



## **iQNOVATE LTD**

ACN 149 731 644

### **APPENDIX 3 AND INTERIM FINANCIAL REPORT**

For the period ended 31 December 2017

## iQNOVATE LTD

ACN 149 731 644

### APPENDIX 3

**Reporting Period:**

Six months ended 31 December 2017

**Previous Corresponding Period:**

Six months ended 31 December 2016

#### Results for announcement to the market

	31 December 2017	Percentage change	Amount change
<b>Revenue and net profit</b>			
Revenue from ordinary activities	2,352,442	16%	320,433
Loss from ordinary activities after tax	(5,898,829)	-46%	(1,852,402)
Loss from ordinary activities after tax attributable to owners	(5,265,348)	-47%	(1,679,827)
<b>Dividends</b>			
	<b>Dividend</b>	<b>Amount per security</b>	<b>Franked amount per security</b>
Interim dividend in respect of the six months ended 31 December 2017:	NIL	NIL	NIL
<b>Net tangible assets per security</b>			
		<b>31 December 2017</b>	<b>31 December 2016</b>
Net tangible assets per security (cents per security)		(10.88)	(4.51)

#### Commentary on results

Commentary for the interim financial results for the six months ended 31 December 2017 is contained in the National Securities Exchange (NSX) release and on page 2 of the Interim Financial Report included with this announcement.

#### Details of Associates

Details of iQNovate Ltd's associates are contained on page 13 of the Interim Financial Report included with this announcement.

#### Compliance Statement

The information provided in the Appendix 3 and throughout iQnovate Ltd's Interim Financial Report is based on iQnovate Ltd's interim financial statements for the half-year ended 31 December 2017.

iQnovate Ltd's interim financial statements for the half-year ended 31 December 2017 have been subject to a review. A copy of the independent auditor's review report is set out on page 16 of the Interim Financial Report included with this announcement.



# INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

## CONTENTS

Directors' Report	2
Lead Auditor's Independence Declaration	3
Interim Consolidated Financial Statements	4
Notes to the Interim Consolidated Financial Statements	8
Directors' Declaration	15
Independent Auditor's Report	16
Corporate Directory	18

This Interim Financial Report is provided to the National Securities Exchange (NSX) and should be read in conjunction with the 2017 Annual Report and any announcements made to the market during the current reporting period.

## DIRECTORS' REPORT

The Directors present their report together with the interim consolidated financial statements of iQnovate Ltd ("iQN" or the "Company") and its subsidiaries (collectively referred to as the "Group") as at and for the half-year ended 31 December 2017.

### DIRECTORS

The following persons were directors of iQN during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

- Dr George Syrmalis
- Mr Con Tsigounis
- Mr Peter Simpson

### PRINCIPAL ACTIVITIES

During the half-year the principal activity for the Group consisted of the provision of asset management services to listed and unlisted companies in the Life Science industry.

### OPERATING AND FINANCIAL REVIEW

#### Operating highlights:

During the half-year the Group has continued to focus on developing early stage life science assets for its clients, and/or for itself. iQN's development stage pipeline of therapeutic and diagnostic portfolios continue to build, with the diabetes franchise fast approaching the commercialisation stage.

In October 2017 the Group announced that, through its fully owned subsidiary Bio Diagnostics MENA Pty Ltd, it has signed a preliminary agreement for the development, commercialisation and distribution of its diagnostic platform technology in the Middle East and North Africa region (MENA). The first test to be commercialised in the MENA region is a Salivary Glucose Biosensor and it is proposed that it will be marketed across 19 countries in the MENA region.

#### Financial highlights:

The Group's revenue is generated through three separate streams – commercial sales, capital gains, and Research and Development. Revenue increased by 16% during the half-year 2018 when compared to half-year 2017 (HY18 \$2.4M, HY17 \$2.0M).

The Group sustained an operating loss of \$5.9M in HY18 (HY17 \$4.0M), and an operating cash burn of \$5.5M (HY17 \$4.8M).

