three tranches: (i) 25% on grant date, (ii) 25% on the first anniversary of the grant date, and (iii) 50% on the second anniversary of the grant date.

Options granted to Directors vest in two tranches: (i) 50% on the first anniversary of the grant date, and (ii) 50% on the second anniversary of the grant date. Certain options carry performance related conditions in order for these options to vest. None of these conditions have been met at the end of the current financial reporting period.

The Group has determined the fair value of the equity instruments granted by using the Black-Scholes valuation method. This method is considered to be the most effective in determining the appropriate value of the share options.

During previous financial years, options with an exercise price equal to the market price of the underlying shares were issued. The value of these options, relative to each employee's service period during the current financial half year, being $244,301 (as shown in Note 5(a)), have been recognised as share based payments within employee expenses. This amount includes the value of options issued in previous years and not recognised at that time (as the exercise price of the options exceeded the market value of the underlying shares at the time of the grant).

As at the date of this report, the following options over unissued ordinary shares in the Company have been issued and not yet exercised:

| Expiry date | Exercise price | Number of options |
|---|---|---|
| 2 years from date of vesting | $0.03 | 2,469,632 |
| 24 November 2020 | $0.16 | 5,000,000 |
| 6 April 20201 | $0.16 | 3,600,000 |
| 6 April 2022 | $0.16 | 6,800,000 |
| 15 September 2022 | $0.16 | 800,000 |
| 11 April 2023 | $0.16 | 4,800,000 |
| | | 23,469,632 |

No shares or interest in the Company or a controlled entity have been issued during or since the end of the half year as a result of the exercise of an option over unissued shares or interest.

## 18 Capital and reserves

### (a) Share capital

| | Ordinary shares | | Class B shares | | Ord+ Shares | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| *In number of shares* | | | | | | | | |
| In issue at 1 July | 28,428,647 | 28,428,647 | 5,979,846 | 4,555,993 | 1,953,852 | - | 36,362,345 | 32,984,640 |
| Issued during the half year | - | - | - | - | - | 1,953,852 | - | 1,953,852 |
| Conversion of debt | - | - | - | 1,423,853 | - | - | - | 1,423,853 |
| Share buy-back | - | - | - | - | - | - | - | - |
| In issue at 31 December | 28,428,647 | 28,428,647 | 5,979,846 | 5,979,846 | 1,953,852 | 1,953,852 | 36,362,345 | 36,362,345 |
| *in AUD* | | | | | | | | |
| In issue at 1 July | 8,630,940 | 8,638,938 | 6,036,800 | 4,555,993 | 2,442,315 | - | 17,110,055 | 13,194,931 |
| Issued during the half year | - | - | - | - | - | 2,442,315 | - | 2,442,315 |
| Conversion of debt | - | - | - | 1,480,807 | - | - | - | 1,480,807 |
| Share buy-back | - | - | - | - | - | - | - | - |
| Capital raising costs | - | 2,500 | - | - | - | - | - | 2,500 |
| In issue at 31 December* | 8,630,940 | 8,641,438 | 6,036,800 | 6,036,800 | 2,442,315 | 2,442,315 | 17,110,055 | 17,120,553 |

* On 21 February 2020, the Group's shares were split on a 1 for 8 basis. The numbers reflected in the table above are presented on a pre-share split basis.

**18 Capital and reserves (continued)**

**(a) Share capital (continued)**

*Ordinary shares*

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid. The holders of these shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at general meetings of the Company.

*Class B shares*

B Class shares have the same rights as existing ordinary voting shares and are subject to the terms of the Investors Agreements and the Company's Constitution, save for the special terms that will attach to B Class shares which are as follows:

(i) Upon winding-up of the Company, each B Class share shall convert into 1.2 ordinary shares;

(ii) In the event of sale of all the shares in the Company for a total consideration of not more than US$20,000,000, each B Class share shall convert into 1.2 ordinary shares with effect immediately prior to the sale. If the sale price is more than US$20,000,000 then the B Class shares shall convert into ordinary shares on a 1 for 1 basis;

(iii) In the event of listing of the Company's shares on a securities exchange at an initial price implying a total company market capitalisation of not more than US$20,000,000, each B Class share shall convert into 1.2 ordinary shares with effect immediately prior to the sale. If the initial price implies a total company market capitalisation of more than US$20,000,000 then the B class shares shall convert into ordinary shares 1 for 1; and

(iv) For any period when a B Class shareholder holds a minimum of 2 million shares in the Company (whether B class or ordinary shares), the shareholder shall have the right to appoint a Director to the board.

