

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 001-36415

QUOTIENT LIMITED

(Exact name of registrant as specified in its charter)

Jersey, Channel Islands
(State or other jurisdiction of
incorporation or organization)

Not Applicable
(I.R.S. Employer
Identification No.)

B1, Business Park Terre Bonne,
Route de Crassier 13,
1262 Eysins, Switzerland
(Address of principal executive offices)

Not Applicable
(Zip Code)

011-41-22-716-9800

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Ordinary Shares, nil par value	QTNT	The Nasdaq Global Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 1, 2019, there were 66,435,890 Ordinary Shares, nil par value, of Quotient Limited outstanding.

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Cautionary note regarding forward-looking statements

This Quarterly Report on Form 10-Q, and exhibits thereto, contains estimates, predictions, opinions, projections and other statements that may be interpreted as “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, that involve substantial risks and uncertainties. The forward-looking statements are contained principally in Part I, Item 2: “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and are also contained elsewhere in this Quarterly Report. Forward-looking statements can be identified by words such as “strategy,” “objective,” “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “predict,” “project,” “target,” “potential,” “will,” “would,” “could,” “should,” “continue,” “contemplate,” “might,” “design” and other similar expressions, although not all forward-looking statements contain these identifying words. Although we believe that we have a reasonable basis for each forward-looking statement contained in this Quarterly Report, we caution you that these statements are based on a combination of facts and factors currently known by us and our expectations of the future, about which we cannot be certain, and are subject to numerous known and unknown risks and uncertainties.

Forward-looking statements include statements about:

- the continuing development, regulatory approval and commercialization of MosaiQ™ by us;
- the design of blood grouping and disease screening capabilities of MosaiQ, the potential for the expansion of our MosaiQ technology into the larger clinical diagnostics market and the benefits of MosaiQ for both customers and patients;
- future demand for and customer adoption of MosaiQ, the factors that we believe will drive such demand and our ability to address such demand;
- our expected profit margins for MosaiQ;
- the size of the market for MosaiQ;
- the regulation of MosaiQ by the U.S. Food and Drug Administration, or the FDA, or other regulatory bodies, or any unanticipated regulatory changes or scrutiny by such regulators;
- future plans for our conventional reagent products;
- the status of our future relationships with customers, suppliers, and regulators relating to our products;
- future demand for our conventional reagent products and our ability to meet such demand;
- our ability to manage the risks associated with international operations;
- anticipated changes, trends and challenges in our business and the transfusion diagnostics market;
- the effects of competition;
- the expected outcome or impact of litigation;
- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others;
- the status of our business relationship with Ortho-Clinical Diagnostics Inc.;
- our anticipated cash needs, including the adequacy of our available cash and short-term investment balances relative to our forecasted cash requirements for the next twelve months, our expected sources of funding, and our estimates regarding our capital requirements and capital expenditures; and
- our plans for executive and director compensation for the future.

You should also refer to the various factors identified in this and other reports filed by us with the Securities and Exchange Commission, or SEC, including but not limited to those discussed in the section entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended March 31, 2019, for a discussion of other important factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements. As a result of these factors, we cannot assure you that the forward-looking statements in this Quarterly Report will prove to be accurate. Further, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us that we will achieve our objectives and plans in any specified time frame, or at all. The forward-looking statements in this Quarterly Report represent our views only as of the date of this Quarterly Report. Subsequent events and developments may cause our views to change. While we may elect to update these forward-looking statements at some point in the future, we undertake no obligation to publicly update any forward-looking statements, except as required by law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Quarterly Report.

Available Information

Access to our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports filed with or furnished to the SEC, may be obtained through the investor section of our website at www.quotientbd.com as soon as reasonably practical after we electronically file or furnish these reports. We do not charge for access to and viewing of these reports. Information on our website, including in the investor section, is not part of this Quarterly Report on Form 10-Q or any of our other securities filings unless specifically incorporated herein by reference. In addition, our filings with the SEC may be accessed through the SEC's website at www.sec.gov. All statements made in any of our securities filings, including all forward-looking statements or information, are made as of the date of the document in which the statement is included, and we do not assume or undertake any obligation to update any of those statements or documents unless we are required to do so by law.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(Expressed in thousands of U.S. Dollars — except for share data and per share data)

	September 30, 2019	March 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,816	\$ 4,096
Short-term investments	66,997	90,729
Trade accounts receivable, net	4,329	3,348
Inventories	18,060	15,551
Prepaid expenses and other current assets	3,744	3,202
Total current assets	<u>98,946</u>	<u>116,926</u>
Restricted cash	9,007	7,507
Property and equipment, net	42,041	47,293
Operating lease right-of-use assets	21,305	—
Intangible assets, net	663	751
Deferred income taxes	578	605
Other non-current assets	4,427	4,688
Total assets	<u>\$ 176,967</u>	<u>\$ 177,770</u>
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 3,942	\$ 5,936
Accrued compensation and benefits	4,202	6,149
Accrued expenses and other current liabilities	13,511	12,458
Current portion of operating lease liability	2,822	—
Current portion of deferred lease rental benefit	—	435
Current portion of finance lease obligation	443	471
Total current liabilities	<u>24,920</u>	<u>25,449</u>
Long-term debt, less current portion	151,021	121,855
Operating lease liability, less current portion	19,808	—
Deferred lease rental benefit, less current portion	—	1,144
Finance lease obligation, less current portion	620	865
Defined benefit pension plan obligation	7,639	7,368
7% Cumulative redeemable preference shares	19,900	19,375
Total liabilities	<u>223,908</u>	<u>176,056</u>
Commitments and contingencies	—	—
Shareholders' equity (deficit):		
Ordinary shares (nil par value) 66,366,706 and 65,900,447 issued and outstanding at September 30, 2019 and March 31, 2019 respectively	369,335	368,958
Additional paid in capital	30,844	28,665
Accumulated other comprehensive loss	(15,897)	(14,884)
Accumulated deficit	(431,223)	(381,025)
Total shareholders' (deficit) equity	<u>(46,941)</u>	<u>1,714</u>
Total liabilities and shareholders' equity (deficit)	<u>\$ 176,967</u>	<u>\$ 177,770</u>

The accompanying notes form an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (unaudited)

(Expressed in thousands of U.S. Dollars — except for share data and per share data)

	Quarter ended September 30,		Six months ended September 30,	
	2019	2018	2019	2018
Revenue:				
Product sales	\$ 7,096	\$ 6,247	\$ 15,265	\$ 14,111
Other revenues	750	—	750	19
Total revenue	7,846	6,247	16,015	14,130
Cost of revenue	(3,970)	(4,552)	(8,534)	(8,617)
Gross profit	3,876	1,695	7,481	5,513
Operating expenses:				
Sales and marketing	(2,253)	(1,845)	(4,833)	(4,126)
Research and development, net of government grants	(13,083)	(12,998)	(24,736)	(25,568)
General and administrative expense:				
Compensation expense in respect of share options and management equity incentives	(1,001)	(1,155)	(2,179)	(2,503)
Other general and administrative expenses	(5,980)	(6,761)	(12,597)	(12,917)
Total general and administrative expense	(6,981)	(7,916)	(14,776)	(15,420)
Total operating expense	(22,317)	(22,759)	(44,345)	(45,114)
Operating loss	(18,441)	(21,064)	(36,864)	(39,601)
Other income (expense):				
Interest expense, net	(7,291)	(5,819)	(13,376)	(8,935)
Other, net	(1,244)	(468)	(294)	(3,980)
Other expense, net	(8,535)	(6,287)	(13,670)	(12,915)
Loss before income taxes	(26,976)	(27,351)	(50,534)	(52,516)
Provision for income taxes	(14)	(11)	(27)	(22)
Net loss	\$ (26,990)	\$ (27,362)	\$ (50,561)	\$ (52,538)
Other comprehensive income (loss):				
Change in fair value of foreign currency cash flow hedges	\$ (158)	\$ (29)	\$ (278)	\$ (361)
Change in unrealized gain on short-term investments	47	221	194	247
Foreign currency (loss) gain	(11)	373	(1,025)	730
Provision for pension benefit obligation	48	36	96	72
Other comprehensive (loss) income, net	(74)	601	(1,013)	688
Comprehensive loss	\$ (27,064)	\$ (26,761)	\$ (51,574)	\$ (51,850)
Net loss available to ordinary shareholders - basic and diluted	\$ (26,990)	\$ (27,362)	\$ (50,561)	\$ (52,538)
Loss per share - basic and diluted	\$ (0.41)	\$ (0.53)	\$ (0.76)	\$ (1.07)
Weighted-average shares outstanding - basic and diluted	66,291,548	52,059,037	66,185,501	48,944,896

The accompanying notes form an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT) (unaudited)

(Expressed in thousands of U.S. Dollars — except for share data)

	Ordinary shares		Additional paid in capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Deficit
	Shares	Amount				
June 30, 2019	<u>66,212,893</u>	<u>\$ 369,021</u>	<u>\$ 29,843</u>	<u>\$ (15,823)</u>	<u>\$ (404,233)</u>	<u>\$ (21,192)</u>
Issue of shares upon exercise of incentive share options and vesting of RSUs	153,813	314	—	—	—	314
Net loss	—	—	—	—	(26,990)	(26,990)
Change in the fair value of foreign currency cash flow hedges	—	—	—	(158)	—	(158)
Change in unrealized gain on short- term investments	—	—	—	47	—	47
Foreign currency gain (loss) on:						
Long-term investment nature intra-entity balances	—	—	—	2,118	—	2,118
Retranslation of foreign entities	—	—	—	(2,129)	—	(2,129)
Provision for pension benefit obligation	—	—	—	48	—	48
Other comprehensive loss	—	—	—	(74)	—	(74)
Stock-based compensation	—	—	1,001	—	—	1,001
September 30, 2019	<u>66,366,706</u>	<u>\$ 369,335</u>	<u>\$ 30,844</u>	<u>\$ (15,897)</u>	<u>\$ (431,223)</u>	<u>\$ (46,941)</u>

	Ordinary shares		Additional paid in capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity (Deficit)
	Shares	Amount				
March 31, 2019	<u>65,900,447</u>	<u>\$ 368,958</u>	<u>\$ 28,665</u>	<u>\$ (14,884)</u>	<u>\$ (381,025)</u>	<u>\$ 1,714</u>
Issue of shares upon exercise of incentive share options and vesting of RSUs	466,259	377	—	—	—	377
Net loss	—	—	—	—	(50,561)	(50,561)
Change in the fair value of foreign currency cash flow hedges	—	—	—	(278)	—	(278)
Change in unrealized gain on short- term investments	—	—	—	194	—	194
Foreign currency gain (loss) on:						
Long-term investment nature intra-entity balances	—	—	—	10,406	—	10,406
Retranslation of foreign entities	—	—	—	(11,431)	—	(11,431)
Provision for pension benefit obligation	—	—	—	96	—	96
Other comprehensive loss	—	—	—	(1,013)	—	(1,013)
Stock-based compensation	—	—	2,179	—	—	2,179
Cumulative effect of accounting changes	—	—	—	—	363	363
September 30, 2019	<u>66,366,706</u>	<u>369,335</u>	<u>30,844</u>	<u>\$ (15,897)</u>	<u>(431,223)</u>	<u>\$ (46,941)</u>