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Company during the half-year.

### ROUNDING OF AMOUNTS

The amounts in the interim consolidated financial statements have been rounded off to the nearest dollar in accordance with ASIC Corporation Instrument 2016/191.

### AUDITOR INDEPENDENCE

The auditor's independence declaration is set out on page 3 and forms part of the Directors' Report for the half-year ended 31 December 2017.

The Directors' Report is signed in accordance with a resolution of the Directors.



Dr George Syrmalis  
Chair

Sydney  
13 March 2018



**RSM Australia Partners**

Level 13, 60 Castlereagh Street Sydney NSW 2000  
GPO Box 5138 Sydney NSW 2001

T +61(0) 2 8226 4500  
F +61(0) 2 8226 4501

[www.rsm.com.au](http://www.rsm.com.au)

**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the review of the financial report of iQNovate Ltd for the half year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

**RSM AUSTRALIA PARTNERS**

**David Talbot**  
Partner

Sydney, NSW  
Dated: 13 March 2018

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**IQNOVATE LTD AND CONTROLLED ENTITIES**  
**INTERIM CONSOLIDATED STATEMENT PROFIT OR LOSS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

<i>In dollars</i>	<i>Note</i>	<b>31 December 2017</b>	<b>31 December 2016<sup>^</sup></b>
Revenue	6	2,352,442	2,032,009
Cost of sales		(2,463,290)	(1,773,961)
<b>Gross profit</b>		<b>(110,848)</b>	<b>258,048</b>
Other income		822	19,540
Employee benefits expense		(2,173,242)	(1,961,363)
Depreciation and amortisation expense		(78,227)	(66,019)
Overhead sharing costs		(839,019)	(443,301)
Other expenses		(1,706,083)	(1,292,805)
Finance costs		(952,036)	(560,527)
Share of loss of associated companies net of tax		(40,196)	-
<b>Loss before income tax</b>		<b>(5,898,829)</b>	<b>(4,046,427)</b>
Income tax benefit		-	-
<b>Loss for the period</b>		<b>(5,898,829)</b>	<b>(4,046,427)</b>
Loss attributable to members of the parent		(5,265,348)	(3,585,521)
Loss attributable to non-controlling interest		(633,481)	(460,906)
<b>Total loss attributed</b>		<b>(5,898,829)</b>	<b>(4,046,427)</b>

**Loss per share for the period attributable to the ordinary equity holders of the Company:**

Basic loss per share (cents per share)	9	(4.23)	(3.00)
Diluted loss per share (cents per share)	9	(4.23)	(3.00)

**INTERIM CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

<i>In dollars</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Net loss for the period</b>	<b>(5,898,829)</b>	<b>(4,046,427)</b>
<b>Other comprehensive income</b>		
Exchange differences on translation of foreign operations, net of tax	-	-
<b>Other comprehensive loss for the period, net of tax</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive loss for the period</b>	<b>(5,898,829)</b>	<b>(4,046,427)</b>
Comprehensive loss attributable to members of the parent	(5,265,348)	(3,585,521)
Comprehensive loss attributable to non-controlling interest	(633,481)	(460,906)
<b>Total comprehensive loss attributed</b>	<b>(5,898,829)</b>	<b>(4,046,427)</b>

<sup>^</sup> Comparative information has been restated to reflect a change in classification of: (a) finance and rebate income from revenue to other income; and (b) workers compensation, FBT, and payroll tax from other expense to employee benefit expense.

