EXOPHARM LIMITED (ASX: EX1)

ACN: 163 765 991

APPENDIX 4D – Interim Financial Report for the half year to 31 December 2019

Results for announcement to the market

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1. Details of reporting periods:

Current reporting period : Six (6) months to 31 December 2019

Previous corresponding period : Six (6) months to 31 December 2018

2. Results for announcement to the market:

	Six Months 31 December 2019 $	Six Months 31 December 2018 $	% Change
Revenues	**39,494**	**623**	**6,239%**
Loss after tax (ordinary activities)	**(3,706,360)**	**(892,219)**	**415%**
Loss after tax attributable to members.	**(3,706,360)**	**(892,219)**	**415%**

The Company does not intend to declare a dividend for the period.

Commentary on the above figures is included in the attached Interim Financial Report for the half year ended 31 December 2019.

3. Dividend payments

Refer to attached Interim Financial Report for the half year ended 31 December 2019.

4. Dividend reinvestment plans

Not applicable.

5. Net tangible assets per security

	31 December 2019 $	31 December 2018 $
Net tangible assets per ordinary security	**$0.066**	**$0.077**

6. Gain or loss of control over entities

Not applicable.

7. Associates and joint ventures

Not applicable.

This Appendix 4D Half Year Report is provided to the ASX under Listing Rule 4.2A3 and should be read in conjunction with the accompanying Interim Financial Report for the half year ended 31 December 2019.

8. Other significant information

Not applicable.

9. Foreign entities

Not applicable.

10. Status of audit

The Interim Financial Report for the half year ended 31 December 2019 has been reviewed by the company's external auditor.

Exopharm Limited

ACN 163 765 991

Interim Financial Report

31 December 2019

Contents

CORPORATE INFORMATION
ACN 163 765 991

Directors
Mr Jason Watson
Dr Ian E Dixon
Mr David R Parker

Company Secretary
Mr David R Parker

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Auditors
William Buck
Level 20, 181 William Street
Melbourne VIC 3000

Solicitors
Quinert Rodda & Associates
Level 6, 400 Collins Street,
Melbourne, VIC, 3000

Share Register
Automic Registry Services
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Sydney NSW 2010
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Securities Exchange Listing
Australian Securities Exchange
Code: EX1

DIRECTORS' REPORT

Your directors submit the interim financial report of Exopharm Limited for the half year ended 31 December 2019. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names of directors who held office during or since the end of the half year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Jason M Watson	Non-Executive Chairman
Ian E Dixon	Managing Director & CEO
David R Parker	Director and Company Secretary

Review of Operations

Principal Activities

The principal activities of the Company during the half were testing its exosome-based regenerative medicines, further developing the LEAP Technology, manufacturing prototype products using the LEAP Technology and other activities within the Development Program.

Review of Operating Results and financial conditions for the period

The loss of the Company for the half-year ended 31 December 2019 amounted to $3,706,360 compared to a loss of $892,219 for the half-year ended 31 December 2018. The Company had cash in bank of $5,880,327 as at 31 December 2019 (30 June 2019: $4,418,955).

Key Highlights from the reporting period

- The PLEXOVAL Phase I study was given ethics approval and site initiations commenced. Since the end of the half first dosing has occurred;
- Exopharm raised $5.5m through a Placement and Share Purchase Plan;
- Exopharm continued to progress the development program into exosomes as therapeutic agents;
- Exopharm now has a full-time team of 23 people – covering commercialisation and partnerships, manufacturing, analytics, development (i.e. testing), new product development and management. Our employees have extensive biotechnology experience and previously worked for companies such as CSL, Polynovo, Opthea, Cynata, McKinsey & Company, Bayer, Amgen, Terumo and Zoetis.

Primary Focus

As its primary focus, Exopharm aims to be a leader in the field of human therapeutics using exosomes as regenerative medicine products Exopharm's Development Program has the aim to establish both Plexaris and Cytaris as leading regenerative medicines to treat health span related medical conditions.