*Ord+ shares*

Ord+ shares have the same rights as existing ordinary voting shares and are subject to the terms of the Investors Agreements and the Company's Constitution, save for the special terms that will attach to Ord+ shares which are as follows:

(i) The shares will be issued with an accompanying entitlement to bonus shares which are to be issued in the event that the subsequent capital activity occurs at a price less than $1.50 per ordinary share; and

(ii) The bonus shares entitlement will apply in respect of the next capital activity that has one of the following characteristics:

1) if the company issues further ordinary shares for a price less than $1.50 per share (other than in response to the exercise of existing share options or warrants), with an aggregate issue offer value in excess of $3,000,000; or
2) if an agreement is made by which all of the ordinary shares in the Company are to be sold at an average price of less that $1.50 per share.

On or around 21st February 2020, all Ord+ shares were converted to Ordinary Shares on a 1 for 1 basis.

**(b) Dividends**

No dividends were paid or declared by the Company during the half year (2018: Nil).

## 19 Group entities

Set out below is a list of material subsidiaries of the Group.

| | Country of incorporation | Ownership interest 31 December 2019 | Ownership interest 30 June 2019 |
|---|---|---|---|
| **Parent entity** | | | |
| Atomo Diagnostics Limited | Australia | | |
| **Subsidiaries** | | | |
| Atomo Australia Pty Limited | Australia | 100% | 100% |
| Atomo Limited | United Kingdom | 100% | 100% |

## 20 Related parties

### (a) Key management personnel compensation

Key management personnel ("KMP") are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly and indirectly, and include the Directors, executive and non-executive, as well as certain other senior executives.

The totals of remuneration of the KMP of the Company included within employee expenses are as follows:

| *In AUD* | For the half year ended 31 December 2019 | For the half year ended 31 December 2018 |
|---|---|---|
| Key management personnel compensation | 180,675 | 175,200 |

No remuneration was provided to the non-executive Directors.

### (b) Key management personnel transactions

Directors of the Company represent 44% (2018: 44%) of the controlling interest in the shares of the Company as at 31 December 2019.

### (c) Other related party transactions

Transactions between related parties are on normal commercial terms and conditions and no more favourable than those available to other parties, unless stated otherwise.

The following transactions occurred with related parties:

| *In AUD* | For the half year ended 31 December 2019 | For the half year ended 31 December 2018 |
|---|---|---|
| A company jointly controlled by George Sidis, a non-executive Director of the Company, provided the following services: | | |
| Purchase of inventory | 351,586 | 172,592 |
| Research and development | 328,307 | 728,282 |
| Plant and equipment | 16,560 | 292,271 |
| Other services | 80,348 | 103,747 |
| | 776,801 | 1,296,892 |
| At the end of the finanical half year the following amounts were shown owing to related parties in trade payables: | 9,855 | 112,144 |
| | 9,855 | 112,144 |

## 21 Commitments and contingencies

### (a) Contingencies

During the 2016 financial year, the Group received a grant from The NSW Health Medial Devices Fund for $1.8 million to support development and validation of AtomoRapid HIV Self Test project. The project has detailed budget and completion milestones. The funding is classified as a grant, however, if the Group achieves a result greater than $500,000 EBITDA for the project, then repayments of the grant and an amount of imputed capitalised interest will be required. It is not foreseen that the Group will earn EBITDA greater than $500,000 for the project.

## 22 Financial risk management

The main risks of that the Group is exposed to through its financial instruments are liquidity risk and market risk consisting of interest rate risk and foreign currency risk. The Group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, borrowings and accounts receivable and payable. The totals for each category of financial instrument is as follows:

| *In AUD* | **31 December 2019** | **30 June 2019** |
|---|---|---|
| *Financial assets* | | |
| Cash and cash equivalents | 12,440,269 | 1,855,706 |
| | 12,440,269 | 1,855,706 |
| *Financial liabilities* | | |
| Borrowings | 23,873,998 | 10,338,661 |
| | 23,873,998 | 10,338,661 |

## 23 Events after the reporting period

1. On the 21st January 2020, ASIC (and under the Corporations Act) gazetted for a month that the Company will change from a proprietary company to that of a public company. As such, on or about the 21st February 2020, the Company became a public company;

2. On 19 December 2019, the shareholders of the company approved a 1:8 split of the company's share capital;

3. On 19 December 2019, the shareholders of the company approved the conversion of all Ord+ Shares into Ordinary Shares to be effective at the time that the company becomes a public company. On or around the 21st February 2020, all Ord+ shares were converted into Ordinary Shares on a 1 for 1 basis;

4. Between the months of September 2019 and November 2019, the Group raised $16 million through the issue of non-redeemable converting notes. These notes are interest bearing and convertible at the earlier of the occurrence of a significant equity raising transaction, or 12 months from the date of issue. Of this $16 million, a non-cash portion of $1.76m has been issued to Global Health Investment Fund LLC in satisfaction of the first repayment of their loan (as described in Note 14);