The accompanying notes form an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT) (unaudited)

(Expressed in thousands of U.S. Dollars — except for share data)

	Ordinary shares		Additional paid in capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Deficit
	Shares	Amount				
June 30, 2018	<u>46,064,701</u>	<u>256,129</u>	<u>25,055</u>	<u>(16,547)</u>	<u>(300,815)</u>	<u>(36,178)</u>
Issue of Shares	8,094,683	47,045	—	—	—	47,045
Issue of shares upon exercise of incentive share options and vesting of RSUs	70,119	2	—	—	—	2
Net loss	—	—	—	—	(27,362)	(27,362)
Change in the fair value of the effective portion of foreign currency cash flow hedges	—	—	—	(29)	—	(29)
Unrealized gain on short-term investments	—	—	—	221	—	221
Foreign currency gain (loss) on:						
Long-term investment nature intra-entity balances	—	—	—	3,820	—	3,820
Retranslation of foreign entities	—	—	—	(3,447)	—	(3,447)
Provision for pension benefit obligation	—	—	—	36	—	36
Other comprehensive loss	—	—	—	601	—	601
Stock-based compensation	—	—	1,156	—	—	1,156
September 30, 2018	<u>54,229,503</u>	<u>\$ 303,176</u>	<u>\$ 26,211</u>	<u>\$ (15,946)</u>	<u>\$ (328,177)</u>	<u>\$ (14,736)</u>
	Ordinary shares		Additional paid in capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Deficit
	Shares	Amount				
March 31, 2018	<u>45,646,424</u>	<u>\$ 253,934</u>	<u>\$ 23,708</u>	<u>\$ (16,634)</u>	<u>\$ (275,639)</u>	<u>\$ (14,631)</u>
Issue of shares	8,469,683	49,220	—	—	—	49,220
Issue of shares upon exercise of incentive share options and vesting of RSUs	113,396	22	—	—	—	22
Net loss	—	—	—	—	(52,538)	(52,538)
Change in the fair value of the effective portion of foreign currency cash flow hedges	—	—	—	(361)	—	(361)
Unrealized gain on short-term investments	—	—	—	247	—	247
Foreign currency gain (loss) on:						
Long-term investment nature intra-entity balances	—	—	—	7,449	—	7,449
Retranslation of foreign entities	—	—	—	(6,719)	—	(6,719)
Provision for pension benefit obligation	—	—	—	72	—	72
Other comprehensive loss	—	—	—	688	—	688
Stock-based compensation	—	—	2,503	—	—	2,503
September 30, 2018	<u>54,229,503</u>	<u>\$ 303,176</u>	<u>\$ 26,211</u>	<u>\$ (15,946)</u>	<u>\$ (328,177)</u>	<u>\$ (14,736)</u>

The accompanying notes form an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
(Expressed in thousands of U.S. Dollars)

	Six months ended September 30,	
	2019	2018
OPERATING ACTIVITIES:		
Net loss	\$ (50,561)	\$ (52,538)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	6,070	6,422
Share-based compensation	2,179	2,503
Increase in deferred lease rentals	148	197
Swiss pension obligation	363	309
Amortization of deferred debt issue costs	5,041	2,159
Accrued preference share dividends	525	525
Deferred income taxes	27	22
Net change in assets and liabilities:		
Trade accounts receivable, net	(1,161)	201
Inventories	(2,874)	315
Accounts payable and accrued liabilities	(63)	(3,886)
Accrued compensation and benefits	(1,764)	(691)
Other assets	(648)	3,371
Net cash used in operating activities	(42,718)	(41,091)
INVESTING ACTIVITIES:		
Increase in short-term investments	(15,000)	(59,000)
Realization of short-term investments	38,926	—
Purchase of property and equipment	(2,558)	(1,639)
Net cash generated from (used in) investing activities	21,368	(60,639)
FINANCING ACTIVITIES:		
Repayment of finance leases	(210)	(231)
Proceeds from drawdown of new debt	25,000	36,000
Debt issuance costs and fees paid to noteholders	(874)	(1,213)
Proceeds from issuance of ordinary shares and warrants	377	49,242
Net cash generated from financing activities	24,293	83,798
Effect of exchange rate fluctuations on cash, cash equivalents and restricted cash	277	3,800
Change in cash, cash equivalents and restricted cash	3,220	(14,132)
Beginning cash, cash equivalents and restricted cash	11,603	25,205
Ending cash, cash equivalents and restricted cash	<u>\$ 14,823</u>	<u>\$ 11,073</u>
Supplemental cash flow disclosures:		
Income taxes paid	\$ —	\$ —
Interest paid	\$ 7,239	\$ 5,069
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 5,816	\$ 3,562
Restricted cash	9,007	7,511
Total cash, cash equivalents and restricted cash	<u>\$ 14,823</u>	<u>\$ 11,073</u>

The accompanying notes form an integral part of these consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. Dollars — except for share data and per share data, unless otherwise stated)

Note 1. Description of Business and Basis of Presentation

Description of Business

The principal activity of Quotient Limited (the “Company”) and its subsidiaries (the “Group”) is the development, manufacture and sale of products for the global transfusion diagnostics market. Products manufactured by the Group are sold to hospitals, blood banking operations and other diagnostics companies worldwide.

Basis of Presentation

The condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and are unaudited. In accordance with those rules and regulations, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States (“GAAP”) for complete financial statements.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) considered necessary to present fairly the financial position, results of operations, changes in shareholders’ equity and cash flows for the interim periods presented. The March 31, 2019 balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP. However, the Company believes that the disclosures are adequate to make the information presented not misleading. The financial statements should be read in conjunction with the audited consolidated financial statements at and for the year ended March 31, 2019 included in the Company’s Annual Report on Form 10-K for the year then ended. The results of operations for the six month period ended September 30, 2019 are not necessarily indicative of the results of operations that may be expected for the year ending March 31, 2020 and any future period.

The Company has incurred net losses and negative cash flows from operations in each year since it commenced operations in 2007 and had an accumulated deficit of \$431.2 million as of September 30, 2019. At September 30, 2019 the Company had available cash holdings and short-term investments of \$72.8 million. The Company has expenditure plans over the next twelve months that exceed its current cash and short-term investment balances, raising substantial doubt about its ability to continue as a going concern. The Company expects to fund its operations in the near-term, including the ongoing development of MosaiQ through successful field trial completion, achievement of required regulatory authorizations and commercialization, from a combination of funding sources. These expected funding sources include the use of existing available cash and short-term investment balances and the issuance of new equity. The Company expects additional financing to be available from these funding sources, and accordingly have prepared the financial statements on the going concern basis. However, there can be no assurance that the Company will be able to obtain adequate financing when necessary and the terms of any financings may not be advantageous to the Company and may result in dilution to its shareholders.

Note 2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. All cash and cash equivalents comprised readily accessible cash balances. Restricted cash comprised \$8.7 million and \$7.2 million at September 30, 2019 and March 31, 2019, respectively, held in a cash reserve account pursuant to the indenture governing the Company’s 12% Senior Secured Notes (“the Secured Notes”) and \$307 at each of September 30, 2019 and March 31, 2019 held in a restricted account as security for the property rental obligations of the Company’s Swiss subsidiary.

Short-term Investments

Short-term investments represent investments in a money-market fund which is valued daily and which has no minimum notice period for withdrawals. The fund is invested in a portfolio of holdings and the creditworthiness requirement for individual investment holdings is a minimum of an A rating from a leading credit-rating agency. The Company records the value of its investment in the fund based on the quoted value of the fund at the balance sheet date. Unrealized gains or losses are recorded in accumulated other comprehensive loss and are transferred to the statement of comprehensive loss when they are realized.

Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and are not interest bearing. The Company maintains an allowance for doubtful accounts to reserve for potentially uncollectible trade receivables. Movements in the allowance for doubtful accounts are recorded in general and administrative expenses. The Company reviews its trade receivables to identify specific customers with known disputes or collectability issues. In addition, the Company maintains an allowance for all other receivables not included in the specific reserve by applying specific rates of projected uncollectible receivables to the various aging categories. In determining these percentages, the Company analyzes its historical collection experience, customer credit-worthiness, current economic trends and changes in customer payment terms.

Concentration of Credit Risks and Other Uncertainties

The carrying amounts for financial instruments consisting of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short maturities. Derivative instruments, consisting of foreign exchange contracts, and short-term investments are stated at their estimated fair values, based on quoted market prices for the same or similar instruments. The counterparties to the foreign exchange contracts consist of large financial institutions of high credit standing. The short-term investments are invested in a fund which is invested in a portfolio of holdings and the creditworthiness requirement for individual investment holdings is a minimum of an A rating from a leading credit-rating agency.

The Company's main financial institutions for banking operations hold all of the Company's cash and cash equivalents as of September 30, 2019 and at March 31, 2019. The Company's accounts receivable are derived from net revenue to customers and distributors located in the United States and other countries. The Company performs credit evaluations of its customers' financial condition. The Company provides reserves for potential credit losses, but has not experienced significant losses to date. There was one customer whose accounts receivable balance represented 10% or more of total accounts receivable, net, as of September 30, 2019 and March 31, 2019. This customer represented 64% and 55% of the accounts receivable balances as of September 30, 2019 and March 31, 2019, respectively.

The Company currently sells products through its direct sales force and through third-party distributors. There was one customer that accounted for 10% or more of total product sales for the six month periods ended September 30, 2019 and September 30, 2018. This customer represented 60% of total product sales for the six month period ended September 30, 2019 and 58% for the six month period ended September 30, 2018.

Fair Value of Financial Instruments

The Company defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company's valuation techniques used to measure fair value maximized the use of observable inputs and minimized the use of unobservable inputs. The fair value hierarchy is based on the following three levels of inputs:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

See Note 6, "Commitment and Contingencies," for information and related disclosures regarding the Company's fair value measurements.

Inventory

Inventory is stated at the lower of standard cost (which approximates actual cost) or market, with cost determined on the first-in-first-out method. Accordingly, allocation of fixed production overheads to conversion costs is based on normal capacity of production. Abnormal amounts of idle facility expense, freight, handling costs and spoilage are expensed as incurred and not included in overhead. No stock-based compensation cost was included in inventory as of September 30, 2019 and March 31, 2019.

Property and Equipment

Property, equipment and leasehold improvements are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the related assets as follows:

- Plant, machinery and equipment—4 to 20 years;
- Leasehold improvements—the shorter of the lease term or the estimated useful life of the asset.

Repairs and maintenance expenditures, which are not considered improvements and do not extend the useful life of property and equipment, are expensed as incurred.

