volpara®
health technologies

INTERIM
FINANCIAL REPORT

for the six months ended
30 September 2019

Volpara Health Technologies Limited

ASX:VHT

(NZ Company no. 2206998/ARBN 609 946 867)

CONTENTS

Directors' Report

The directors are pleased to present their report in conjunction with the financial statements of Volpara Health Technologies Limited (Volpara or the Company) and its subsidiaries (together referred to as the Group) for the half-year (HY) ended 30 September 2019, and the auditor's report thereon. The financial statements have been reviewed by the Company's auditors and approved by the directors on the recommendation of the Audit and Risk Committee.

Directors

The directors of Volpara in office during the half-year and at the date of this report (unless otherwise stated) are as follows:

Paul Reid (Chair)

Dr Ralph Highnam (CEO)

Roger Allen AM

Professor Sir John Michael Brady

Dr Monica Saini

John Diddams

John Pavlidis

Results of operations

In HY20 Volpara entered another phase in its lifecycle with the acquisition of Seattle-based MRS Systems, Inc. (MRS), for US$14.6M (NZ$22.2M) funded by part of an A$55M (NZ$58M) capital raise. The combined entity now has at least one product covering 25.8% of the US screening population, Annual Recurring Revenues (ARR) of NZ$15.7M, and is firmly on track to meet our midrange forecasts for the full year. Volpara is now one of the major players in US breast cancer screening, helping over 10M women each year in their breast cancer screening.

The acquisition of MRS and merger of the two companies has gone smoothly, a testament to the professionalism and shared culture and values of the two organisations, which Mark Morris, our new EVP Volpara & EVP Customer Success, deserves a lot of credit for. Customer Success is a key role in any SaaS company.

You'll see in this report that costs for the HY are below budget, but rising compared to last year as they now include not only the costs of MRS (which was and is profitable from an accounting and cash flow perspective), but also a ramped-up US sales force and a larger management and engineering team in Wellington, including enhancements to the executive team with COO Simon Francis and CPO Kathryn Greene. This team should allow us to produce more products more quickly to ensure accelerating sales growth and increasing Average Revenue Per Unit (ARPU), whilst maintaining low churn. Costs will increase further over the next couple of quarters as the team for this next phase of the Company is completed, after which we will see the cost base stabilise.

Cash inflows is an important metric to track for a growing SaaS business as it shows how we are progressing towards the ultimate goal of being a self-sustainable, cash flow–positive business. For HY20 Group cash receipts increased by over 170% to NZ$7.2M.

The SaaS metrics have all shown significant growth, both organic and inorganic, and it's pleasing that the accounting revenues have also grown substantially with Group revenue having risen by 197%. Group ARPU increased from US$0.94 in the first quarter to US$0.97 in the second quarter, slightly up on those previously reported after audit adjustments.

Growth over the next HY will be driven by the sales force now fully merged with the ability to quote SaaS for all the products by the time of the major trade show RSNA in Chicago in early December, by the outstanding results from the DENSE project in the Netherlands, and by the expected FDA mandate on breast density.

Additional highlights of this HY include the following:

- The Company raised A$55M in capital at A$1.50 per share in Q1. Thanks to Bell Potter and Morgans for their help with that raise, which saw several new major local and overseas institutions join our register and again demonstrated an excellent level of continuing existing shareholder support.
- The Company has over NZ$40M cash at bank at the end of HY20 and has no debt.
- The US direct sales team now stands at 20 "feet on the street"; we have had very low turnover of salespeople, thanks to the excellent culture and performance, led by CCO Mark Koeniguer.
- We've continued to add to our APAC footprint with deals at WBI in Perth (the first Volpara®Enterprise™ customer), Royal Adelaide, Lake Imaging (Geelong), Bensons Radiology, Jones & Partners, and Spectrum Imaging, to name a few, with a TCV of over A$500K.
- The big European projects, such as NHS PROCAS II in the UK, continue to progress well.

Directors' Report (continued)

Outlook

As a rapidly growing SaaS company, Volpara will continue to focus and drive toward the following goals for the next six months:

- Continued sales growth and an ever-expanding worldwide footprint. We now have an expanded US sales team and a very active APAC team with a suite full of products at their disposal to sell.
- Very low churn. Our customer success team has been effective not only at ensuring we have negligible churn (<2%), but also that our customers are increasingly reporting positive stories that we can use for marketing purposes and many are coming back to buy more licenses.
- Increasing ARPU on multiple fronts. Our product suite has expanded and continues to expand compared to 12 months ago, allowing for increased ARPU at new and existing customer sites. We also have a larger sales team that will now also be selling MRS's products on a SaaS model.
- Our main goals and focus for the year remain unchanged:
  - Increase ARR to NZ$17.1M by the end of FY20, noting ARR at the end of HY20 was NZ$15.7M; and
  - Increase market share to over 27% of US women having a Group product applied on their images and data.

Dividends

No dividends have been paid or proposed.