*The above interim consolidated statement of profit or loss, and other comprehensive income, should be read in conjunction with the accompanying notes to the interim consolidated financial statements.*

**IQNOVATE LTD AND CONTROLLED ENTITIES**  
**INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

<i>In dollars</i>	<i>Note</i>	<b>31 December 2017</b>	<b>30 June 2017</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash		896,147	298,937
Trade and other receivables		451,068	594,443
Prepayments		179,599	116,637
Current tax receivable		-	-
<b>Total current assets</b>		<b>1,526,814</b>	<b>1,010,017</b>
<b>Non-current assets</b>			
Trade and other receivables		-	-
Property, plant and equipment		591,589	625,149
Intangible assets		4,200,894	4,257,740
Investment in associate		425,230	440,226
Deferred tax assets		1,233,364	1,233,364
<b>Total non-current assets</b>		<b>6,451,077</b>	<b>6,556,479</b>
<b>Total Assets</b>		<b>7,977,891</b>	<b>7,566,496</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	7	1,942,161	3,415,617
Provisions		27,049	27,049
Employee benefit liabilities		950,082	850,545
Deferred revenue		392,932	233,003
Borrowings		12,987,976	5,853,688
Derivative financial instruments		1,228,235	884,788
Deferred tax liability		35,718	35,718
<b>Total current liabilities</b>		<b>17,564,153</b>	<b>11,300,408</b>
<b>Non-current liabilities</b>			
Borrowings		-	4,954,814
Employee benefit liabilities		66,789	49,489
<b>Total non-current liabilities</b>		<b>66,789</b>	<b>5,004,303</b>
<b>Total liabilities</b>		<b>17,630,942</b>	<b>16,304,711</b>
<b>Net liabilities</b>		<b>(9,653,051)</b>	<b>(8,738,215)</b>
<b>Equity</b>			
Contributed equity	8	10,571,275	11,491,837
Reserves		6,527,152	1,778,410
Accumulated losses		(27,399,839)	(22,134,491)
<b>Total equity attributable to holders of the company</b>		<b>(10,301,412)</b>	<b>(8,864,244)</b>
Total equity attributable to non-controlling interests		648,361	126,029
<b>Total equity</b>		<b>(9,653,051)</b>	<b>(8,738,215)</b>

*The above interim consolidated statement of financial position should be read in conjunction with the accompanying notes to the interim consolidated financial statements.*



**IQNOVATE LTD AND CONTROLLED ENTITIES**  
**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

<i>In dollars</i>	Contributed equity	Accumulated losses	Reserves	Non-controlling interest	Total
<b>Balance at 1 July 2017</b>	<b>11,491,837</b>	<b>(22,134,491)</b>	<b>1,778,410</b>	<b>126,029</b>	<b>(8,738,215)</b>
<b>Total comprehensive loss for the period</b>					
Loss for the period	-	(5,265,348)	-	(633,481)	(5,898,829)
Other comprehensive profit for the period	-	-	-	-	-
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>(5,265,348)</b>	<b>-</b>	<b>(633,481)</b>	<b>(5,898,829)</b>
<b>Transactions with owners recorded directly in equity</b>					
Recognition of NCI	-	-	-	60,000	60,000
Convertible notes issued/reconfigured during the period	(27,199)	-	5,377,990	1,261,504	6,612,295
Foreign translation exchange differences	-	-	(100,370)	-	(100,370)
Capital raising costs	(893,363)	-	(528,878)	(165,691)	(1,587,932)
<b>Total transactions with owners recorded directly in equity</b>	<b>(920,562)</b>	<b>-</b>	<b>4,748,742</b>	<b>1,155,813</b>	<b>4,983,993</b>
<b>Balance at 31 December 2017</b>	<b>10,571,275</b>	<b>(27,399,839)</b>	<b>6,527,152</b>	<b>648,361</b>	<b>(9,653,051)</b>
<b>Balance at 1 July 2016</b>	<b>10,930,743</b>	<b>(12,910,781)</b>	<b>142,605</b>	<b>540,993</b>	<b>(1,296,440)</b>
<b>Total comprehensive loss for the period</b>					
Loss for the period	-	(3,585,521)	-	(460,906)	(4,046,427)
Other comprehensive profit for the period	-	-	-	-	-
<b>Total comprehensive loss</b>	<b>-</b>	<b>(3,585,521)</b>	<b>-</b>	<b>(460,906)</b>	<b>(4,046,427)</b>
<b>Transaction with owners recorded directly in equity</b>					
Shares issued during the period	-	-	-	-	-
Convertible notes issued/reconfigured during the period	621,124	-	-	7,493	628,617
Recognition of non-controlling interest	(652,891)	-	-	506,263	(146,628)
Capital raising costs	(362,084)	-	-	-	(362,084)
<b>Total transactions with owners recorded directly in equity</b>	<b>(393,851)</b>	<b>-</b>	<b>-</b>	<b>513,756</b>	<b>119,905</b>
<b>Balance at 31 December 2016</b>	<b>10,536,892</b>	<b>(16,496,302)</b>	<b>142,605</b>	<b>593,843</b>	<b>(5,222,962)</b>