Intangible Assets

Intangible assets related to product licenses are recorded at cost, less accumulated amortization. Intangible assets related to technology and other intangible assets acquired in acquisitions are recorded at fair value at the date of acquisition, less accumulated amortization. Intangible assets are amortized over their estimated useful lives, on a straight-line basis as follows:

Customer relationships—5 years

Brands associated with acquired cell lines—40 years

Product licenses—10 years

Other intangibles assets—7 years

The Company reviews its intangible assets for impairment and conducts an impairment review when events or circumstances indicate the carrying value of a long-lived asset may be impaired by estimating the future undiscounted cash flows to be derived from an asset to assess whether or not a potential impairment exists. No impairment losses have been recorded in either of the six month periods ended September 30, 2019 or September 30, 2018.

Revenue Recognition

Revenue is recognized in accordance with ASU 2014-09, *Revenue from Contracts with Customers*.

Product revenue is recognized at a point in time upon transfer of control of a product to a customer, which is generally at the time of delivery at an amount based on the transaction price. Customers have no right of return except in the case of damaged goods and the Company has not experienced any significant returns of its products. Shipping and handling costs are expensed as incurred and included in cost of product sales. In those cases where the Company bills shipping and handling costs to customers, the amounts billed are classified as revenue.

Revenue is also earned from the provision of development services to a small number of original equipment manufacturer (“OEM”) customers. These development service contracts are reviewed individually to determine the nature of the performance obligations and the associated transaction prices. In recent years, product development revenues have been commensurate with achieving milestones specified in the respective development agreements relating to those products. These milestones may include the approval of new products by the European or U.S. regulatory authorities, which are not within the Company’s control. While there can be no assurance that this will continue to be the case, the milestones have been such that they effectively represent completion of the Company’s performance obligations under a particular part of a development program. Should the Company fail to achieve these milestones the Company would not be entitled under the terms of the development agreements to any compensation for the work undertaken to date. As a result, the milestone-related revenues have been recognized as the contractual milestones are achieved.

Pursuant to an Umbrella Supply Agreement with Ortho-Clinical Diagnostics, Inc. (“Ortho”), the Company executed a product attachment relating to the development of a range of rare antisera products. During the year ended March 31, 2019, the Company recognized a milestone of \$450 related to the submission to the FDA of an application to cover use of the products on an Ortho automation platform and during the six month period ended September 30, 2019, the Company recognized further milestones totaling \$750 related to the approval by the FDA of this application and a further FDA submission related to the approval of the products for use on another of Ortho’s automation platforms. The Company is entitled to receive further milestone payments totaling \$300 related to FDA approval of this later submission. The Company expects this remaining milestone to be achieved in the financial year ending March 31, 2020.

In January 2015, the Company entered into a supply and distribution agreement with Ortho related to the commercialization and distribution of certain MosaiQ products. Under the terms of this agreement, the Company is entitled to receive milestone payments upon CE-mark and FDA approval, as well as upon the first commercial sale of the relevant MosaiQ products by Ortho within the European Union, United States and within any country outside of these two regions. The Company has concluded that as each of these milestones require significant levels of development work to be undertaken and there was no certainty at the start of the projects that the development work would be successful, these milestones are substantive and the revenue will be recognized when the milestones are achieved.

In the six month period ended September 30, 2019, revenue recognized from performance obligations related to prior periods was not material and, at September 30, 2019, revenue expected to be recognized in future periods related to remaining performance obligations was also not material.

Research and Development

Research and development expenses consist of costs incurred for company-sponsored and collaborative research and development activities. These costs include direct and research-related overhead expenses. The Company expenses research and development costs, including the expenses for research under collaborative agreements, as such costs are incurred. Where government grants or tax credits are available, the income concerned is included as a credit against the related expense.

Stock-Based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense on a straight-line basis over the requisite service period, which is generally the vesting period. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company’s consolidated statements of comprehensive loss.

In determining fair value of the stock-based compensation payments, the Company uses the Black–Scholes model and a single option award approach for share options and a barrier option pricing model for multi-year performance based restricted share units (“MRSUs”), both of which require the input of subjective assumptions. These assumptions include: the fair value of the underlying share, estimating the length of time employees will retain their awards before exercising them (expected term), the estimated volatility of the Company’s ordinary shares price over the expected term (expected volatility), risk-free interest rate (interest rate), expected dividends and the number of shares subject to awards that will ultimately not complete their vesting requirements (forfeitures).

Share Warrants

As of September 30, 2019, the Company had one class of warrants to purchase ordinary shares outstanding, which comprised warrants that were issued in December 2013 and August 2015 in connection with the establishment or increase of the Company’s then existing secured term loan facility. None of these warrants contain or contained any obligation to transfer value and, as such, the issuance of these warrants has been recorded in additional paid in capital as part of shareholders’ equity.

Leases

In February 2016, the Financial Accounting Standards Board, or FASB, issued Accounting Standard Update, or ASU 2016-02, *Leases*, or ASU 2016-02, to enhance the transparency and comparability of financial reporting related to leasing arrangements. The Company adopted ASU 2016-02 on April 1, 2019, or the effective date, and used the effective date as its date of initial application.

At the inception of an arrangement, the Company determines whether the arrangement is or contains a lease based on the unique facts and circumstances present. The Company also reviews the terms of the lease in accordance with ASU 2016-02 in order to determine whether the lease concerned is a finance or an operating lease. Most leases with a term greater than one year are recognized on the balance sheet as right-of-use assets, lease liabilities and, if applicable, long-term lease liabilities. The Company has elected not to recognize on the balance sheet leases with terms of one year or less.

For finance leases, an asset is included within property and equipment and a lease liability equal to the present value of the minimum lease payments is included in current or long-term liabilities. Interest expense is recorded over the life of the lease at a constant rate.

Operating lease liabilities and their corresponding right-of-use assets are recorded based on the present value of lease payments over the expected remaining lease term. The operating lease right-of-use assets also include any lease payments made prior to the commencement date and any initial direct costs incurred, less any lease incentives received. The interest rate implicit in lease contracts is typically not readily determinable. As a result, the Company utilizes its incremental borrowing rates, which are the rates incurred to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. The incremental borrowing rate is determined at lease commencement, or as of April 1, 2019 for operating leases existing upon adoption of ASU 2016-02. The incremental borrowing rate is subsequently reassessed upon modification to the lease arrangement. Operating lease expense is recognized on a straight-line basis over the lease term.

In accordance with the guidance in ASU 2016-02, components of a lease should be split into three categories: lease components (e.g., land, building, etc.), non-lease components (e.g., common area maintenance, maintenance, consumables, etc.), and non-components (e.g., property taxes, insurance, etc.). Although separation of lease and non-lease components is required, certain practical expedients are available. In particular, entities may elect a practical expedient to not separate lease and non-lease components and instead account for each lease component and the related non-lease component together as a single component. The Company has elected to account for the lease and non-lease components of each of its operating leases as a single lease component and allocate all of the contract consideration to the lease component only. The lease component results in an operating lease right-of-use asset being recorded on the balance sheet and amortized on a straight-line basis as lease expense.

The finance lease assets and operating lease right-of-use assets are assessed for impairment in accordance with the Company's accounting policy for long-lived assets.

Derivative Financial Instruments

In the normal course of business, the Company's financial position is routinely subjected to market risk associated with foreign currency exchange rate fluctuations. The Company's policy is to mitigate the effect of these exchange rate fluctuations on certain foreign currency denominated business exposures. The Company has a policy that allows the use of derivative financial instruments to hedge foreign currency exchange rate fluctuations on forecasted revenue denominated in foreign currencies. The Company carries derivative financial instruments (derivatives) on the balance sheet at their fair values. The Company does not use derivatives for trading or speculative purposes. The Company does not believe that it is exposed to more than a nominal amount of credit risk in its foreign currency hedges, as counterparties are large, global and well-capitalized financial institutions. To hedge foreign currency risks, the Company uses foreign currency exchange forward contracts, where possible and prudent. These forward contracts are valued using standard valuation formulas with assumptions about future foreign currency exchange rates derived from existing exchange rates, interest rates, and other market factors.

The Company considers its most current forecast in determining the level of foreign currency denominated revenue to hedge as cash flow hedges. The Company combines these forecasts with historical trends to establish the portion of its expected volume to be hedged. The revenue and expenses are hedged and designated as cash flow hedges to protect the Company from exposures to fluctuations in foreign currency exchange rates. If the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, the related hedge gains and losses on the cash flow hedge are reclassified from accumulated other comprehensive loss to the consolidated statement of comprehensive loss at that time.

Income Taxes

The Company accounts for income taxes using an asset and liability approach, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the consolidated financial statements, but have not been reflected in taxable income. A valuation allowance is established to reduce deferred tax assets to their estimated realizable value. Therefore, the Company provides a valuation allowance to the extent that is more likely than not that it will generate sufficient taxable income in future periods to realize the benefit of its deferred tax assets. Deferred tax assets and liabilities are classified as noncurrent on the balance sheet.

Debt Issuance Costs and Royalty Rights

The Company follows the requirements of Accounting Standards Update 2015-03, Interest — Imputation of Interest (Subtopic 835-30) — Simplifying the Presentation of Debt Issuance Costs, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset.

On October 14, 2016, June 29, 2018 and May 15, 2019, the Company issued Secured Notes, and, on December 4, 2018, the Company amended the indenture governing the Secured Notes, which amendments became effective on December 18, 2018. In connection with these issuances and this amendment, the Company entered into royalty rights agreements with the subscribers and the consenting note holders, as applicable, which, as of September 30, 2019, provided for an aggregate amount of royalties payable thereunder of 3.4% of net sales of MosaiQ instruments and consumables made in the donor testing market in the United States and the European Union. All of these royalty rights agreements are treated as sales of future revenues that meet the requirements of Accounting Standards Codification Topic 470 “*Debt*” (“ASC 470”) to be treated as debt. The future cash outflows under the royalty rights agreements have been combined with the issuance costs (which includes the one-time consent payment of \$3.9 million paid to holders of our Secured Notes in December 2018) and interest payable to calculate the effective interest rate of the Secured Notes and will be expensed through interest expense in the consolidated statement of comprehensive loss using the effective interest rate method over the term of the Secured Notes and royalty rights agreements.

Pension Obligation

The Company maintains a pension plan covering employees in Switzerland pursuant to the requirements of Swiss pension law. Certain aspects of the plan require that it be accounted for as a defined benefit plan pursuant to Accounting Standards Codification Topic, 715 *Compensation – Retirement Benefits* (“ASC 715”). The Company recognizes an asset for the plan’s overfunded status or a liability for the plan’s underfunded status in its consolidated balance sheets. Additionally, the Company measures the plan’s assets and obligations that determine its funded status as of the end of the year and recognizes the change in the funded status within “Accumulated other comprehensive loss”. The service cost component of the net periodic benefit cost is disclosed in the same line item as other employee compensation costs arising from services rendered during the period, and the other components are reported separately from the line item that includes the service cost and within interest expense, net in the consolidated statement of comprehensive loss.