Events subsequent to balance date

No matters or circumstances have arisen since the end of the period which have significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future years.

Paul Reid	Dr Ralph Highnam, PhD
Chair	CEO
Dated this 20th November 2019	Dated this 20th November 2019

Directors' Report (continued)

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out below.

pwc

Auditor's Independence Declaration

As lead auditor for the review of Volpara Health Technologies Limited for the half-year ended 30 September 2019, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

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

This declaration is in respect of Volpara Health Technologies Limited and the entities it controlled during the period.

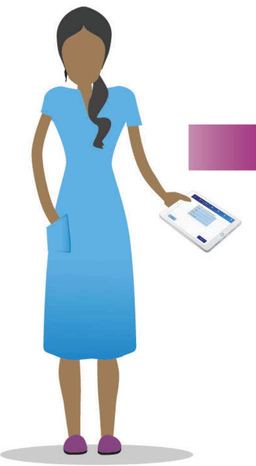
Kevin Brown
Partner
PricewaterhouseCoopers

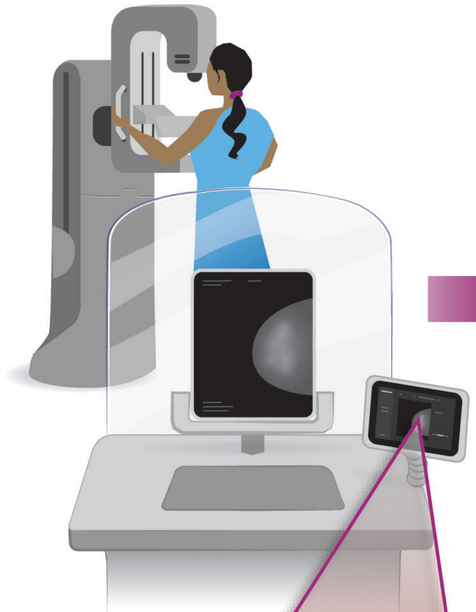
Wellington
20 November 2019

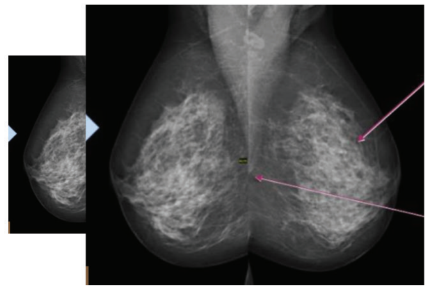
A State-of-the-Art Volpara Platform

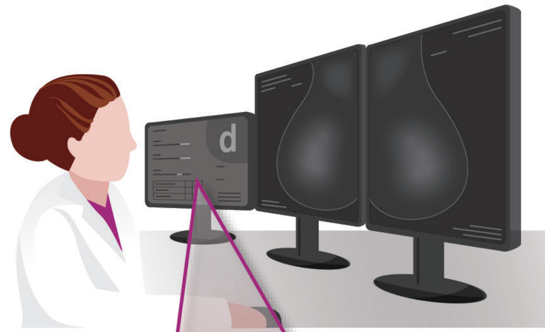
Clinical Decision Support

Powered by AI









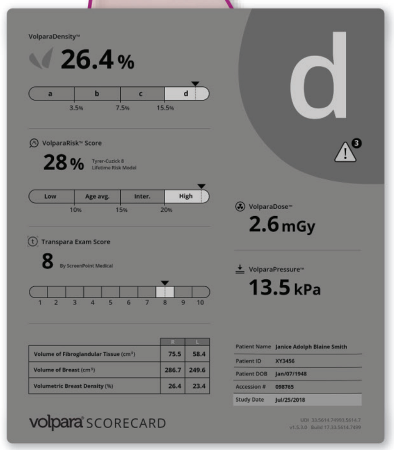
Volpara®Risk™
patient data entry

Volpara®Live!™
helps assure images are high quality before the woman goes home

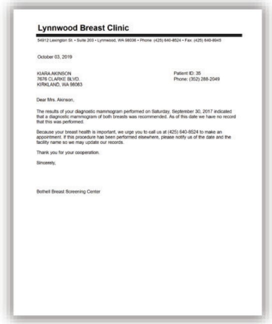
Volpara®Density™
objective, automated breast density to personalize breast care

Volpara®Risk™
patient's likelihood of developing breast cancer (Tyrer-Cuzick model with VolparaDensity)

Transpara™ by ScreenPoint
automatically identifies studies with highest likelihood of cancer