*The above interim consolidated statement of changes in equity should be read in conjunction with the accompanying notes to the interim consolidated financial statements.*

**IQNOVATE LTD AND CONTROLLED ENTITIES**  
**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

<i>In dollars</i>	<i>Note</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Cash flows from operating activities</b>			
Receipts from customers		2,978,474	1,563,467
Payments to suppliers and employees		(7,840,224)	(6,312,083)
Interest received		822	6,541
Interest paid		(222,013)	(45,549)
Income tax paid		-	-
<b>Net cash used in operating activities</b>	<b>12</b>	<b>(5,082,941)</b>	<b>(4,787,624)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(927)	(221,236)
Investment in associates		-	(18,145)
Purchase of intangible assets		-	-
<b>Net cash used in investing activities</b>		<b>(927)</b>	<b>(239,381)</b>
<b>Cash flows from financing activities</b>			
Proceeds from contributed equity		60,000	270,000
Proceeds from the issue of convertible notes		6,642,010	4,983,727
Capital raising costs		(920,562)	(1,902,156)
<b>Net cash generated from/ (used in) financing activities</b>		<b>5,781,448</b>	<b>3,351,571</b>
Net decrease in cash and cash equivalents		697,580	(1,675,434)
Cash and cash equivalents at the beginning of the period		298,937	2,160,352
Effect of movements in exchange rates on cash held		(100,370)	-
<b>Cash and cash equivalents at the end of the period</b>		<b>896,147</b>	<b>484,918</b>

*The above interim consolidated statement of cash flows should be read in conjunction with the accompanying notes to the interim consolidated financial statements.*

**IQNOVATE LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

**1. REPORTING ENTITY**

iQNovate Ltd (“iQN” or the “Company”) is a for-profit company limited by shares which is incorporated and domiciled in Australia. These consolidated financial statements (“financial statements”) as at and for the half-year ended 31 December 2017 comprise of the Company and its subsidiaries (collectively referred to as the “Group”).

These interim financial statements were authorised for issue by the Board of Directors on 13 March 2018.

**2. STATEMENT OF COMPLIANCE**

These condensed general purpose financial statements for the interim half-year reporting period ended 31 December 2017 have been prepared in accordance with Australian Accounting Standard AASB 134 ‘Interim Financial Reporting’ and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 ‘Interim Financial Reporting’.

These condensed general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these interim financial statements are to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

**3. SIGNIFICANT ACCOUNTING POLICIES**

This section sets out the significant accounting policies upon which the interim financial statements are prepared as a whole. Specific accounting policies are described in their respective notes to the interim financial statements. This section also shows information on new accounting standards, amendments and interpretations, and whether they are effective in the current or later years.

**New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2017, and have not been applied in preparing these interim financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

**(i) AASB 9 Financial Instruments**

AASB 9 *Financial Instruments* becomes mandatory for the Group’s 2019 financial statements and includes changes to the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment. It also includes a new hedge accounting model to simplify hedge accounting requirements and more closely align hedge accounting with risk management activities.