The Company uses an actuarial valuation to determine its pension benefit costs and credits. The amounts calculated depend on a variety of key assumptions, including discount rates and expected return on plan assets. Details of the assumptions used to determine the net funded status are set out in the notes to the Company’s audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2019. The Company’s pension plan assets are assigned to their respective levels in the fair value hierarchy in accordance with the valuation principles described in the “Fair Value of Financial Instruments” section above.

Adoption of New Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases* that requires lessees to recognize a right-of-use asset and a lease liability on their balance sheet for all leases with lease terms greater than 12 months but recognize expenses in their income statements in a manner similar to the previous guidance. ASU 2016-02 also requires new qualitative and quantitative disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The Company’s process of evaluating the impact of ASU 2016-02 has included reviewing all forms of leases and performing a completeness assessment over the lease population. The Company also performed detailed analysis to determine the appropriate incremental borrowing rates used to discount outstanding lease payments.

The Company adopted ASU 2016-02 on April 1, 2019. In adopting this standard the Company applied the package of practical expedients in ASU 2016-02 which allow an entity to not reassess whether any expired or existing contracts are or contain leases, lease classification of any expired or existing leases and the accounting for any initial direct costs on any expired or existing leases. The Company also elected the additional transitional approach prescribed under ASU 2018-11 to allow the Company to apply the new standard from the date of adoption, rather than adjusting comparative periods, and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

The results for the six month period to September 30, 2019 reflect the adoption of ASU 2016-02 guidance while the results for the six month period to September 30, 2018 and the year to March 31, 2019 were prepared under the guidance of the previous leasing standard (Accounting Standard Codification 840). The adoption of ASU 2016-02 has not had a material impact on the Company’s consolidated statements of comprehensive loss or consolidated statements of cash flows.

The adoption of ASU 2016-02 resulted in the following impact on its consolidated balance sheet:

- (i) no change in the carrying values of assets or liabilities related to the Company's finance leases,
- (ii) the recording of right-of-use assets and corresponding lease liabilities related to the Company's operating leases, adjusted for existing balances of accrued rent liabilities and deferred lease rental benefit, and
- (iii) adjustments to reclassify the deferred gain on a sale and leaseback transaction to accumulated deficit as of the transition date.

The cumulative effect of adopting ASU 2016-02 to all leases that had commenced at or prior to April 1, 2019 was as follows:

Balance sheet captions impacted by ASU 2016-02	31 March 2019 (prior to adoption of ASU 2016-02)	Effect of the adoption of ASU 2016-02	March 31, 2019 (As adjusted)
Operating lease right-of-use assets (1)	\$ —	\$ 18,478	\$ 18,478
Current portion of operating lease liability (2)	—	3,130	3,130
Operating lease liability less current portion (3)	—	16,564	16,564
Current portion of deferred lease rental benefit (4)	435	(435)	—
Deferred lease rental benefit, less current portion (5)	1,144	(1,144)	—
Accumulated deficit (6)	(381,025)	363	(380,662)

- (1) Recognition of operating lease right-of-use assets and adjusted for the accrued rent and deferred lease rental benefit reclassifications referred to in footnotes (4) and (5) below.
- (2) Recognition of current portion of operating lease liabilities.
- (3) Recognition of the long-term portion of operating lease liabilities.
- (4) Current portion of deferred gain on sale and lease back transaction transferred to accumulated deficit and reclassification of current portion of deferred lease rental benefit to operating lease right-of-use assets.
- (5) Long-term portion of deferred gain on sale and lease back transaction transferred to accumulated deficit and reclassification of accrued rent to operating lease right-of-use assets.
- (6) Transfer of deferred gain on sale and leaseback transaction to accumulated deficit.

The Company has included additional disclosures in Note 12 to its condensed consolidated financial statements regarding its leasing portfolio.

In the condensed consolidated statement of cash flows the non-cash amortization of deferred lease rental benefit and movements in other non-cash operating lease accruals in the six month period ended September 30, 2018 has been retitled as increase in deferred lease rentals.

Recent Accounting Pronouncements Not Yet Adopted

In August 2018, the FASB issued ASU 2018-14, "Compensation Retirement Benefits - Defined Benefit Plans -General (Subtopic 715-20)" or ASU 2018-14. ASU 2018-14 removes the requirements to disclose the amounts in accumulated other comprehensive income (loss) expected to be recognized as components of net periodic benefit cost over the next fiscal year and other disclosure requirements. In addition, the ASU adds the requirement to disclose an explanation for any significant gains and losses related to changes in the benefit obligation for the period. The ASU is effective for fiscal years ending after December 15, 2020 and will be applied on a retrospective basis to all periods presented. Early adoption is permitted. The Company continues to evaluate the impact that adoption of this guidance will have on its consolidated financial statements and related disclosures, but does not expect it to have a material impact.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses". The standard requires a financial asset measured on an amortized cost basis, such as accounts receivable, to be presented at the net amount expected to be collected based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, and requires the modified retrospective approach. Early adoption is permitted. The Company continues to evaluate the impact that adoption of this guidance will have on its consolidated financial statements and related disclosures, but does not expect it to have a material impact.

Note 3. Intangible Assets

September 30, 2019				
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Useful Life
Customer relationships	\$ 2,421	\$ (2,421)	\$ —	—
Brands associated with acquired cell lines	499	(151)	348	27.9 years
Product licenses	844	(529)	315	3.7 years
Other intangibles	157	(157)	—	—
Total	<u>\$ 3,921</u>	<u>\$ (3,258)</u>	<u>\$ 663</u>	16.4 years

March 31, 2019				
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Useful Life
Customer relationships	\$ 2,564	\$ (2,564)	\$ —	—
Brands associated with acquired cell lines	529	(153)	376	28.4 years
Product licenses	890	(515)	375	4.2 years
Other intangibles	167	(167)	—	—
Total	<u>\$ 4,150</u>	<u>\$ (3,399)</u>	<u>\$ 751</u>	16.3 years

Note 4. Debt

Long-term debt comprises:

	September 30, 2019	March 31, 2019
Total debt	\$ 145,000	\$ 120,000
Less current portion	—	—
Long-term debt	\$ 145,000	\$ 120,000
Deferred debt costs and royalty liability, net of amortization	6,021	1,855
	<u>\$ 151,021</u>	<u>\$ 121,855</u>

The Company's debt at September 30, 2019 comprises the Secured Notes. On October 14, 2016, the Company completed the private placement of up to \$120 million aggregate principal amount of the Secured Notes and entered into an indenture governing the Secured Notes with the guarantors party thereto and U.S. Bank National Association, a national banking association, as trustee and collateral agent. The Company issued \$84 million aggregate principal amount of the Secured Notes on October 14, 2016 and an additional \$36 million aggregate principal amount of the Secured Notes on June 29, 2018. On December 18, 2018, the Company also completed certain amendments to the indenture governing the Secured Notes. The amendments included an increase to the aggregate principal amount of Secured Notes that can be issued under the indenture from \$120 million to up to \$145 million following the European CE Marking of the Company's initial MosaiQ IH Microarray. On April 30, 2019, the Company was notified that it had received the European CE Marking of the initial MosaiQ IH Microarray and, on May 15, 2019, the Company issued the additional \$25 million of Secured Notes.

The obligations of the Company under the indenture and the Secured Notes are unconditionally guaranteed on a secured basis by the guarantors, which include all the Company's subsidiaries, and the indenture governing the Secured Notes contains customary events of default. The Company and its subsidiaries must also comply with certain customary affirmative and negative covenants, including a requirement to maintain six-months of interest in a cash reserve account maintained with the collateral agent. Upon the occurrence of a Change of Control, subject to certain conditions, or certain Asset Sales (each, as defined in the indenture), holders of the Secured Notes may require the Company to repurchase for cash all or part of their Secured Notes at a repurchase price equal to 101% or 100%, respectively, of the principal amount of the Secured Notes to be repurchased, plus accrued and unpaid interest to the date of repurchase.

The Company paid \$8.7 million of the total proceeds of the three issuances into the cash reserve account maintained with the collateral agent under the terms of the indenture, \$1.5 million of which related to the third issuance on May 15, 2019.

Interest on the Secured Notes accrues at a rate of 12% per annum and is payable semi-annually on April 15 and October 15 of each year commencing on April 15, 2017. Commencing on April 15, 2021, the Company will also pay an installment of principal of the Secured Notes on each April 15 and October 15 until April 15, 2024 pursuant to a fixed amortization schedule.

In connection with the three issuances of the Secured Notes as well as the amendment of the related indenture, the Company has entered into royalty rights agreements, pursuant to which the Company has agreed to pay 3.4% of the aggregate net sales of MosaiQ instruments and consumables made in the donor testing market in the United States and the European Union. The royalties will be payable beginning on the date that the Company or its affiliates makes its first sale of MosaiQ consumables in the donor testing market in the European Union or the United States and will end on the last day of the calendar quarter in which the eighth anniversary of the first sale date occurs. The royalty rights agreements are treated as sales of future revenues that meet the requirements of Accounting Standards Codification Topic 470 "Debt" to be treated as debt. The estimated future cash outflows under the royalty rights agreements have been combined with the Secured Notes issuance costs and interest payable to calculate the effective interest rate of the Secured Notes and will be expensed through interest expenses using the effective interest rate method over the term of the Secured Notes and such royalty rights agreements. Estimating the future cash outflows under the royalty rights agreements requires the Company to make certain estimates and assumptions about future sales of MosaiQ products. These estimates of the magnitude and timing of MosaiQ sales are subject to significant variability due to the current status of development of MosaiQ products, and thus are subject to significant uncertainty. Therefore, the estimates are likely to change as the Company gains experience of marketing MosaiQ, which may result in future adjustments to the accretion of the interest expense and amortized cost based carrying value of the Secured Notes.

At September 30, 2019, the outstanding debt was repayable as follows:

Within 1 year	\$	—
Between 1 and 2 years		12,083
Between 2 and 3 years		30,208
Between 3 and 4 years		48,334
Between 4 and 5 years		54,375
Total debt	\$	<u>145,000</u>

Note 5. Consolidated Balance Sheet Detail

Inventory

The following table summarizes inventory by category for the dates presented:

	September 30, 2019	March 31, 2019
Raw materials	\$ 8,581	\$ 8,216
Work in progress	6,826	4,959
Finished goods	2,653	2,376
Total inventories	<u>\$ 18,060</u>	<u>\$ 15,551</u>

Inventory at September 30, 2019 included \$6,833 of raw materials, \$3,753 of work in progress and \$383 of finished goods related to the MosaiQ project. Inventory at March 31, 2019, included \$6,187 of raw materials and \$2,311 of work in progress and \$235 of finished goods related to the MosaiQ project.