Clear strategy to build value

Over the past 6 months Exopharm has refined its strategy and focus, as detailed in the updated investor presentation. The aim is to maximise shareholder value and capitalise upon the power of the LEAP purification technology owned by Exopharm.

The LEAP technology supports a burst of innovation in exosome manufacture that has in turn placed Exopharm at the forefront of clinical trials with exosomes. Exopharm's products are leading the potential use of exosomes in many clinical applications. Exosomes have so many potential applications and Exopharm has limited resources, the Board of Exopharm has worked with the Exopharm team to develop a clear strategy.

DIRECTORS' REPORT (continued)

Clear strategy to build value (continued)
To focus our attention and use of capital, Exopharm has decided on an integrated development and partnership strategy:

> ***Core programs*** [partnering after Phase II human trials] – fund our own clinical trials through to the end of Phase IIb only in ***mobility*** and ***sensory*** deficit areas (e.g. treatments for osteoarthritis, tendinopathy, bone repair, muscle, dry age-related macular degeneration, hearing and erectile dysfunction).
>
> ***Non-core programs*** [partnering early with non-clinical in vitro or in vivo data] – fund early proof of concept tests in areas outside of mobility and sensory (e.g. cardiac repair, neurodegeneration, autoimmune disease, transplant rejection, cancer and autosomal dominant conditions).

'Engineered exosomes' are also part of our non-core programs and are intended to be spun out or partnered early. Partnerships have the potential to deliver upfront fees, milestone payments and royalties.

PLEXOVAL Phase I Study
The PLEXOVAL study placed Exopharm in a worldwide leadership position in the exosome field. During the reporting period Exopharm was granted Human Research Ethics Committee approval to commence the PLEXOVAL wound healing study with its Plexaris™ (exosomes from platelets) autologous product under the Australian Clinical Trials Notification (CTN) scheme.

Since the end of the reporting period, Exopharm announced PLEXOVAL study first dosing had occurred. The main readouts of the PLEXOVAL study will be safety, wound closure and scarring. Subject to successful recruitment and throughput, a study report will be provided to Exopharm, at this stage expected after mid calendar year 2020.

Significant corporate events during the half year

On 1 August 2019, the Company issued 11,900,000 fully paid ordinary shares at $0.37 each pursuant to the Placement to raise $4,403,000 (before costs).

On 19 August 2019, the Company issued 2,972,000 fully paid ordinary shares at $0.37 each to its employees as part of a share purchase plan amounting to $1,099,640 (before costs).

On 13 September 2019, the Company issued 100,000 fully paid ordinary shares at $0.37 each to an entity related to a director amounting to $37,000 (before costs).

Patent Applications

The Company continues to progress the two existing LEAP Technology patent applications. The LEAP Technology patent applications are owned by Exopharm.

Non-clinical testing and other development activities

Exopharm's development team continues to test Exopharm's exosome products (derived from human platelets and adult stem cells) in a number of ways – including in vitro testing and in vivo testing. This testing is aimed at selecting key indications for later human studies. The Company has continued to build manufacturing and analytics capabilities during the half.

Increased investment in engineered exosome field

Over the past few years there has been a significant amount of corporate activity in the field of engineered exosomes. Exopharm seeks to leverage its exosome manufacturing and analytical capabilities in the engineered exosome field. During the half the Company increased its development activities within the engineered exosome field. More information is expected in CY '2020 as these development activities produce test results and partnership interest.