**(ii) AASB 15 Revenue from contracts with customers**

AASB 15 *Revenue from Contracts* becomes mandatory for the Group’s 2019 financial statements and outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; and replaces AASB 111 *Construction Contract*, AASB 118 *Revenue*, Interpretation 13 *Customer Loyalty Programs*, Interpretation 15 *Agreements for Construction of Real Estate*, Interpretation 18 *Transfer of Assets from Customers* and Interpretation 131 *Revenue-Barter Transactions involving Advertising Services*. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **New standards and interpretations not yet adopted (continued)**

##### **(iii) AASB 16 Leases**

AASB 16 *Leases* becomes mandatory for the Group's 2020 financial statements and removes the classification of leases between finance and operating leases, effectively treating all leases as finance leases for the lessee. The purpose is to provide greater transparency of a lessee's financial leverage and capital employed.

The Group has not yet determined the potential effect of these standards on the Group's future financial statements.

### **4. GOING CONCERN**

The interim financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

The Directors believe that it is reasonably foreseeable that the consolidated entity will continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report after consideration of the following factors:

- The Group will continue its expansion and development of its portfolio of life science assets intellectual property assets by external project based capital raising as it has demonstrated it has done previously;
- The funds will be utilised with the ultimate objective to increase the value of the assets as discussed in the Operating and Financial Review;
- For the trading divisions of the Group, the continued trend of increasing market share as indicated in the financial statements is resulting in additional customer contracts on hand improving net operating cash flow;
- Liabilities include total convertible notes with a face value of \$12,987,976 convertible to equity by the company, hence not requiring funding from cash flow to extinguish these liabilities.

### **5. OPERATING SEGMENTS**

The Group has identified operating segments based on internal reporting that is reviewed and used by the chief operating decision makers (the Group CEO and the Group Chief Financial and Operating Officer) in assessing the performance of the respective segments. The operating segments are identified by management based on the nature of services provided, with each operating segment representing a strategic business that serves a different segment of the market.

In the half-year 2018, the Group provided two types of services being: (1) contract sales and marketing services to external customers; and (2) shared services to related parties. Segment analysis of revenue and gross profit is provided below. Information on net assets by segment is not provided to the chief operating decision makers.

**IQNOVATE LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

**5. OPERATING SEGMENTS (CONTINUED)**

<i>In dollars</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Revenue</b>		
Contract sales and marketing services	2,127,256	1,756,529
Related party services	225,186	275,480
<b>Total revenue</b>	<b>2,352,442</b>	<b>2,032,009</b>
<b>Gross profit / (loss)</b>		
Contract sales and marketing services	(336,034)	(17,432)
Related party services	225,186	275,480
<b>Total gross profit / (loss)</b>	<b>(110,848)</b>	<b>258,048</b>

**Information on geographical segments**

One hundred percent of the Group's revenue, expenses and profit are derived in Australia.

**Reliance on major customers**

On an individual basis, four customers represent more than 10% of the half year 2018 revenue. Total revenue from these major customers amounts to \$2,003,978 (85.2%) of total revenue (HY17: \$1,263,129; 62.2%).

**6. REVENUE**

<i>In dollars</i>	<b>31 December 2017</b>	<b>31 December 2016<sup>^</sup></b>
Contract and service fee revenue	2,127,256	1,756,529
Office and shared services revenue	225,186	275,480
<b>Total revenue</b>	<b>2,352,442</b>	<b>2,032,009</b>

**7. TRADE AND OTHER PAYABLES**

<i>In dollars</i>	<b>31 December 2017</b>	<b>30 June 2017</b>
Trade payables	539,065	1,573,377
Sundry payables and accrued expenses	1,325,376	531,464
Related party payables	77,720	1,310,776
<b>Total trade and other payables</b>	<b>1,942,161</b>	<b>3,415,617</b>
Current	1,942,161	3,415,617
Non-current	-	-
<b>Total trade and other payables</b>	<b>1,942,161</b>	<b>3,415,617</b>

## **8. SHARE CAPITAL**

	<b>Number of shares</b>	<b>\$</b>
In issue at 1 July 2016	41,446,390	4,697,661
Shares issued from share split	82,892,780	-
<b>In issue at 30 June 2017</b>	<b>124,339,170</b>	<b>4,697,661</b>
Shares issued from share split	-	-
<b>In issue at 31 December 2017</b>	<b>124,339,170</b>	<b>4,697,661</b>

All ordinary shares rank equally with regard to the Company's residual assets. 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.