Property and equipment

The following table summarizes property and equipment by categories for the dates presented:

	September 30, 2019	March 31, 2019
Plant and equipment	\$ 52,424	\$ 51,327
Leasehold improvements	30,620	32,047
Total property and equipment	83,044	83,374
Less: accumulated depreciation	(41,003)	(36,081)
Total property and equipment, net	<u>\$ 42,041</u>	<u>\$ 47,293</u>

Depreciation expenses were \$3,009 and \$3,063 in the quarters ended September 30, 2019 and September 30, 2018, respectively, and \$6,022 and \$6,370 in the six month periods ended September 30, 2019 and 2018, respectively.

Accrued compensation and benefits

Accrued compensation and benefits consist of the following:

	September 30, 2019	March 31, 2019
Salary and related benefits	\$ 1,215	\$ 638
Accrued vacation	321	495
Accrued payroll taxes	1,166	1,316
Accrued incentive payments	1,500	3,700
Total accrued compensation and benefits	<u>\$ 4,202</u>	<u>\$ 6,149</u>

Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	September 30, 2019	March 31, 2019
Accrued legal and professional fees	\$ 534	\$ 405
Accrued interest	7,802	6,628
Goods received not invoiced	1,355	1,337
Accrued capital expenditure	737	801
Other accrued expenses	3,083	3,287
Total accrued expenses and other current liabilities	<u>\$ 13,511</u>	<u>\$ 12,458</u>

Note 6. Commitments and Contingencies

Hedging arrangements

The Company's subsidiary in the United Kingdom ("UK") has entered into three contracts to sell \$500 and purchase pounds sterling at £1:\$1.3180 in each calendar month from October 2019 through December 2019, three contracts to sell \$500 and purchase pounds sterling at £1:\$1.3245 in each calendar month from January 2020 through March 2020, three contracts to sell \$500 and purchase pounds sterling at £1:\$1.30 in each calendar month from April 2020 through June 2020, and three contracts to sell \$500 and purchase pounds sterling at £1:\$1.28 in each calendar month from July 2020 through September 2020 as hedges of its U.S. dollar denominated revenues.

Fair value measurements

The following table summarizes the Company's assets and liabilities that are measured at fair value on a recurring basis, by level, within the fair value hierarchy:

	September 30, 2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Pension plan assets ⁽¹⁾	\$ —	\$ 10,952	\$ —	\$ 10,952
Short-term investments ⁽²⁾	66,997	—	—	66,997
Total assets measured at fair value	<u>\$ 66,997</u>	<u>\$ 10,952</u>	<u>\$ —</u>	<u>\$ 77,949</u>
	September 30, 2019			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Foreign currency forward contracts ⁽³⁾	\$ —	\$ 348	\$ —	\$ 348
Total liabilities measured at fair value	<u>\$ —</u>	<u>\$ 348</u>	<u>\$ —</u>	<u>\$ 348</u>

	March 31, 2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Pension plan assets ⁽¹⁾	\$ —	\$ 10,416	\$ —	\$ 10,416
Short-term investments ⁽²⁾	90,729	—	—	90,729
Total assets measured at fair value	<u>\$ 90,729</u>	<u>\$ 10,416</u>	<u>\$ —</u>	<u>\$ 101,145</u>

	March 31, 2019			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Foreign currency forward contracts ⁽³⁾	\$ —	\$ 70	\$ —	\$ 70
Total liabilities measured at fair value	<u>\$ —</u>	<u>\$ 70</u>	<u>\$ —</u>	<u>\$ 70</u>

- (1) The fair value of pension plan assets has been determined as the surrender value of the portfolio of active insured employees held within the Swiss Life collective investment fund. See Note 10, "Defined Benefit Pension Plans".
- (2) The fair value of short-term investments has been determined based on the quoted value of the units held in the money market fund at the balance sheet date. See Note 2, "Summary of Significant Accounting Policies – Short-term Investments".
- (3) The fair value of foreign currency forward contracts has been determined by calculating the present value of future cash flows, estimated using market-based observable inputs including forward and spot exchange rates and interest rate curves obtained from third party market price quotations.

Note 7. Ordinary and Preference Shares

Ordinary shares

The Company's issued and outstanding ordinary shares were as follows:

	Shares Issued and Outstanding		Par value
	September 30, 2019	March 31, 2019	
Ordinary shares	66,366,706	65,900,447	\$ —
Total	<u>66,366,706</u>	<u>65,900,447</u>	<u>\$ —</u>

Preference shares

The Company's issued and outstanding preference shares consist of the following:

	Shares Issued and Outstanding		Liquidation amount per share	
	September 30, 2019	March 31, 2019	September 30, 2019	March 31, 2019
7% Cumulative Redeemable Preference shares	666,665	666,665	\$ 29.85	\$ 29.06
Total	<u>666,665</u>	<u>666,665</u>		

ATM Offering

On May 31, 2019, the Company entered into an Open Market Sale Agreement (the “Sale Agreement”) with Jefferies LLC, as sales agent and/or principal (“Jefferies”), pursuant to which the Company may issue and sell from time to time up to an aggregate of \$80 million of the Company’s ordinary shares (the “Maximum Program Amount”). Sales of the shares, if any, pursuant to the Sale Agreement, may be made by any method that is deemed to be an “at-the-market offering” as defined in Rule 415(a)(4) promulgated under the Securities Act, including sales made directly on or through The Nasdaq Global Market, or any other existing trading market for the Company’s ordinary shares, sales made to or through a market maker other than on an exchange or otherwise, in negotiated transactions with the Company’s consent at market prices prevailing at the time of sale or prices related to such prevailing market prices, and/or any other method permitted by law. Under the terms of the Sale Agreement, the Company will pay Jefferies a commission equal to 3% of the gross proceeds of the shares sold through it under the Sale Agreement.

The Company has no obligation to sell any of the shares under the Sale Agreement, and may at any time suspend offers under the Sale Agreement upon proper notice to Jefferies or terminate the Sale Agreement upon one trading day’s written notice. In addition, the Maximum Program Amount is subject to adjustment pursuant to the terms of the Sales Agreement under certain circumstances, including based on the number or dollar amount of shares that are registered under the Company’s Registration Statement on Form S-3 (File No. 333-226800) and the number or dollar amount of shares that the Company is permitted to sell thereunder. The Company intends to use the net proceeds of the offering to fund the ongoing scale up and commercialization of MosaiQ and for working capital and other general corporate purposes. At September 30, 2019, no shares had been issued or sold under the Sale Agreement.

Note 8. Share-Based Compensation

The Company records share-based compensation expense in respect of options, multi-year performance based restricted share units (“MRSUs”) and restricted share units (“RSUs”) issued under its share incentive plans. Share-based compensation expense amounted to \$1,001 and \$1,155 in the quarters ended September 30, 2019 and September 30, 2018, respectively, and \$2,179 and \$2,503 in the six month periods ended September 30, 2019 and September 30, 2018, respectively.

Share option activity

The following table summarizes share option activity:

	Number of Share Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Months)
Outstanding — March 31, 2019	1,936,397	\$ 7.77	78
Granted	28,517	10.52	120
Exercised	(84,610)	4.67	—
Forfeited	(64,887)	13.01	—
Outstanding — September 30, 2019	1,815,417	\$ 7.77	73
Exercisable — September 30, 2019	1,466,013	\$ 8.03	67

The closing price of the Company’s ordinary shares on The Nasdaq Global Market at September 30, 2019 was \$7.77.

The following table summarizes the options granted in the current financial year with their exercise prices, the fair value of ordinary shares as of the applicable grant date, and the intrinsic value:

Grant Date	Number of Options Granted	Exercise Price	Ordinary Shares Fair Value Per Share at Grant Date	Per Share Intrinsic Value of Options
July 16, 2019	28,517	\$ 10.52	\$ 10.52	\$ 6.48

Determining the fair value of share incentive awards

The fair value of each share incentive grant was determined by the Company using the Black-Scholes options pricing model.

Assumptions used in the option pricing models are discussed below. Each of these inputs is subjective and generally requires significant judgment to determine.

Expected volatility. The expected volatility was based on the historical share volatilities of a number of the Company's publicly listed peers over a period equal to the expected terms of the options, as the Company did not have a sufficient trading history to use the volatility of its own ordinary shares.

Fair value of ordinary shares. The fair value of the ordinary shares was based upon the closing price of the Company's shares on The Nasdaq Global Market on the last trading day prior to the date of grant.

Risk-Free Interest Rate. The risk-free interest rate was based on the US Treasury 10-year bond yield in effect at the time of grant.

Expected term. The expected term was determined after giving consideration to the contractual terms of the share-based awards, graded vesting schedules ranging from one to three years and expectations of future employee behavior as influenced by changes to the terms of the Company's share-based awards.

Expected dividend. According to the terms of the awards, the exercise price of the options is adjusted to take into account any dividends paid. As a result dividends were not required as an input to the model, as these reductions in the share price are offset by a corresponding reduction in exercise price.

A summary of the assumptions applicable to the share options issued in the current financial year is as follows:

	<u>July 16, 2019</u>
Risk-free interest rate	2.10%
Expected lives (years)	6
Volatility	67.39%
Dividend yield	—
Grant date fair value (per share)	\$ 10.52
Number granted	28,517

A summary of the RSUs and MRSUs in issue at September 30, 2019 is as follows:

	<u>Number of RSUs or MRSUs Outstanding</u>	<u>Weighted Average Remaining Vesting Period (Months)</u>	<u>Period in which the target must be achieved</u>
RSUs subject to time based vesting	685,383	11	N/A
RSUs subject to milestone based vesting	55,000	N/A	N/A
MRSUs with vesting based on \$22 share price	106,000	N/A	Apr - Dec 2019

At September 30, 2019, 685,383 RSUs were subject to time-based vesting and the weighted average remaining vesting period was 11 months. In addition, 55,000 RSUs were subject to vesting based on the achievement of various business milestones related mainly to the development, approval and marketing of MosaiQ. The MRSUs in issue at September 30, 2019 comprised 106,000 MRSUs which will vest between April 1, 2019 and December 31, 2019 if the Company's ordinary share price exceeds \$22 for 20 consecutive days in this period.

Note 9. Income Taxes

A reconciliation of the income tax expense at the statutory rate to the provision for income taxes is as follows:

	Quarter ended		Six months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Income tax expense at statutory rate	\$ —	\$ —	\$ —	\$ —
Foreign tax rate differential	(679)	(1,307)	(1,599)	(2,369)
Increase in valuation allowance against deferred tax assets	693	1,318	1,626	2,391
Provision for income tax	<u>\$ 14</u>	<u>\$ 11</u>	<u>\$ 27</u>	<u>\$ 22</u>

Significant components of deferred tax are as follows:

	September 30, 2019	March 31, 2019
Provisions and reserves	\$ 1,426	\$ 1,442
Fixed asset basis difference	23	34
Net operating loss carry forwards	18,956	17,330
Gross deferred tax assets	\$ 20,405	\$ 18,806
Net deferred tax asset	<u>\$ 20,405</u>	<u>\$ 18,806</u>
Valuation allowance	(19,827)	(18,201)
Total	<u>\$ 578</u>	<u>\$ 605</u>

The balance sheet classification of deferred tax is as follows:

	September 30, 2019	March 31, 2019
Net noncurrent deferred tax assets	\$ 578	\$ 605
Total	<u>\$ 578</u>	<u>\$ 605</u>

In connection with the sale and leaseback transaction of the Biocampus facility that was completed in March 2018, the Company has agreed to transfer tax allowances related to certain other property, plant and equipment to the purchaser of the facility. An election to effect the transfer of these allowances to the purchaser has been made, but due to uncertainty regarding whether the election will be effective, the tax effect of the transfer of the allowances has not been recorded in the financial statements as at September 30, 2019. If the transfer of the allowances was regarded as being effective at September 30, 2019, the financial statements would reflect an additional deferred tax expense of \$1,023 and an equivalent deferred tax liability. The Company will continue to monitor the position regarding the effectiveness of the election to transfer the allowances in order to determine whether the deferred tax liability should be recorded.