DIRECTORS' REPORT (continued)

Outlook and Development Program for CY 2020

2020 is a year of inflexion points at Exopharm in three key areas:

> ***Newsflow*** – non-clinical testing (in vitro, ex vivo and in vivo) is building in momentum. We expect more announcements of test results through 2020. Testing in non-clinical models of erectile dysfunction, ocular disease, ageing, hearing and wound healing is underway. We're also looking at ways to use our 'engineered' exosomes to solve some significant medical problems including some selected genetic orphan diseases and cancer.
>
> ***Deals*** – partnering discussions started in 2018 and increased pace in 2019. As a leader in the clinical use of exosomes, Exopharm is attracting the attention of larger companies wanting to enter the exosome field. Exopharm's professional approach, leading manufacturing capability and our LEAP Technology are the standout attractions for potential partners.
>
> ***Clinical trials*** – we are planning clinical trials using allogeneic (off-the-shelf) exosomes. Areas of particular interest include post-operative erectile dysfunction, ocular disease, osteoarthritis and tendinopathy. Completion of Phase II studies are aimed at building value over the next few years. We are also preparing for interactions with the FDA in 2020, building upon our Australian PLEXOVAL study.

Likely developments and expected results

Disclosure of information regarding likely developments in the operations of the Company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Company. Therefore, this information has not been presented in this report.

Auditor Independence

Section 307C of the Corporations Act 2001 requires our auditors, William Buck Audit (Vic) Pty Ltd, to provide the directors of the Company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 7 and forms part of this directors' report for the half year ended 31 December 2019.

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the directors

Dr Ian E Dixon
Managing Director
Dated this 20 February 2020

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF EXOPHARM LIMITED

I declare that, to the best of my knowledge and belief during the half-year ended 31 December 2019 there have been:

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

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

William Buck.

William Buck Audit (Vic) Pty Ltd
ABN 59 116 151 136

J. C. Luckins
Director

Dated this 20th day of February, 2020

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CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2019

	Notes	31 Dec 2019 $	31 Dec 2018 $
Income			
Interest income		39,494	623
Expenses			
Research and development		(1,560,869)	(174,364)
Corporate expenses		(232,909)	(158,881)
Employee costs		(1,361,521)	(396,316)
Depreciation		(83,205)	(15,406)
Intellectual property expenses		(160,176)	(16,194)
Insurance		(86,673)	(15,533)
Other expenses		-	(27,270)
Administrative expenses		(260,501)	(88,878)
Loss before income tax expense		**(3,706,360)**	**(892,219)**
Income tax expense		-	-
Loss for the period		**(3,706,360)**	**(892,219)**
Other comprehensive income, net of income tax		**-**	**-**
Total comprehensive loss for the year		**(3,706,360)**	**(892,219)**
Loss attributable to members of the Company		**(3,706,360)**	**(892,219)**
Basic and diluted loss per share (cents per share)	4	**(4.00)**	**(1.86)**

The accompanying notes form part of these financial statements.

CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	31 December 2019 $	30 June 2019 $
Assets			
Current Assets			
Cash and cash equivalents		5,880,327	4,418,955
Other current assets	5	335,049	162,508
Total Current Assets		**6,215,376**	**4,581,463**
Non-current Assets			
Plant and equipment		779,711	494,122
Right to use assets	6	6,102	-
Intangible assets		325,000	325,000
Total Non-current Assets		**1,110,813**	**819,122**
Total Assets		**7,326,189**	**5,400,585**
Liabilities			
Current Liabilities			
Accounts payable and other current liabilities		716,653	281,002
Lease liability		6,268	-
Total Current Liabilities		**722,921**	**281,002**
Total Liabilities		**722,921**	**281,002**
Net Assets		**6,603,268**	**5,119,583**
Equity			
Issued capital	3	12,769,126	7,578,815
Accumulated losses		(6,165,858)	(2,459,232)
Total Equity		**6,603,268**	**5,119,583**

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2019

	Issued Capital	Accumulated Losses	Total Equity
	$	$	$
Balance as at 1 July 2018	169,090	(176,358)	(7,268)
Loss for the period	-	(892,219)	(892,219)
Other comprehensive income	-	-	-
Total comprehensive loss for the period	-	(892,219)	(892,219)
Shares issued during the period	8,200,000	-	8,200,000
Share issue costs	(793,248)	-	(793,248)
Balance as at 31 December 2018	**7,575,842**	**(1,068,577)**	**6,507,265**