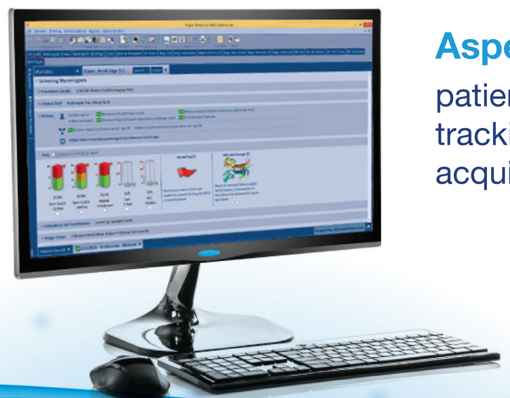


Volpara®Scorecard+™
three patient insights in one place



Aspen Breast
patient letter containing personalized screening recommendations

Practice and Enterprise Management



Aspen Breast
patient analytics, tracking and reporting, acquired June 2019

Data + Images

Volpara®Enterprise™
imaging analytics, quality and productivity issues, and easier FDA audits

FINANCIAL STATEMENTS

For the six months ended 30 September 2019

Consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 September 2019

	Notes	2019 Unaudited NZ$'000	2018 Unaudited NZ$'000
Revenue			
Revenue from contracts with customers	4	6,844	2,308
Cost of revenue*	5	(770)	(382)
Gross profit		6,074	1,926
Government grants and other operating income		500	354
Sales and marketing*	5	(5,894)	(3,789)
Product research and development	5	(4,580)	(2,633)
General and administration	5	(4,924)	(1,551)
Foreign exchange gains		468	320
Operating loss		(8,356)	(5,373)
Finance income		358	233
Finance expense		(30)	(42)
Net loss for the period before tax		(8,028)	(5,182)
Income tax benefit		20	63
Net loss for the period after tax		(8,008)	(5,119)
Other Comprehensive Income			
Net loss for the period		(8,008)	(5,119)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss (net of tax):			
Exchange difference on translation of foreign operations		90	74
Other comprehensive income for the period (net of tax)		**90**	**74**
Total comprehensive loss for the period, net of tax		(7,918)	(5,045)
Basic and diluted loss per share (NZ$)	6	(0.04)	(0.03)

The notes on pages 12 to 21 form part of and should be read in conjunction with these consolidated financial statements

*Certain items have been reclassified in the consolidated statement of profit or loss & other comprehensive income to enhance disclosure. Refer to note 2.4.

Consolidated statement of financial position

As at 30 September 2019

	Notes	As at 30 September 2019 Unaudited NZ$'000	As at 31 March 2019 Audited NZ$'000
Assets			
Non-current assets			
Fixed assets	10	1,156	337
Intangible assets	11	25,437	355
Trade receivables		-	7
Right-of-use assets	8	3,399	217
Contract costs		1,270	934
Deferred tax assets		403	-
Total non-current assets		31,665	1,850
Current assets			
Cash and cash equivalents		7,232	4,112
Cash on deposit		33,006	10,271
Trade and other receivables*		4,623	1,919
Contract assets		174	157
Other receivables*		1,308	381
Inventory		39	32
Contract costs		300	249
Total current assets		46,682	17,121
Total assets		**78,347**	**18,971**
Equity and liabilities			
Equity			
Share capital	6	139,838	84,129
Share option reserve	7	2,551	2,374
Foreign currency translation reserve		(23)	(113)
Accumulated losses		(80,210)	(72,208)
Total equity		**62,156**	**14,182**
Non-current liabilities			
Deferred revenue		4	19
Lease liabilities	8	3,150	127
Total non-current liabilities		3,154	146
Current liabilities			
Trade and other payables		3,808	2,318
Deferred revenue		8,696	2,165
Lease liabilities	8	498	125
Tax payable		35	35
Total current liabilities		13,037	4,643
Total liabilities		**16,191**	**4,789**
Total equity and liabilities		**78,347**	**18,971**

The notes on pages 12 to 21 form part of and should be read in conjunction with these consolidated financial statements

*Certain items have been reclassified in the consolidated statement of financial position to enhance disclosure. Refer to note 2.4.

For and on behalf of the Board who authorised the issue of these consolidated interim financial statements on 20 November 2019.

Ralph Highnam   John Diddams

Consolidated statement of changes in equity

For the six months ended 30 September 2019

	Notes	Share capital NZ$'000	Share option reserve NZ$'000	Foreign currency translation reserve NZ$'000	Accumulated losses NZ$'000	Total equity NZ$'000
Unaudited						
Balance at 1 April 2019		84,129	2,374	(113)	(72,208)	14,182
Net loss after tax for the period		-	-	-	(8,008)	(8,008)
Other comprehensive income		-	-	90	-	90
Total comprehensive loss for the period, net of tax		-	-	90	(8,008)	(7,918)
Transactions with owners:						
Issue of share capital from placement and rights issue	6	58,032	-	-	-	58,032
Costs of placement and rights issue capital raise		(3,118)	-	-	-	(3,118)
Issue of share capital from exercise of share options		795	(327)	-	-	468
Forfeiture of share options	7	-	(9)	-	6	(3)
Recognition of share-based payments	7	-	513	-	-	513
Balance at 30 September 2019		139,838	2,551	(23)	(80,210)	62,156
Unaudited						
Balance at 1 April 2018		63,192	2,066	(171)	(60,592)	4,495
Net loss after tax for the period		-	-	-	(5,119)	(5,119)
Other comprehensive income		-	-	74	-	74
Total comprehensive loss for the period, net of tax		-	-	74	(5,119)	(5,045)
Transactions with owners:						
Issue of share capital from placement and share purchase plan		21,488	-	-	-	21,488
Costs of placement and share purchase plan capital raise		(980)	-	-	-	(980)
Issue of share capital from exercise of share options		292	(106)	-	-	186
Forfeiture of share options		-	(84)	-	81	(3)
Recognition of share based payments	7	-	295	-	-	295
Balance at 30 September 2018		83,992	2,171	(97)	(65,630)	20,436