Note 10. Defined Benefit Pension Plans

The Company's Swiss subsidiary has a fully insured pension plan managed by Swiss Life. The costs of this plan were:

	Quarter ended		Six months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Employer service cost	\$ 450	\$ 400	\$ 906	\$ 795
Interest cost	31	39	62	77
Expected return on plan assets	(31)	(33)	(62)	(66)
Amortization of prior service credit	(5)	(4)	(11)	(7)
Amortization of net loss	53	39	107	78
Net pension cost	<u>\$ 498</u>	<u>\$ 441</u>	<u>\$ 1,002</u>	<u>\$ 877</u>

The employer contributions for the six month periods ended September 30, 2019 and September 30, 2018 were \$638 and \$569, respectively. The estimated employer contributions for the fiscal year ending March 31, 2020 are \$1,208.

Note 11. Net Loss Per Share

In accordance with Accounting Standards Codification Topic 260 "Earnings Per Share", basic earnings available to ordinary shareholders per share is computed based on the weighted average number of ordinary shares outstanding during each period. Diluted earnings available to ordinary shareholders per share is computed based on the weighted average number of ordinary shares outstanding during each period, plus potential ordinary shares considered outstanding during the period, as long as the inclusion of such shares is not anti-dilutive. Potential ordinary shares consist of the incremental ordinary shares issuable upon the exercise of share options (using the treasury shares method), the warrants to acquire ordinary shares and the ordinary shares issuable upon vesting of the MRSUs and RSUs.

The following table sets forth the computation of basic and diluted earnings per ordinary share:

	Quarter ended September 30,		Six months ended September 30,	
	2019	2018	2019	2018
Numerator:				
Net loss	\$ (26,990)	\$ (27,362)	\$ (50,561)	\$ (52,538)
Net loss available to ordinary shareholders - basic and diluted	<u>\$ (26,990)</u>	<u>\$ (27,362)</u>	<u>\$ (50,561)</u>	<u>\$ (52,538)</u>
Denominator:				
Weighted-average shares outstanding - basic and diluted	<u>66,291,548</u>	<u>52,059,037</u>	<u>66,185,501</u>	<u>48,944,896</u>
Loss per share - basic and diluted	\$ (0.41)	\$ (0.53)	\$ (0.76)	\$ (1.07)

The following table sets out the numbers of ordinary shares excluded from the above computation of earnings per share at September 30, 2019 and September 30, 2018 as their inclusion would have been anti-dilutive:

	September 30, 2019	September 30, 2018
Ordinary shares issuable on exercise of options to purchase ordinary shares	1,815,417	2,099,306
Restricted share units awarded, including the multi-year performance related restricted share units	846,383	1,071,256
Ordinary shares issuable on exercise of warrants at \$16.14 per share	111,525	111,525
Ordinary shares issuable on exercise of warrants at \$9.375 per share	64,000	64,000
Ordinary shares issuable on exercise of warrants at \$0.01 per share	—	550,000
	<u>2,837,325</u>	<u>3,896,087</u>

12. Lease Commitments

The Company has operating lease commitments for real estate and certain equipment in the United States, the United Kingdom, the Republic of Ireland and Switzerland. There are no sublease agreements in place. The Company has finance lease commitments for equipment in the United Kingdom and Switzerland.

The Company leases an 87,200 square foot conventional reagents manufacturing facility, with integrated offices and laboratories, in Edinburgh, Scotland. This lease commenced in March 2018, following completion of a sale and leaseback transaction, and expires in September 2052. Rent is recognized in the consolidated statement of comprehensive loss on a straight-line basis over the lease term. Additionally, the lease required the Company to provide a rent deposit of £3.6 million, which amounted to \$4.4 million at September 30, 2019 and \$4.7 million at March 31, 2019, and is included within other non-current assets in the consolidated balance sheets. In March 2015, the Company signed a five-year lease agreement for its corporate headquarters and MosaiQ manufacturing facility in Eysins, Switzerland. This lease was extended for a further five-year period to March 14, 2025. The Company also leases office space for commercial and development activities under one to three-year lease agreements in Newtown PA, Chapel Hill NC and Dublin, Republic of Ireland.

The operating lease commitments relating to equipment are not material. The finance lease commitments relate to specialized equipment required for manufacturing operations in both Edinburgh, Scotland and Eysins, Switzerland.

Many of the Company's leases contain options to renew and extend lease terms and options to terminate leases early. Reflected in the right-of-use asset and lease liability on the Company's balance sheet are the periods provided by renewal and extension options that the Company is reasonably certain to exercise, as well as the periods provided by termination options that the Company is reasonably certain not to exercise. The Company does not have any existing lease agreements with variable lease components.

In calculating the present value of future lease payments, the Company has elected to utilize its incremental borrowing rate based on the remaining lease term at the date of adoption. Incremental borrowing rates are the rates incurred to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. The Company has elected to account for each lease component and its associated non-lease component as a single lease component and has allocated all the contract consideration across the lease component only. There are no material non-lease components. As of September 30, 2019, an operating lease right-of-use asset of \$21,305 and an operating lease liability of \$22,630 (including a current portion of \$2,822) were reflected on the condensed consolidated balance sheet. As of September 30, 2019, the Company had entered into finance leases for the purchase of plant and equipment that had net book values of \$1,642. An associated finance lease liability of \$1,063 (including a current portion of \$443) was reflected on the condensed consolidated balance sheet.

The elements of lease expense were as follows:

	Quarter ended September 30, 2019	Six months ended September 30, 2019
Operating lease cost	\$ 908	\$ 1,810
Finance lease cost		
Amortization of right-of-use asset	54	109
Interest on lease liabilities	27	55
Short-term lease cost	17	34
Total lease cost	<u>\$ 1,006</u>	<u>\$ 2,008</u>

Other information related to leases was as follows:

	Six months ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities	
Operating leases - operating cash flows	\$ 1,476
Finance leases - finance cash flows	\$ 210
Finance leases - operating cash flows	\$ 44
Non-cash leases activity	
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 4,625
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 28
	<u>As at September 30, 2019</u>
Weighted average remaining lease terms (in years)	
Operating leases	30.4
Finance leases	2.4
Weighted average discount rate	
Operating leases	10.0%
Finance leases	7.4%

Future lease payments required under non-cancellable operating leases in effect as of September 30, 2019 were as follows:

	September 30, 2019
2020 (excluding the six months ended September 30, 2019)	\$ 1,637
2021	3,052
2022	3,036
2023	3,004
2024	3,009
Thereafter	68,790
Total lease payments	\$ 82,528
Less : imputed interest	(59,898)
Total operating lease liabilities	<u>\$ 22,630</u>

Future lease payments required under finance leases in effect as of September 30, 2019 were as follows:

	September 30, 2019
2020 (excluding the six months ended September 30, 2019)	\$ 253
2021	408
2022	325
2023	196
Total lease payments	\$ 1,182
Less : imputed interest	(119)
Total finance lease liabilities	<u>\$ 1,063</u>

The Company adopted ASU 2016-02 on April 1, 2019 and, as required, the following disclosure is provided for periods prior to adoption. Future minimum lease payments required under non-cancellable operating leases in effect as of March 31, 2019 were as follows:

	March 31, 2019
2020	\$ 3,387
2021	1,861
2022	1,858
2023	1,830
2024	1,841
Thereafter	71,507
Total minimum future lease payments	<u>\$ 82,284</u>

Future annual lease payments required under finance leases in effect as of March 31, 2019 were as follows:

	March 31, 2019
2020	471
2021	369
2022	306
2023	190
Thereafter	—
Total minimum future lease payments	<u>\$ 1,336</u>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the corresponding section of our Annual Report on Form 10-K for the year ended March 31, 2019 filed with the SEC on May 29, 2019.

The information set forth and discussed below for the quarters and six month periods ended September 30, 2019 and September 30, 2018 is derived from the condensed consolidated financial statements included under Item 1 above. The financial information set forth and discussed below is unaudited but includes all adjustments (consisting of normal recurring adjustments) that our management considers necessary for a fair presentation of the financial position and the operating results and cash flows for those periods. Our results of operations for a particular quarter may not be indicative of the results that may be expected for other quarters or the entire year.

In addition to historical financial information, the following discussion contains forward looking statements that reflect our plans, estimates, beliefs and expectations that involve risks and uncertainties. Our actual results and the timing of events could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report, and our Annual Report on Form 10-K for the year ended March 31, 2019, particularly in "Risk Factors."

Overview

We were incorporated in Jersey, Channel Islands on January 18, 2012. On February 16, 2012, we acquired the entire issued share capital of Alba Bioscience Limited (or Alba), Quotient Biodiagnostics, Inc. (or QBDI) and QBD (QSIP) Limited (or QSIP) from Quotient Biodiagnostics Group Limited (or QBDG), our predecessor.

Our Business

We are a commercial-stage diagnostics company committed to reducing healthcare costs and improving patient care through the provision of innovative tests within established markets. Our initial focus is on blood grouping and donor disease screening, which is commonly referred to as transfusion diagnostics. Blood grouping involves specific procedures performed at donor or patient testing laboratories to characterize blood, which includes antigen typing and antibody detection. Disease screening involves the screening of donor blood for unwanted pathogens using two different methods, a serological approach (testing for specific antigens or antibodies) and a molecular approach (testing for DNA or RNA).

We have over 30 years of experience developing, manufacturing and commercializing conventional reagent products used for blood grouping within the global transfusion diagnostics market. We are developing MosaiQ, our proprietary technology platform, to better address the comprehensive needs of this large and established market. We believe MosaiQ has the potential to transform transfusion diagnostics, significantly reducing the cost of blood grouping in the donor and patient testing environments, while improving patient outcomes.

We currently operate as one business segment with 419 employees in the United Kingdom, Switzerland and the United States, as of September 30, 2019. Our principal markets are the United States, Europe and Japan. Based on the location of the customer, revenues outside the United States accounted for 44% of total revenue during the six month ended September 30, 2019 and 51% during the six month period ended September 30, 2018.