	Issued Capital	Accumulated Losses	Total Equity
	$	$	$
Balance as at 1 July 2019	7,578,815	(2,459,232)	5,119,583
Adjustment on initial application of new accounting standards (Note 10)	-	(266)	(266)
Balance as at 1 July 2019, amended	7,578,815	(2,459,498)	5,119,317
Loss for the period	-	(3,706,360)	(3,706,360)
Other comprehensive income	-	-	-
Total comprehensive loss for the period	-	(3,706,360)	(3,706,360)
Shares issued during the period	5,539,640	-	5,539,640
Share issue costs	(349,329)	-	(349,329)
Balance as at 31 December 2019	**12,769,126**	**(6,165,858)**	**6,603,268**

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2019

	Note	31 Dec 2019 $	31 Dec 2018 $
Cash flows from operating activities			
Payments to suppliers and employees		(3,465,447)	(1,077,968)
Interest paid		(337)	-
Interest received		39,494	623
Net cash (used in) operating activities		(3,426,290)	(1,077,345)
Cash flows from investing activities			
Purchase of plant and equipment		(290,009)	(92,756)
Payments for intangible assets		-	(250,000)
Net cash (used in) investing activities		(290,009)	(342,756)
Cash flows from financing activities			
Proceeds from issue of shares – net of issue costs		5,190,311	7,406,752
Repayment of lease liability		(12,640)	-
Net cash provided by financing activities		5,177,671	7,406,752
Net increase in cash and cash equivalents		1,461,372	5,986,651
Cash and cash equivalents at the beginning of the period		4,418,955	52,401
Cash and cash equivalents at the end of the period		**5,880,327**	**6,039,052**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2019

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The condensed interim financial statements (the interim financial statements) are general purpose financial statements and have been have prepared in accordance with the requirements of the Corporations Act 2001, applicable Australian accounting standards including AASB 134 Interim Financial Reporting, Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting' and other mandatory professional reporting requirements, i.e. AIFRS.

The interim financial statements comprise the condensed interim financial statements for the Company.

The interim financial statements do not include full disclosures of the type normally included in the full financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Company as in the full financial report. It is recommended interim financial statements be read in conjunction with the full financial report for the year ended 30 June 2019 and any public announcements made by Exopharm Limited during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding half-year. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The interim financial statements has been prepared on a historical cost basis. Cost is based on the fair value of the consideration given in exchange for assets.

The company is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise noted.

For the purpose of preparing the interim financial statements, the half year has been treated as a discrete reporting period.

(b) Adoption of new and revised standards
Changes in accounting policies on initial application of Accounting Standards

In the half year ended 31 December 2019, the Board has reviewed all new and revised standards and interpretations issued by the AASB that are relevant to the Company and effective for the current reporting period.

The Company has applied AASB 16 from 1 July 2019 using the modified retrospective approach with no restatement of comparative information. The impact on the accounting policies, financial performance and financial position of the Company from the adoption of AASB 16 are detailed in Note 10.

The Board has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the period ended 31 December 2019. As a result of this review the Board has determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Company accounting policies.

(c) Statement of compliance

The financial report was authorised for issue on 20 February 2020. The interim condensed financial statements comply with AASB 134 Interim Financial Reporting.

(d) Critical accounting judgements and key sources of estimation uncertainty

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2019

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Critical accounting judgements and key sources of estimation uncertainty (continued)

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets.

Impairment of plant and equipment and intangible assets

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

NOTE 2: SEGMENT REPORTING

The Company only operated in one segment, being regenerative medicine and biopharmaceutical drug development.