The Company does not have authorised capital or par value in respect of its shares. All issued shares are fully paid.

## **9. EARNINGS PER SHARE (EPS)**

The calculation of basic earnings per share has been based on the following loss attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

<i>In dollars</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Loss for the period attributable to owners of iQNovate Ltd	(5,265,348)	(3,585,521)
Weighted-average number of ordinary shares at end of the period	124,339,170	119,569,996
Basic loss per share	(4.23)	(3.00)
Diluted loss per share	(4.23)	(3.00)

Basic earnings per share is calculated as earnings for the period attributable to the Company over the weighted average number of shares.

Diluted earnings per share is calculated as earnings for the period attributable to the Company over the weighted average number of shares which has been adjusted to reflect the number of shares which would be issued if outstanding options and performance rights were to be exercised. However, due to the statutory loss attributable to the Company for both the financial half-year ended 31 December 2017 and the comparative period ended 31 December 2016, the effect of these instruments has been excluded from the calculations of diluted earnings per share for both periods as they would reduce the loss per share.

## **10. FINANCIAL INSTRUMENTS – FAIR VALUE**

### **Fair value measurement**

#### **(i) Fair value hierarchy**

The Group's assets and liabilities for the current reporting period are measured or disclosed at fair value, using a three-level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: Unobservable inputs for the asset or liability.

There were no transfers between levels during the financial half-year.

#### **Consolidated – at 31 December 2017**

<i>In dollars</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Liabilities</b>				
Derivative convertible note options	-	1,228,235	-	1,228,235
<b>Total liabilities</b>	<b>-</b>	<b>1,228,235</b>	<b>-</b>	<b>1,228,235</b>

#### **Consolidated – at 30 June 2017**

<i>In dollars</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Liabilities</b>				
Derivative convertible note options	-	884,788	-	884,788
<b>Total liabilities</b>	<b>-</b>	<b>884,788</b>	<b>-</b>	<b>884,788</b>

#### **Valuation techniques for fair value measurements categorised within level 2**

The derivative convertible note options were revalued on 31 December 2017 based on internal assessments performed by management, with reference to the terms of the underlying convertible notes.

## 11. TRANSACTIONS WITH RELATED PARTIES

### (i) Parent and ultimate controlling party

iQnovate Ltd was the parent and ultimate controlling party of the Group throughout the half-year ended 31 December 2017.

### (ii) Transactions with related parties

The Group transacted with the following related companies. Transactions with other related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Entity name	Relationship
iQX Limited and controlled entities	Common directorship and/ key management personnel
iQ3Corp Ltd and controlled entities	Common directorship and/ key management personnel
Nereid Enterprises Pty Ltd	An Associate with common directorship and/key management personnel

The aggregate value of transactions and outstanding balances relating to subsidiaries and associates are set out in the following table.

<i>In dollars</i>	31 December 2017	31 December 2016
Shared services fees received from related parties	225,186	275,480
<b>Total fees received from related parties</b>	<b>225,186</b>	<b>275,480</b>
Consulting fees paid to related parties	205,111	1,931,546
Payment of shared services fees to related parties	839,019	934,076
Other transaction and administrative costs paid to related parties	-	21,467
<b>Total costs paid to related parties</b>	<b>1,044,130</b>	<b>2,887,089</b>
Trade payable accounts with related parties	(77,720)	(154,946)
Trade receivable accounts with related parties	106,369	4,942
<b>Net trade receivable/(payable) from related parties</b>	<b>28,649</b>	<b>(150,004)</b>

### (iii) Associates

Entity name	Country of incorporation	Ownership interest 31 December 2017	Ownership interest 31 December 2016
New Frontier Holdings LLC	USA	34.1%	34.1%
Nereid Enterprises Pty Ltd	AUS	34.1%	34.1%
Nereid Enterprises LLC	USA	34.1%	34.1%