The notes on pages 12 to 21 form part of and should be read in conjunction with these consolidated financial statements

Consolidated statement of cash flows

For the six months ended 30 September 2019

	2019 Unaudited NZ$'000	2018 Unaudited NZ$'000
Cash flows from operating activities		
Receipts from customers	7,242	2,669
Payments to suppliers and employees	(15,005)	(8,422)
Other income received	460	350
Net interest received	174	16
Net taxes (paid)/received	(109)	80
Net cash utilised in operating activities	(7,238)	(5,307)
Cash flows from investing activities		
Purchases of property and equipment	(437)	(324)
Payments for intangible assets	(50)	(59)
Acquisition of subsidiary net of cash acquired	(22,003)	-
Acquisition related costs	(624)	-
Payments into term deposits	(32,806)	(19,520)
Receipts from term deposits	10,468	3,053
Net cash utilised by investing activities	(45,452)	(16,850)
Cash flows from financing activities		
Proceeds from issue of share capital from placement and rights issue	58,032	21,488
Transactions costs of capital raising	(3,118)	(980)
Proceeds from exercise of share options	469	186
Payments for principal portion of the lease liability	(102)	(31)
Net cash provided by financing activities	55,281	20,663
Net increase/(decrease) in cash and cash equivalents	2,591	(1,494)
Effects of currency translation on cash and cash equivalents	529	399
Cash and cash equivalents as at 1 April	4,112	3,342
Cash and cash equivalents at the end of the period*	**7,232**	**2,247**

* Cash and cash equivalents does not include cash on deposits totalling NZ$33M.

The notes on pages 12 to 21 form part of and should be read in conjunction with these consolidated financial statements

ENHANCED UNDERSTANDING

Notes to the Consolidated Financial Statements

For the period ended 30 September 2019

Corporate Information

1. Corporate information

Volpara Health Technologies Limited (the Company) is a limited liability company incorporated and domiciled in New Zealand. Its principal place of business and registered office is Level 14, 40 Mercer Street, Wellington 6011, New Zealand.

Volpara Health Technologies Limited is designated as a for-profit company incorporated under the Companies Act 1993 (NZCN: 2206998) and is listed on the Australian Securities Exchange. The Company is also registered in Australia (ARBN: 609 946 867).

The Company's principal sales and services are in the medical device software industry and the practice management software industry.

These consolidated interim financial statements for the six month period ended 30 September 2019 comprise Volpara Health Technologies Limited and its subsidiaries (together the Group); Volpara Solution Limited, Volpara Solutions Incorporated, Volpara Solutions Europe Limited, Volpara Solutions Australia Pty Limited and MRS Systems, Inc (acquired on 13 June 2019). Refer to note 12 for more information on the acqusition of MRS Systems, Inc.

Significant Accounting Policies

2.1 Basis of preparation

The consolidated interim financial statements for the six months ended 30 September 2019 have been prepared in accordance with NZ IAS 34 and IAS 34 Interim Financial Reporting.

These consolidated interim financial statements have been authorised for issue by the Directors on 20 November 2019.

2.2 New standards, interpretations and amendments adopted by the Group

The consolidated interim financial statements have been prepared using the same accounting policies and methods of computation as, and should be read in conjunction with, the financial statements and related notes included in the Group's annual report for the year ended 31 March 2019.

2.3 Functional and presentation currency

Items included in the consolidated interim financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated interim financial statements are presented in New Zealand Dollars ($) which is the Parent's functional currency and are rounded to the nearest thousand ($'000), except where explicitly stated.

2.4 Restatement of comparatives

To ensure consistency with the current period, comparative figures have been restated where appropriate.

An adjustment was made to ensure the correct classification of financial statement line items and in particular, ensure that cost of revenues only includes expenses which are incremental in deriving additional revenue. The adjustment made was to reclassify $387,000 from "Cost of revenues" to "Sales and marketing" in the Consolidated Statement of Profit or Loss & Other Comprehensive Income to accurately reflect the nature of the expenses. This involved removing fixed costs from costs of revenues.

Government grants of $354,000 has been reclassified from revenue to other operating income as this is not deemed to be revenue from operations. This removes it from the gross profit.

Research and development costs of $548,000 has been reclassifed from general and administration costs to product research and development costs to better reflect the nature of these expenses.

Certain balance sheet and cash flow items have been disclosed seperately due to becoming material in this financial year.