NOTE 3: ISSUED CAPITAL

As at 31 December 2019, the Company had the following issued share capital:

	31 December 2019		30 June 2019	
	Number	$	Number	$
Fully paid ordinary shares	95,472,000	12,769,126	80,500,000	7,578,815
	95,472,000	**12,769,126**	**80,500,000**	**7,578,815**
Movement of issued share capital:				
Balance at beginning of period/year	80,500,000	7,578,815	35,500,000	169,090
Shares issued through capital raising	12,000,000	4,440,000	45,000,000	8,200,000
Shares issued to employees	2,972,000	1,099,640	-	-
Less share issue costs	-	(349,329)	-	(790,275)
Balance at end of period/year	**95,472,000**	**12,769,126**	**80,500,000**	**7,578,815**

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

On a show of hands every holder of ordinary shares present at a meeting in person or proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2019

NOTE 4: LOSS PER SHARE

Basic and diluted loss per share

	31 December 2019 Cents per share ($)	31 December 2018 Cents per share ($)
Basic and diluted loss per share (cents per share)	**(4.00)**	**(1.86)**

Loss

Losses used in the calculation of basic and diluted loss per share is as follows:

	31 December 2019 $	31 December 2018 $
Losses	**(3,706,360)**	**892,219**

Weighted average number of ordinary shares

The weighted average number of ordinary shares used in the calculation of basic and diluted loss per share is as follows:

	31 December 2019 Number	31 December 2018 Number
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**92,554,065**	**47,944,647**

The Company has no other instruments issued that could potentially dilute basic earnings per share.

NOTE 5: OTHER CURRENT ASSETS

	31 December 2019 $	30 June 2019 $
Prepayments	169,490	111,374
GST receivable	101,501	36,209
Other receivables	50,143	14,925
Security deposits	13,915	-
	335,049	**162,508**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2019

NOTE 6: RIGHT-OF-USE ASSETS

	Premises 31 December 2019	Premises 30 June 2019
Carrying value	**$**	**$**
Cost	18,305	-
Accumulated depreciation	(12,203)	-
Carrying value as at 31 December 2019	**6,102**	**-**
Reconciliation		
Recognised on 1 July 2019 on adoption of AASB 16	18,305	-
Depreciation	(12,203)	-
Carrying value as at 31 December 2019	**6,102**	**-**

AASB 16 has been adopted during the period, refer note 10 for details. There are no indicators of impairment of Right-of-use assets as at 31 December 2019.

NOTE 7: EVENTS AFTER THE BALANCE DATE

There were no material events after the balance date.

NOTE 8: DIVIDENDS

The directors of the Company have not declared any dividend for the half year ended 31 December 2019.

NOTE 9: COMMITTEMENTS AND CONTINGENCIES

Commitments
As at 31 December 2019, the Company has no material commitments except as disclosed below:

Altnia Royalty Deed Commitments
The Company is a party to a Royalty Deed with Altnia Operations Pty Ltd (a company owned by a key management personnel). As at 31 December 2019, the Company has the following financial commitments pursuant to the Royalty Deed:

a. Royalties on net sales – 3% of net sales; and
b. License Royalty – 10% of license revenue.

Lease Commitments
There are no material lease commitments as at 31 December 2019.

Employee Commitments
As of the date of this report, the Company has 21 employees and a current annualised remuneration of $2,699,816 including statutory superannuation. The Company pays statutory superannuation on a monthly basis.

Capital Commitments
There is a current capital commitment of $597,200 in relation to the purchase of plant & equipment. The payment is expected to be made in the March quarter 2020 and the plant and equipment is expected to be received before the end of March 2020.

Contingencies
As at 31 December 2019, the Company has no material contingent liabilities.

NOTE 10: NEW STANDARD ADOPTED

AASB 16 Leases

Change in accounting policy

AASB 16 Leases supersedes AASB 117 Leases. The Company has adopted AASB 16 from 1 July 2019 which has resulted in changes in the classification, measurement and recognition of leases. The changes result in almost all leases where the Company is the lessee being recognised on the Statement of Financial Position and removes the former distinction between 'operating and 'finance' leases. The new standard requires recognition of a right-of-use asset (the leased item) and a financial liability (to pay rentals). The exceptions are short-term leases and leases of low value assets.

The Company has adopted AASB 16 using the modified retrospective approach under which the reclassifications and the adjustments arising from the new leasing rules are recognised in the opening Condensed Statement of Financial Position on 1 July 2019. Under this approach, there is an initial impact of $299 on retained earnings under this approach, and comparatives have not been restated.