We have incurred net losses and negative cash flows from operations in each year since we commenced operations in 2007. As of September 30, 2019, we had an accumulated deficit of \$431.2 million. We expect our operating losses to continue for at least the remainder of the current year as we continue our investment in the commercialization of MosaiQ. For the six month period ended September 30, 2019, our total revenue was \$16.0 million and our net loss was \$50.6 million.

From our incorporation in 2012 to March 31, 2019, we have raised \$160.0 million of gross proceeds through the private placement of our ordinary and preference shares and warrants, \$250.1 million of gross proceeds from public offerings of our shares and issuances of ordinary shares upon exercise of warrants and \$120.0 million of gross proceeds from the issuance of 12% Senior Secured Notes, or the "Secured Notes".

On May 15, 2019, we issued an additional \$25.0 million aggregate principal amount of the Secured Notes. On May 15, 2019, we paid \$1.5 million of the net proceeds of the issuance into the cash reserve account maintained with the collateral agent under the terms of the indenture governing the Secured Notes, which together with the \$7.2 million paid into the cash reserve account in respect of previous issuances, brought the total in the cash reserve account to \$8.7 million at September 30, 2019.

On May 31, 2019, we entered into an Open Market Sale Agreement, or the “Sale Agreement”, with Jefferies LLC, as sales agent and/or principal, or “Jefferies”, pursuant to which we may issue and sell from time to time up to an aggregate of \$80 million of our ordinary shares, or the “Maximum Program Amount”. Sales of the shares, if any, pursuant to the Sale Agreement, may be made by any method that is deemed to be an “at-the-market offering” as defined in Rule 415(a)(4) promulgated under the Securities Act, including sales made directly on or through The Nasdaq Global Market, or any other existing trading market for our ordinary shares, sales made to or through a market maker other than on an exchange or otherwise, in negotiated transactions with our consent at market prices prevailing at the time of sale or prices related to such prevailing market prices, and/or any other method permitted by law. Under the terms of the Sale Agreement, we will pay Jefferies a commission equal to 3% of the gross proceeds of the shares sold through it under the Sale Agreement.

We have no obligation to sell any of the shares under the Sale Agreement, and may at any time suspend offers under the Sale Agreement upon proper notice to Jefferies or terminate the Sale Agreement upon one trading day’s written notice. In addition, the Maximum Program Amount is subject to adjustment pursuant to the terms of the Sales Agreement under certain circumstances, including based on the number or dollar amount of shares that are registered under our Registration Statement on Form S-3 (File No. 333-226800) and the number or dollar amount of shares that we are permitted to sell thereunder. We intend to use the net proceeds of the offering to fund the ongoing scale up and commercialization of MosaiQ and for working capital and other general corporate purposes. At September 30, 2019, no shares had been issued or sold under the Sale Agreement.

As of September 30, 2019, we had available cash, cash equivalents and short-term investments of \$72.8 million and \$9.0 million of restricted cash held as part of the arrangements relating to our Secured Notes and the lease of our property in Eysins, Switzerland.

Regulatory and Commercial Milestones

You should read the following regulatory and commercial milestones update in conjunction with the discussion included under the sections “Item 1. Business” and “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended March 31, 2019 filed with the SEC on May 29, 2019.

- *Initial European Regulatory Approval* – we filed for European regulatory approval for our initial MosaiQ Immunoematology, or “IH”, microarray in late September 2018 and were notified of its approval on April 30, 2019.
- *European Commercialization* – following the CE mark for our initial IH microarray, we have commenced a hypercare launch with four of ten selected customers.
- *Ongoing Microarray Menu Development* – our planned activities for the expansion of our IH and Serological Disease Screening, or “SDS”, testing menus continue during the second half of calendar year 2019 and include the completion of the validation and verification concordance study for the expanded IH microarray menu which we announced in October 2019.
- *Field Trials* – we expect to commence European field trials with our expanded IH microarray menu in the fourth quarter of calendar year 2019 with U.S. field trial activity starting shortly thereafter. We have completed U.S. field trial activity for our initial SDS microarray and expect to commence European and U.S. field trials for our expanded SDS microarray in the first half of calendar year 2020.
- *Ongoing Regulatory Approval Process* – we completed a CE mark submission for our initial SDS microarray on June 30, 2019. We expect to file U.S. regulatory approval for our initial SDS microarray during the fourth quarter of calendar year 2019. U.S. and European regulatory submissions for our expanded IH microarray are expected during the first half of calendar year 2020 and for our expanded SDS microarray in the second half of calendar year 2020.

Ortho Distribution and Supply Agreement

You should read the following update regarding our distribution and supply agreement with Ortho-Clinical Diagnostics, Inc. (or Ortho) in conjunction with the discussion included under the sections “Item 1. Business” and “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended March 31, 2019 filed with the SEC on May 29, 2019.

We have a distribution and supply agreement with Ortho to sell and distribute MosaiQ Microarrays in certain markets, which we refer to as the Ortho Agreement. To date, we have realized no revenue under the Ortho Agreement. On September 27, 2019, we notified Ortho that it has materially breached certain of its obligations under the Ortho Agreement and that, if Ortho does not cure these breaches within 60 days from the date of our notice, we will have the right to terminate the Ortho Agreement. Ortho has advised us that it disagrees that it has breached the Ortho Agreement and has proposed the parties renegotiate the terms of the agreement. Under the Ortho Agreement, both we and Ortho have the right to refer disputes to arbitration. As of the date of this report, neither we nor Ortho have done so. We intend to continue good faith discussions with Ortho regarding this matter. However, due its ongoing nature, we cannot predict what actions we or Ortho may take or the impact it may have on our business, results of operations or financial condition, including our conventional reagent business with Ortho.

Our initial MosaiQ IH Microarray and our second, expanded MosaiQ IH Microarray are being developed for the donor testing market, with our initial focus being on Europe and the United States, while our third MosaiQ IH Microarray is being developed for the patient testing market. Under the Ortho Agreement, in Europe and the United States, we retain the rights to the donor testing market and Ortho has rights in the patient testing market. If we were to terminate the Ortho Agreement, we expect we would explore all available options for commercializing our MosaiQ IH Microarrays in the patient testing market. We do not know whether we would be successful in exploring such options, and to date we have not pursued them.

Revenue

We generate product sales revenue from the sale of conventional reagent products directly to hospitals, donor collection agencies and independent testing laboratories in the United States, the United Kingdom and to distributors in Europe and the rest of the world, and indirectly through sales to our original equipment manufacturer (or OEM) customers. We recognize revenues in the form of product sales when the goods are shipped. Products sold by standing purchase orders as a percentage of product sales revenue were 70% and 67% for the six month periods ended September 30, 2019 and September 30, 2018, respectively. We also provide product development services to our OEM customers. We recognize revenue from these contractual relationships in the form of product development fees, which are included in other revenues. For a description of our revenue recognition policies, see “—Critical Accounting Policies and Significant Judgments and Estimates—Revenue Recognition and Accounts Receivable.”

Our revenue is denominated in multiple currencies. Sales in the United States and to certain of our OEM customers are denominated in U.S. Dollars. Sales in Europe and the rest of the world are denominated primarily in U.S. Dollars, Pounds Sterling or Euros. Our expenses are generally denominated in the currencies in which our operations are located, which are primarily in the United Kingdom, Switzerland and the United States. We operate globally and therefore changes in foreign currency exchange rates may become material to us in the future due to factors beyond our control. See “—Quantitative and Qualitative Disclosure About Market Risk—Foreign Currency Exchange Risk.”

Cost of revenue and operating expenses

Cost of revenue consists of direct labor expenses, including employee benefits, overhead expenses, material costs and freight costs, along with the depreciation of manufacturing equipment and leasehold improvements. Our gross profit represents total revenue less the cost of revenue, gross margin represents gross profit expressed as a percentage of total revenue, and gross margin on product sales represents gross margin excluding other revenues as a percentage of revenues excluding other revenues. We expect our overall cost of revenue to increase in absolute U.S. Dollars as we continue to increase our product sales volumes. However, we also believe that we can achieve efficiencies in our manufacturing operations, primarily through increasing production volumes.

Our sales and marketing expenses include costs associated with our sales organization for conventional reagent products, including our direct sales force, as well as our marketing and customer service personnel and the costs of the MosaiQ commercial team. These expenses consist principally of salaries, commissions, bonuses and employee benefits, as well as travel and other costs related to our sales and product marketing activities. We expense all sales and marketing costs as incurred. We expect sales and marketing expense to increase in absolute U.S. Dollars, primarily as a result of commissions on increased product sales in the United States and as we grow the MosaiQ commercial team.

Our research and development expenses include costs associated with performing research, development, field trials and our regulatory activities, as well as production costs incurred in advance of the commercial launch of MosaiQ. Research and development expenses include research personnel-related expenses, fees for contractual and consulting services, travel costs, laboratory supplies and depreciation of laboratory equipment.

We expense all research and development costs as incurred, net of government grants received and tax credits. Our UK subsidiary claims certain tax credits on its research and development expenditures and these are included as an offset to our research and development expenses. Our research and development efforts are focused on developing new products and technologies for the global transfusion diagnostics market. We segregate research and development expenses for the MosaiQ project from expenses for other

research and development projects. We do not maintain detailed records of these other costs by activity. We are nearing completion of the initial development of MosaiQ and as we move to commercialization, we expect overall research and development expense to decrease.

Our general and administrative expenses include costs for our executive, accounting and finance, legal, corporate development, information technology and human resources functions. We expense all general and administrative expenses as incurred. These expenses consist principally of salaries, bonuses and employee benefits for the personnel performing these functions, including travel costs. These expenses also include share-based compensation, professional service fees (such as audit, tax and legal fees), costs related to our Board of Directors, and general corporate overhead costs, which include depreciation and amortization. We expect our general and administrative expenses to increase as our business develops and also due to the costs of operating as a public company, such as additional legal, accounting and corporate governance expenses, including expenses related to compliance with the Sarbanes-Oxley Act, directors' and officers' insurance premiums and investor relations expenses.

Net interest expense consists primarily of interest charges on our Secured Notes and the amortization of debt issuance costs (which includes amortization of the one-time consent payment of \$3.9 million paid to holders of our Secured Notes in December 2018), as well as accrued dividends on the 7% cumulative redeemable preference shares issued in January 2015. We amortize debt issuance costs over the life of the Secured Notes and report them as interest expense in our statements of operations. Net interest also includes the expected costs of the royalty rights agreements we entered into in October 2016, June 2018, December 2018 and May 2019 with the purchasers and consenting note holders, as applicable, of our Secured Notes. See Note 4 "Debt" and Note 7 "Ordinary and Preference Shares – Preference shares" to our condensed consolidated financial statements included in this Quarterly Report for additional information.

Other income (expense), net consists primarily of exchange fluctuations. These include realized exchange fluctuations resulting from the settlement of transactions in currencies other than the functional currencies of our businesses. Monetary assets and liabilities that are denominated in foreign currencies are measured at the period-end closing rate with resulting unrealized exchange fluctuations. The functional currencies of our businesses are Pounds Sterling, Swiss Francs and U.S. Dollars depending on the entity.