5. On 28 February 2020, holders of 17,872,992 Options (post-share split basis) had accepted an early cashless exercise offer presented by the Group, resulting in the issue of 8,592,043 Ordinary Shares; and

6. On 28 February 2020, the Global Health Investment Fund exercised 21,818,184 Options (post-share split basis) on a cashless basis resulting in the issue of 10,868,183 Ordinary Shares.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Group, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

## 24 Earnings per share

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Loss after tax | 2,259,765 | 2,132,247 |
| | *cents* | *cents* |
| Basic loss per share | (6.21) | (6.46) |
| Weighted average number of shares | 36,362,345 | 33,001,452 |

## 25 Segment reporting

The Group manages its operations as a single business operation and there are no parts of the Group that qualify as operating segments under AASB 8 Operating Segments. The CEO (Chief Operating Decision Maker or "CODM") assesses the financial performance of the Group on an integrated basis only and accordingly, the Group is managed on the basis of a single segment, being medical device research and development. Information presented to the CODM on a monthly basis is categorised by type of expenditure.

# Atomo Diagnostics Limited

## Directors' declaration

In the opinion of the Directors of Atomo Diagnostics Limited (the "Company"):

(a) the consolidated interim financial statements and notes that are set out on pages 5 to 31:

   (i) present fairly the financial position of the Group as at 31 December 2019 and of its performance for the the half year ended on that date in accordance with the basis of preparation and accounting policies described in Notes 2 and 3; and

   (ii) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting; and

(b) there are reasonable grounds to believe that the Group and the Company will be able to pay their debts as and when they become due and payable.

Signed in accordance with a resolution of Directors:



John Michael Kelly
*Director*

Dated at Sydney this 2nd day of March 2020

KPMG

# Independent Auditor's Review Report

To the Directors of Atomo Diagnostics Limited, formerly known as Atomo Diagnostics Pty Limited

## Report on the Interim Financial Report

### Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of Atomo Diagnostics Limited and its controlled entities (the ***Group***).

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Interim Financial Report of the Group does not present fairly, in all material respects, the financial position of the Group as at 31 December 2019, and of its performance and its cash flows for the six month period ended on that date, in accordance with *Australian Accounting Standard AASB 134 Interim Financial Reporting*.

The ***Interim Financial Report*** comprises:

- Consolidated interim statement of financial position as at 31 December 2019
- Consolidated interim statement of profit or loss and other comprehensive income, Consolidated interim statement of changes in equity, and Consolidated interim statement of cash flows for the six month period ended on that date
- Notes to the consolidated interim financial statements comprising a summary of significant accounting policies and other explanatory information.

The ***Group*** comprises Atomo Diagnostics Limited, formerly known as Atomo Diagnostics Pty Limited (the Company) and the entities it controlled at the period end, being 31 December 2019 or from time to time during the half- year ended period from 01 July 2019 to 31 December 2019.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

KPMG

## Restriction on use and distribution

The Interim Financial Report has been prepared to assist the Directors of Atomo Diagnostics Limited for the purpose of their due diligence in relation to an Initial Public Offering.

As a result, the Interim Financial Report and this Auditor's Review Report may not be suitable for another purpose. Our conclusion is not modified in respect of this matter.

Our report is intended solely for the Directors of Atomo Diagnostics Limited and should not be used by or distributed to parties other than the Directors of Atomo Diagnostics Limited. We disclaim any assumption of responsibility for any reliance on this report, or on the Interim Financial Report to which it relates, to any person other than the Directors of Atomo Diagnostics Limited or for any other purposes than that for which they were prepared.

## Emphasis of matter – Restatement of comparative balances

We draw attention to Note 2(a) to the interim financial statements, which describes a warrants valuation issue and the implications for certain items disclosed as comparatives in this interim financial report. Our opinion is not modified in respect of this matter

## Responsibilities of Management for the Interim Financial Report

Management of the Group are responsible for:

- the preparation and fair presentation of the Interim Financial Report in accordance with *Australian Accounting Standard AASB 134 Interim Financial Reporting,* and have determined that the financial reporting framework is appropriate to meet the needs of the Directors for the purpose of their due diligence in relation to an Initial Public Offering
- such internal control as Management determine is necessary to enable the preparation and fair presentation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

KPMG

## Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim 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, anything has come to our attention that causes us to believe that the Interim Financial Report is not presented fairly, in all material respects, in accordance with *Australian Accounting Standard AASB 134 Interim Financial Reporting*. As the auditor of the Group, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual Financial Report.

A review of an Interim 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.

In conducting our review, we have complied with the relevant ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)*.

KPMG

Tony Nimac

*Partner*

Sydney

2 March 2020