The following line items were reclassified for the prior period:

	New 2018 Unaudited NZ$'000	Previous 2018 Unaudited NZ$'000
Government grants	-	354
Other operating income	354	-
Cost of revenue	(382)	(769)
Sales and marketing	(3,789)	(3,402)
Product research and development	(2,633)	(2,085)
General and administration	(1,551)	(2,099)

2.5 Accounting estimates

Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount and an impairment loss is recognised immediately in the profit or loss.

2.6 Going concern

The considered view of the Directors of the Group is that the going concern assumption is valid. This view has been reached after making due enquiry and having regard to the circumstances which the Directors consider will occur and are reasonably likely to affect the Group during the period of one year from the date these consolidated interim financial statements are approved.

The Group recorded a net loss of $8,008K for the half-year ended 30 September 2019 and is expected to make further losses for the remainder of 2019.

The Group has prepared forecasts which indicate that cash on hand at the six month period end, combined with cash flow as a result of operations, will enable the Group to continue operating and satisfy its going concern requirements.

Performance

3. Segment information

Following the acquisition of MRS Systems, Inc. (MRS) during the year the operating structure of the Group has changed. The Group's internal financial reporting has evolved and will continue to do so. The Board of Directors, assessed to be the Group's Chief Operating Decision Maker (CODM), now receives financial reports for each region as defined by the operating subsidiaries and head office (Corporate); whereas previously reporting was limited to Group performance. The reporting to the CODM has been aggregated into four reporting segments.

No single customer contributes more than 10% of the Group's revenue.

The Group derives its revenue from the sale of clinical functions and patient tracking software. The clinical functions business is sold world-wide, whereas the patient tracking software to date has been sold predominantly in North America.

The CODM assesses the performance of the reportable segments based on net profit/(loss) after tax. The segment information provided to the Board of Directors for the half year ended 30 September 2019 is as follows:

			2019 NZ$'000		
	North America	EMEA	APAC	Corporate	Reconciled to Group
Revenue from Breast contracts:					
- SaaS	2,706	67	153	-	2,926
- SMA	2,039	4	6	-	2,049
- Capital	1,529	-	125	-	1,654
Revenue from Lung contracts	215	-	-	-	215
Total revenue	6,489	71	284	-	6,844
Cost of revenue	(676)	(30)	(64)	-	(770)
Gross profit	5,813	41	220	-	6,074
Government grants and other operating income	-	-	-	500	500
Sales and marketing	(5,015)	(120)	(513)	(246)	(5,894)
Product research and development	(1,258)	(119)	(20)	(3,183)	(4,580)
General and administration	(1,148)	(56)	(8)	(3,712)	(4,924)
Foreign exchange gains	26	-	13	429	468
Loss before interest and taxation	(1,582)	(254)	(308)	(6,212)	(8,356)
Finance income	4	-	1	353	358
Finance expense	(17)	-	-	(13)	(30)
Net loss before tax	(1,595)	(254)	(307)	(5,872)	(8,028)
Tax expense	-	32	(12)	-	20
Net loss for the period after tax	(1,595)	(222)	(319)	(5,872)	(8,008)

3. Segment information (continued)

2018 NZ$'000	North America	EMEA	APAC	Corporate	Reconciled to Group
Revenue from Breast contracts:					
- SaaS	1,719	82	124	-	1,925
- SMA	163	2	6	-	171
- Capital	96	63	53	-	212
Revenue from Lung contracts	-	-	-	-	-
Total revenue	1,978	147	183	-	2,308
Cost of revenue	(318)	(29)	(35)	-	(382)
Gross profit	1,660	118	148	-	1,926
Government grants and other operating income	-	-	-	354	354
Sales and marketing	(3,092)	(116)	(345)	(236)	(3,789)
Product research and development	(53)	(113)	-	(2,467)	(2,633)
General and administration	(204)	(13)	(13)	(1,321)	(1,551)
Foreign exchange gains	-	(1)	14	307	320
Loss before interest and taxation	(1,689)	(125)	(196)	(3,363)	(5,373)
Finance income	-	-	-	233	233
Finance expense	-	-	-	(42)	(42)
Net loss before tax	(1,689)	(125)	(196)	(3,172)	(5,182)
Tax expense	-	86	(23)	-	63
Net loss for the period after tax	(1,689)	(39)	(219)	(3,172)	(5,119)

Currently there are no sales between segments. The amounts provided to the CODM with respect to performance are measured in a manner consistent with that of the financial statements.

The current segment reporting may change again before the end of the full financial year as a result of work currently being undertaken to consider the Group structure and internal reporting. Should there be any material modifications to operating segments or internal reporting as a result of any organisational changes this will be reflected in the segment reporting as appropriate.

4. Revenue from contracts with customers

The Group recognises revenue from goods and services provided under three main contract types:

- Capital sales contracts which involve the outright sale of software and associated items;
- Software Maintenance Agreements (SMAs) to support previous Capital sales;
- SaaS contracts which involves the sale of software on a subscription basis and where applicable, cloud based support (and associated items).