The Company leases various premises. Prior to 1 July 2019, leases were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, where the Company is a lessee, the Company recognises a right-of-use asset and a corresponding liability at the date which the lease asset is available for use by the Company (i.e. commencement date). Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a consistent period rate of interest on the remaining balance of the liability for each period.

The lease liability is initially measured at the present value of the lease payments that are not paid at commencement date, discounted using the rate implied in the lease. If this rate is not readily determinable, the Company uses its incremental borrowing rate.

Lease payments included in the initial measurement if the lease liability consist of:

- Fixed lease payments less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at commencement date;
- Any amounts expected to be payable by the Company under residual value guarantees;
- The exercise price pf purchase options, if the Company is reasonably certain to exercise the options; and
- Termination penalties of the lease term reflects the exercise of an option to terminate the lease.

Extension options are included in a number of property leases across the Company. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if, at commencement date, it is reasonably certain that the options will be exercised.

Subsequent to initial recognition, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The lease liability is remeasured (with a corresponding adjustment to the right-of-use asset) whenever there us a change in the lease term (including assessments relating to extension and termination options), lease payments due to changes in an index or rate, or expected payments under guaranteed residual values

Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before commencement date, less any lease incentives received and any initial direct costs. These right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Where the terms of a lease require the Company to restore the underlying asset, or the Company has an obligation to dismantle and remove a leased asset, a provision is recognised and measured in accordance with AASB 137. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2019

NOTE 10: NEW STANDARD ADOPTED (continued)

Change in accounting policy (continued)

Right-of-use assets are depreciated on a straight-line basis over the term of the lease (or the useful life of the leased asset if this is shorter). Depreciation starts on commencement date of the lease.

Where leases have a term of less than 12 months or relate to low value assets, the Company has applied the optional exemptions to not capitalise these leases and instead account for the lease expense on a straight-line basis over the lease term.

Impact on adoption of AASB 16

On adoption of AASB 16, the Company recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of AASB 117. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to lease liabilities on 1 July 2019 was 5% pa.

On initial application right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised In the Statement of Financial Position as at 30 June 2019.

In the Condensed Statement of Cash Flows, the Company has recognised cash payments for the principal portion of the lease liability within financing activities, cash payments for the interest portion of the lease liability as interest paid within operating activities and short-term lease payments and payments for lease of low-value assets within operating activities.

The adoption of AASB 16 resulted in the recognition of right-of-use assets of $6,102 and lease liabilities of $6,268 in respect of all operating leases, other than short-term leases and leases of low-value assets. The net impact on retained earnings on 1 July 2019 was $299.

Practical expedients applied

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

• For existing contracts as at 1 July 2019, the Company has elected to apply the definition of lease contained in AASB 117 and Interpretation 4 and has not applied AASB 16 to contracts that were previously not identified as leases under AASB 117 and Interpretation 4;

• Accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases, with no right-of-use asset nor lease liability recognised;

• Relying on historic assessments of whether leases were onerous instead of performing impairment reviews of right-of-use assets immediately prior to the date of initial application of AASB 16;

• Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

DIRECTORS' DECLARATION

In the opinion of the Directors of Exopharm Limited ('the Company'):

1. the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

2. the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the financial half-year ended on that date; and

3. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors:

Dr Ian E Dixon
Managing Director
Dated this 20 February 2020

William Buck

Exopharm Limited

Independent auditor's review report to members

Report on the Review of the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Exopharm Limited (the company), which comprises the statement of financial position as at 31 December 2019, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

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

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

Responsibilities of the Directors' 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 Responsibilities for the Review of the Half-Year Financial Report

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 financial report is not in accordance with the *Corporations Act 2001* including:

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

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

As the auditor of Exopharm Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

ACCOUNTANTS & ADVISORS

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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.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

William Buck Audit (Vic) Pty Ltd
ABN 59 116 151 136

J. C. Luckins
Director

Dated this 20th day of February 2020