## **12. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES**

<i>In dollars</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Cash flows from operating activities</b>		
Loss for the period	(5,898,829)	(4,046,427)
Adjustments for:		
Depreciation	78,227	66,019
Interest on convertible notes	730,023	456,967
Share of loss from associated companies	40,196	-
	<b>(5,050,383)</b>	<b>(3,523,441)</b>
Changes in:		
Trade and other receivables	143,375	(2,777,861)
Prepayments	(62,962)	(2,921,864)
Trade and other payables	(389,737)	1,795,388
Income in advance	159,929	2,640,154
Employee benefits	116,837	-
	<b>(32,558)</b>	<b>(1,264,183)</b>
<b>Net cash used in operating activities</b>	<b>(5,082,941)</b>	<b>(4,787,624)</b>

## **13. SUBSEQUENT EVENTS**

On 31 January 2018, pursuant to a conversion notice, 19,436,244 convertible notes were converted at an average price of \$0.33 (\$6,406,000 total consideration) into 19,436,244 ordinary shares.

There has not arisen in the interval between the end of the financial half-year and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the Directors to affect significantly the operations or state of affairs of the Group in future financial years.

**IQNOVATE LTD AND CONTROLLED ENTITIES**  
**DIRECTORS' DECLARATION**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

1. In the opinion of the Board of Directors of iQnovate Ltd ("the Company"):
  - a. the interim consolidated financial statements and notes that are set out on pages 4 to 14 are in accordance with the *Corporations Act 2001*, including:
    - I. giving a true and fair view of the financial position as at 31 December 2017 of the Company and its controlled entities ("the Group") and of the Group's performance for the financial half-year ended on that date; and
    - II. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
  - b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial half-year ended 31 December 2017.
3. The Directors draw attention to note 2 to the interim consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of Directors.



**Dr George Symmalis**  
**Chair**

Sydney  
13 March 2018



**RSM Australia Partners**

Level 13, 60 Castlereagh Street Sydney NSW 2000  
GPO Box 5138 Sydney NSW 2001

T +61(0) 2 8226 4500  
F +61(0) 2 8226 4501

[www.rsm.com.au](http://www.rsm.com.au)

**INDEPENDENT AUDITOR'S REVIEW REPORT**

**TO THE MEMBERS OF**

**IQNOVATE LTD AND CONTROLLED ENTITIES**

**Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of iQNovate Ltd (the Company) and its subsidiaries (the Group), which comprises the interim consolidated statement of financial position as at 31 December 2017, the interim consolidated statement of profit or loss, the interim consolidated statement of other comprehensive income, the interim consolidated statement of changes in equity and interim consolidated 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 of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

*Directors' Responsibility for the Half-Year Financial Report*

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

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 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 iQNovate Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

**THE POWER OF BEING UNDERSTOOD  
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*Independence*

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

*Conclusion*

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

**RSM AUSTRALIA PARTNERS**

**David Talbot**  
Partner

Sydney, NSW  
Dated: 15 March 2018

## CORPORATE DIRECTORY

**ACN 149 731 644**

### **Directors**

Dr George Syrmalis, *Chair and Group Chief Executive Officer*

Con Tsigounis

Peter Buchanan Simpson

### **Company secretary**

Gerardo Incollingo

### **Chief Executive Officer**

Dr George Syrmalis

### **Registered office**

Level 9, 85 Castlereagh Sreet

Sydney, NSW 2000

### **Principal place of business**

Level 9, 85 Castlereagh Sreet

Sydney, NSW 2000

### **Share register**

Boardroom Pty Limited

Level 12, 225 George Street

Sydney NSW 2000

### **Auditor**

RSM Australia Partners

Level 13, 60 Castlereagh Street

Sydney NSW 2000

### **Stock exchange listings**

IQnovate Ltd shares are listed on the National Securities Exchange (NSX:IQN).

### **Website address**

[www.iqnovate.com](http://www.iqnovate.com)