4. Revenue from contracts with customers (continued)

Disaggregation of revenue

The Group derives its revenue from the transfer of goods and services over time and at a point in time in the following major categories:

For the period ended 30 September 2019 *Unaudited*	NZ$ 000			
	Capital sales	Service maintenance agreements	Software as a Service	Total
Timing of revenue recognition				
Goods or services transferred at a point in time	1,654	-	609	2,263
Services transferred over time	-	2,049	2,532	4,581
Total revenue from contracts with customers	1,654	2,049	3,141	6,844

For the period ended 30 September 2018 *Unaudited*	NZ$ 000			
	Capital sales	Service maintenance agreements	Software as a Service	Total
Timing of revenue recognition				
Goods or services transferred at a point in time	212	-	575	787
Services transferred over time	-	171	1,350	1,521
Total revenue from contracts with customers	212	171	1,925	2,308

Where invoicing occurs in advance of the performance of the various performance obligations a corresponding deferred revenue obligation is recognised. This is then subsequently recognised as revenue as the obligations are met.

5. Operating expenses and cost of revenue

Six months ended 30 September	Notes	2019 Unaudited NZ$'000	2018 Unaudited NZ$'000
Salaries and benefits		7,711	3,608
Research and development costs not capitalised		1,774	1,182
Superannuation contributions		791	631
Advertising and marketing		552	373
Travel		641	429
Consulting and subcontracting		622	531
Share-based payments expense		511	292
Business acquisition expenses		624	-
Impairment of right-of-use asset	8	163	-
Directors fees		195	191
Depreciation and amortisation	8, 10, 11	361	141
Movement in provision for expected credit losses		32	36
Review of interim financial statements - 2019: PwC / 2018: Deloitte Limited		35	22
Callaghan grant review - Deloitte Limited		6	7
Bad debts written off		-	10
Low-value lease expenses		25	3
Other operating expenses		2,125	899
Total cost of revenues and operating expenses *		16,168	8,355

* This total excludes foreign exchange gains/(losses).

Debt and Equity

6. Share capital and EPS

On 5 June 2019, the Group successfully completed an institutional placement of A$45M. Then, on 1 July 2019, the Group completed its fully underwritten pro rata accelerated non-renounceable entitlement offer of A$9.52M after costs. These proceeds were used to fund the acquistion of MRS Systems, Inc. and the remainder of the proceeds will fund further organic growth.

Fully Paid Ordinary Shares	As at 30 September 2019 Unaudited		As at 31 March 2019 Unaudited	
	NZ$'000	000's	NZ$'000	000's
In issue as at 1 April	84,129	179,350	63,192	145,493
Exercise of share options	795	2,049	429	524
Issue of share capital from placement	44,933	30,000	15,278	25,000
Issue of share capital from entitlement offer	9,981	6,664	5,230	8,333
Closing balance	139,838	218,063	84,129	179,350

Dividends

No dividends have been declared or paid for the six month period ended 30 September 2019 (2018: nil).

Earnings per share

Basic earnings per share is calculated by dividing net loss for the period after tax by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has potential ordinary shares in the form of share options. However, as these are anti-dilutive due to the company being in a loss position, the earnings per share and diluted earnings per share are the same.

The following reflects the income and share data used in the basic and diluted EPS computations:

Six months ended 30 September	2019 Unaudited	2018 Unaudited
Net loss after tax attributable to the shareholders (NZ$'000)	(8,008)	(5,119)
Ordinary number of shares ('000's)	218,063	179,350
Weighted average number of shares on issue ('000's)	202,017	171,140
Basic and diluted (loss) per share	(0.04)	(0.03)

7. Share-based payments

The Group operates two equity settled share based incentive plans for Directors, Executives, senior management, employees, and others of the Company and its subsidiaries. The plans are designed to retain key personnel. There is a legacy share option plan (Legacy ESOP) that was in operation from 2009 until the Initial Public Offering (IPO). Since the IPO a new employee share option plan (New ESOP) has been in operation.

The value of the services rendered for the grant of the share options is recognised as an expense over the vesting period (which ranges from 0 to five years or upon meeting stipulated milestones). The amount is determined by reference to the fair value of the share options granted which is calculated using the Black-Scholes options model. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired, adjusted for the Group's best estimate of the number of equity instruments that will be forfeited. The expense or credit in the Statement of Profit or Loss for the year represents the movement in cumulative expense recognised as at the beginning and end of that year.

The share option reserve arises on recognition of the share-based payment expense. Amounts are transferred out of the reserve and into issued capital when the options are exercised, or into retained earnings when options lapse or are forfeited.

Legacy ESOP

There were no new options issued under this model for the six months ended 30 September 2019 (30 September 2018: nil).

7. Share-based payments (continued)

New ESOP

The Group issued 3,870,000 options during the six month period. The fair value of options granted during the period was estimated on the grant date using the following assumptions:

	Six months ended 30 September 2018 Unaudited	Year ended 31 March 2019 Audited
Dividend yield	0.00%	0.00%
Expected volatility	50.00%	50.00%
Risk-free interest rate	0.79% - 1.19%	1.57% - 2.54%
Option life	7 years	7 years
Grant date share price	A$ 1.39 - 1.70	A$ 0.79 - 1.20
Exercise price	A$ 1.51 - 1.70	A$ 0.60 - 1.19

8. Lease liabilities and right-of-use assets

During the year the following changes occurred to the Group's lease portfolio:

- entered into a new Wellington head office lease in August 2019
- acquired lease agreements as part of the MRS acquisition (refer to note 12).

The Group retains the lease for the previous Wellington head office. The premise is unoccupied and the lease terminates in November 2020. The Group is seeking to sublet the property. However, as at reporting date a tenant has not been secured.
The Group has therefore reached the decision to fully impair the asset and has recognised an impairment expense of $163K in profit or loss.

Lease liabilities	As at 30 September 2019
	NZ$'000
Balance as at 1 April	252
Leases entered into during the period	1,615
Leases assigned as part of acquisition of a subsidiary	1,881
Principal repayments	(130)
Interest expense on lease liabilities	30
Balance as at 30 September 2019	3,648
Current	498
Non-current	3,150
Total	3,648

Right-of-use assets	As at 30 September 2019
Cost	NZ$'000
Balance as at 1 April	424
Leases entered into during the period	1,615
Leases assigned as part of acquisition of a subsidiary	1,881
Balance as at 30 September 2019	3,920
Depreciation	
Balance as at 1 April	(207)
Depreciation	(151)
Impairment	(163)
Balance as at 30 September 2019	(521)
Net book value	3,399

Key estimates and assumptions

The Group assesses at lease commencement whether it expects to exercise renewal options where these are included in the contract. Where it is reasonably certain that renewal options will be exercised, the extension period is included in the lease liability calculation.

In calculating the lease liability for each property, the Group has determined the interest rate implicit in the lease by comparing it against the rental yield on similar properties.

Financial Risk Management

9. Financial instruments and financial risk management objectives

The Group's principal financial instruments comprise receivables, payables, cash and cash on deposit.

The Group classifies its financial assets at amortised cost.

The Group classifies its financial liabilities at amortised cost.

The carrying amounts of these assets and liabilities do not materially differ from their fair values.

There were no transfers between classes of financial instruments during the six month period.

Refer to the 31 March 2019 Annual Report for further details on the Group's financial risk management objectives.

Other

10. Fixed assets

	Leasehold improvements Unaudited	Property Unaudited	Computer equipment Unaudited	Vehicles Unaudited	Total Unaudited
	NZ$'000	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Cost					
Balance as at 1 April 2019	49	221	347	-	617
Additions	320	65	52	-	437
Acquisition of a subsidiary	316	60	173	22	571
Disposals and write-offs	-	(3)	(16)	-	(19)
Balance as at 30 September 2019	685	343	556	22	1,606
Depreciation and impairment					
Balance as at 1 April 2019	(23)	(43)	(214)	-	(280)
Depreciation	(44)	(71)	(65)	(5)	(185)
Disposals and write-offs	-	1	14	-	15
Balance as at 30 September 2019	(67)	(113)	(265)	(5)	(450)
Net book value	618	230	291	17	1,156

11. Intangible assets

	Goodwill Unaudited	Software development Unaudited	Patents, trademarks, and copyrights Unaudited	Total Unaudited
Cost	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Balance as at 1 April 2019	-	89	283	372
Additions	-	-	50	50
Acquisitions of a subsidiary	25,057	-	-	25,057
Disposals and write-offs	-	-	-	-
Balance as at 30 September 2019	25,057	89	333	25,479
Amortisation and impairment				
Balance as at 1 April 2019	-	(8)	(9)	(17)
Amortisation	-	(16)	(9)	(25)
Disposals and write-offs	-	-	-	-
Balance as at 30 September 2019	-	(24)	(18)	(42)
Net book value	25,057	65	315	25,437

Refer to note 12 for details on the goodwill acquired through a business combination.

12. Acquisition of MRS Systems, Inc

100% of MRS Systems Inc.'s (MRS) shares were acquired on 13 June 2019, thereby enabling Volpara to obtain control. MRS is a mammography reporting system company whose primary function is to enable the reporting and tracking of patients in breast and lung screening. The primary purpose of the acquisition is to enable Volpara to expedite product development through the use of existing offerings of the acquiree. MRS's year-end is 31 December, however this may change over the next 12 months.

Intangible assets arising from the acquisition are expected to include goodwill arising from the combination of synergies expected to be realised through a combined entity such as sales, marketing, and administration; and separately identified intangible assets including know-how, customer lists, and brand, etc., that do not qualify for separate recognition in the underlying entity's accounts.

The fair value consideration paid for MRS is summarised as follows:

	US$'000
Cash paid	11,964
Deferred cash payment	2,626
Adjustment for working capital	353
Adjustment for indebtedness	(708)
Total consideration paid	14,235

Upon acquisition, a provisional assessment of the assets and liabilities of MRS consisted of:

	US$'000
Trade receivables	1,444
Other receivables	96
Fixed assets	361
Right-of-use assets	1,239
Deferred tax assets	231
Trade and other payables	(564)
Deferred revenue	(3,737)
Tax payable	(24)
Lease liability	(1,239)
Goodwill recognised on consolidation	16,428

The acquisition accounting for the purchase of MRS is not yet complete. Work has been required to transition the financial records of MRS from US accounting standards to NZ IFRS. In addition, work is ongoing to finalise the valuation of various assets acquired to determine the allocation between goodwill and other identifiable assets. It is anticipated that the puchase price allocation will be complete prior to 31 March 2020. Acquisition-related costs to date total NZ$624,000 and have been expensed in these interim financial statements.

The assets acquired relate to working capital, property, plant, and equipment along with the underlying software and related know-how.

13. Related parties

Details of all related party relationships have been disclosed in the annual report for the year ended 31 March 2019. For the current six month interim period, no new transactions with directors occurred that would be considered a related party transaction. The value of outstanding balances payable to key management and directors at balance date total $3,000 (31 March 2019: $148,000).

During the six month period ended 30 September 2019, both non-executive directors John Diddams and John Pavlidis were issued 450,000 share options each in lieu of cash remuneration.

14. Contingencies and commitments

The Group had no contingencies or commitments to purchase fixtures or equipment as at 30 September 2019 (30 September 2018: nil).

15. Events after the balance date

There were no significant events between balance date and the date these financial statements were authorised for issue.

Independent review report

To the Shareholders of Volpara Health Technologies Limited Group

Report on the interim financial statements

We have reviewed the accompanying consolidated interim financial statements of the Group which comprises Volpara Health Technologies Limited (the Company) and its controlled entities (the Group) on pages 8 to 21, which comprise the consolidated statement of financial position as at 30 September 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period ended on that date, and a summary of significant accounting policies and selected explanatory notes.

Directors' responsibility for the interim financial statements

The Directors are responsible on behalf of the Company for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal control as the Directors determine is necessary to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibility

Our responsibility is to express a conclusion on the accompanying consolidated interim financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity (NZ SRE 2410).

NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the consolidated interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34. As the auditors of the Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these consolidated interim financial statements.

We are independent of the Group. Our firm carries out other services for the Group in the area of system penetration testing. The provision of this other service has not impaired our independence.

PricewaterhouseCoopers, PwC Centre, 10 Waterloo Quay, PO Box 243, Wellington 6140, New Zealand
T: +64 4 462 7000, pwc.co.nz

Independent Review Report (continued)

pwc

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 30 September 2019, and its financial performance and cash flows for the period then ended, in accordance with IAS 34 and NZ IAS 34.

Who we report to

This report is made solely to the Company's Shareholders, as a body. Our review work has been undertaken so that we might state to the Company's Shareholders those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
20 November 2019

Wellington

Corporate Directory

Volpara Health Technologies Limited

Registered office

Volpara Health Technologies Limited
Level 14, 40 Mercer Street
Wellington Central
Wellington 6011
New Zealand

Board of Directors

Paul Reid - Chair, Non-Executive Independent
Dr Ralph Highnam - Executive Director and CEO
Roger Allen AM - Non-Executive
Professor Sir Mike Brady - Non-Executive
John Diddams - Non-Executive Independent
John Pavlidis - Non-Executive Independent
Dr Monica Saini - Executive Director and Chief Medical Officer

Company Secretary

Craig Hadfield

New Zealand incorporation

The Company is registered under the laws of New Zealand, company number 2206998

Australian Registered Body Number (ARBN)

609 946 867

The Company's registered office address in Australia

Suite 9, Level 1, 357 Military Road
Mosman
Sydney
NSW 2088
Australia

The Company's registered office address in the United States

19000 33rd Ave W Ste 130
Lynnwood
WA 98036
USA

Share register

Boardroom Pty Limited
Grosvenor Place
Level 12, 225 George Street
Sydney
NSW 2000
Australia

Auditor

PwC
10 Waterloo Quay
Wellington 6011
New Zealand

Legal advisers

Simmonds Stewart (New Zealand)
Mills Oakley (Australia))
Davis Wright Tremaine LLP (USA)

Bankers

Kiwibank (New Zealand)
Lloyds Bank (United Kingdom)
Bank of America (USA)
NAB (Australia)
JPMorgan Chase Bank (USA)
1st Security Bank (USA)
Banner Bank (USA)
HomeStreet Bank (USA)
Pacific Crest Savings Bank (USA)

Website

www.volparasolutions.com

volpara®
health technologies

Volpara Health Technologies Limited

A S X : V H T

(NZ Company no. 2206998/ARBN 609 946 867)