Provision for income taxes in the six month period ended September 30, 2019 reflects a reduction in the net operating losses available to be carried forward in a subsidiary as a result of the offset of historic tax losses against the profits of this subsidiary.

Results of Operations

Comparison of the Quarters ended September 30, 2019 and 2018

The following table sets forth, for the periods indicated, the amounts of certain components of our statements of operations and the percentage of total revenue represented by these items, showing period-to-period changes.

	Quarter ended September 30,					
	2019		2018		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Revenue:						
Product sales	\$ 7,096	90%	\$ 6,247	100%	\$ 849	14%
Other revenues	750	10%	—	0%	750	—
Total revenue	7,846	100%	6,247	100%	1,599	26%
Cost of revenue	3,970	51%	4,552	73%	(582)	-13%
Gross profit	3,876	49%	1,695	27%	2,181	129%
Operating expenses:						
Sales and marketing	2,253	29%	1,845	30%	408	22%
Research and development	13,083	167%	12,998	208%	85	1%
General and administrative	6,981	89%	7,916	127%	(935)	-12%
Total operating expenses	22,317	284%	22,759	364%	(442)	-2%
Operating loss	(18,441)	-235%	(21,064)	-337%	2,623	-12%
Other income (expense):						
Interest expense, net	(7,291)	-93%	(5,819)	-93%	(1,472)	25%
Other, net	(1,244)	-16%	(468)	-7%	(776)	166%
Total other expense, net	(8,535)	-109%	(6,287)	-101%	(2,248)	36%
Loss before income taxes	(26,976)	-344%	(27,351)	-438%	375	-1%
Provision for income taxes	(14)	—	(11)	—	(3)	—
Net loss	\$ (26,990)	-344%	\$ (27,362)	-438%	\$ 372	-1%

Revenue

Total revenue and product sales for the quarter ended September 30, 2019 increased by 26% to \$7.8 million, compared with \$6.2 million for the quarter ended September 30, 2018. The increase in total revenue was due to \$0.7 million of other revenues arising from the achievement of product development milestones in the quarter ended September 30, 2019 and an increase of 14% in product sales. The increase in product sales was primarily attributable to growth in product sales to OEM customers and incremental direct sales of conventional reagent products to customers in the United States. Products sold by standing purchase order were 71% of product sales for the quarter ended September 30, 2019, compared with 70% for the quarter ended September 30, 2018.

The table below sets forth revenue by product group:

	Quarter ended September 30,					
	2019		2018		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Revenue:						
Product sales - OEM customers	\$ 4,696	60%	\$ 4,378	70%	\$ 318	7%
Product sales - direct customers and distributors	\$ 2,400	31%	1,869	30%	531	28%
Other revenues	750	10%	—	0%	750	—
Total revenue	\$ 7,846	100%	\$ 6,247	100%	\$ 1,599	26%

OEM Sales. Product sales to OEM customers increased 7% to \$4.7 million for the quarter ended September 30, 2019, compared with \$4.4 million for the quarter ended September 30, 2018. The increase was due to increased sales to existing customers and the impact of recently launched new products.

Direct Sales to Customers and Distributors. Product sales directly to customers and distributors of \$2.4 million for the quarter ended September 30, 2019 increased by \$0.5 million compared with \$1.9 million for the quarter ended September 30, 2018. This increase

was due to increased direct sales in the United States which increased to \$2.3 million in the quarter ended September 30, 2019 from \$1.8 million in the quarter ended September 30, 2018 as a result of recent product launches and the expansion of our customer base.

Other Revenues. Other revenues in the quarter ended September 30, 2019 consisted of product development fees which arose as a result of the achievement of product development milestones under the terms of our umbrella supply agreement with Ortho. See Note 2 “Summary of Significant Accounting Policies — Revenue Recognition” to our condensed consolidated financial statements included in this Quarterly Report for additional information. There were no other revenues in the quarter ended September 30, 2018.

Cost of revenue and gross margin

Cost of revenue decreased by 13% to \$4.0 million for the quarter ended September 30, 2019, compared with \$4.6 million for the quarter ended September 30, 2018. In the quarter ended September 30, 2018, we were in the process of moving our conventional reagents manufacturing operations to our new Biocampus facility in Edinburgh, Scotland and we incurred additional expenditure as a result of operating two facilities. We completed the relocation at the start of 2019 and we no longer bear any costs related to our previous facility in Edinburgh. This decrease in cost of revenue was partially offset by incremental costs associated with the 14% increase in product sales in the quarter ended September 30, 2019.

Gross profit on total revenue for the quarter ended September 30, 2019 was \$3.9 million, compared with \$1.7 million for the quarter ended September 30, 2018. The increase was attributable to \$0.7 million of other revenue in the quarter ended September 30, 2019 and the increase in gross margin on product sales described below.

Gross profit on product sales, which excludes other revenues, was \$3.1 million for the quarter ended September 30, 2019 compared with \$1.7 million for the quarter ended September 30, 2018. This increase was due to the gross profit on increased sales to existing customers and the impact of recently launched new products. In addition, as described above, in the quarter ended September 30, 2018, we were in the process of moving our conventional reagents manufacturing operations to our new Biocampus facility in Edinburgh, Scotland and we incurred additional expenditure as a result of operating two facilities. Gross margin on product sales, which excludes other revenues, was 44% for the quarter ended September 30, 2019 compared with 27% for the quarter ended September 30, 2018.

Sales and marketing expenses

Sales and marketing expenses were \$2.3 million for the quarter ended September 30, 2019, compared with \$1.8 million for the quarter ended September 30, 2018. This increase was attributable to greater personnel and other expenses related to the planned commercial launch of MosaiQ. As a percentage of total revenue, sales and marketing expenses were 29% for the quarter ended September 30, 2019 compared to 30% for the quarter ended September 30, 2018.

Research and development expenses

	Quarter ended September 30,					
	2019		2018		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Research and development expenses:						
MosaiQ research and development	\$ 12,706	162%	\$ 12,676	203%	\$ 30	0%
Other research and development	458	6%	381	6%	77	20%
Tax credits	(81)	-1%	(59)	-1%	(22)	38%
Total research and development expenses	<u>\$ 13,083</u>	<u>167%</u>	<u>\$ 12,998</u>	<u>208%</u>	<u>\$ 85</u>	<u>1%</u>

Research and development expenses increased by 1% to \$13.1 million for the quarter ended September 30, 2019, compared with \$13.0 million for the quarter ended September 30, 2018. Our research and development expenses included an expense of \$1.0 million in the quarter ended September 30, 2019 and an expense of \$0.5 million in the quarter ended September 30, 2018 related to the costs of our intellectual property license with TTP for MosaiQ. Excluding these intellectual property license costs, our research and development expenses for the quarter ended September 30, 2019 decreased compared to the quarter ended September 30, 2018 as a result of reduced overall expenditure as the initial development of MosaiQ nears completion.

General and administrative expenses

General and administrative expenses decreased by 12% to \$7.0 million for the quarter ended September 30, 2019, compared with \$7.9 million for the quarter ended September 30, 2018. In the quarter ended September 30, 2018, we incurred approximately \$0.8 million of advisory fees and costs associated with the relocation of our conventional reagents manufacturing operations to our new Biocampus facility, which did not recur in the quarter ended September 30, 2019. We recognized \$1.0 million of stock compensation expense in the quarter ended September 30, 2019 compared with \$1.2 million in the quarter ended September 30, 2018. As a percentage of total revenue, general and administrative expenses were 89% for the quarter ended September 30, 2019 and 127% for the quarter ended September 30, 2018.

Other income (expense)

Net interest expense was \$7.3 million for the quarter ended September 30, 2019, compared with \$5.8 million for the quarter ended September 30, 2018. Interest expense in the quarter ended September 30, 2019 included \$4.3 million of interest charges on our Secured Notes compared with \$3.6 million in the quarter ended September 30, 2018. The increase was due to the additional issuance of \$25 million of Secured Notes on May 15, 2019. Interest expense in the quarters ended September 30, 2019 and September 30, 2018 included amortization of deferred debt issue costs of \$2.9 million and \$1.9 million, respectively, which included, in the 2019 period, the amortization of the expected costs of the royalty rights agreements entered into in October 2016, June 2018, December 2018 and May 2019 in connection with the issuances of the Secured Notes and the amendment of the indenture relating to the Secured Notes and, in the 2018 period, amortization of the expected costs of the royalty rights agreements entered into in October 2016 and June 2018. The additional royalty rights agreements entered into in December 2018 and May 2019 increased in aggregate the amount of royalties payable pursuant to royalty rights agreements from 2% to 3.4% of net sales of MosaiQ instruments and consumables made in the donor testing market in the United States and the European Union. Net interest expense also included \$0.3 million of dividends accrued on the 7% cumulative redeemable preference shares in each of the quarters ended September 30, 2019 and September 30, 2018. In addition, in the quarter ended September 30, 2019 we realized interest income of \$0.3 million on our short-term money market investments.

Other, net in the quarter ended September 30, 2019 was comprised of \$1.2 million of foreign exchange losses arising on monetary assets and liabilities denominated in foreign currencies compared to \$0.5 million of foreign exchange losses for the quarter ended September 30, 2018.

Provision for income taxes

Provision for income taxes in the quarter ended September 30, 2019 reflects a reduction in the net operating losses available to be carried forward in a subsidiary as a result of the offset of historic tax losses against the profits of this subsidiary.

Comparison of the Six Month Periods ended September 30, 2019 and 2018

The following table sets forth, for the periods indicated, the amounts of certain components of our statements of operations and the percentage of total revenue represented by these items, showing period-to-period changes.

	Six months ended September 30,					
	2019		2018		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
(in thousands, except percentages)						
Revenue:						
Product sales	\$ 15,265	95%	\$ 14,111	100%	\$ 1,154	8%
Other revenues	750	5%	19	0%	731	3847%
Total revenue	16,015	100%	14,130	100%	1,885	13%
Cost of revenue	8,534	53%	8,617	61%	(83)	-1%
Gross profit	7,481	47%	5,513	39%	1,968	36%
Operating expenses:						
Sales and marketing	4,833	30%	4,126	29%	707	17%
Research and development	24,736	154%	25,568	181%	(832)	-3%
General and administrative	14,776	92%	15,420	109%	(644)	-4%
Total operating expenses	44,345	277%	45,114	319%	(769)	-2%
Operating (loss)	(36,864)	-230%	(39,601)	-280%	2,737	-7%
Other income (expense):						
Interest expense, net	(13,376)	-84%	(8,935)	-63%	(4,441)	50%
Other, net	(294)	-2%	(3,980)	-28%	3,686	-93%
Total other expense, net	(13,670)	-85%	(12,915)	-91%	(755)	6%
Loss before income taxes	(50,534)	-316%	(52,516)	-372%	1,982	-4%
Provision for income taxes	(27)	0%	(22)	—	(5)	100%
Net loss	\$ (50,561)	-316%	\$ (52,538)	-372%	\$ 1,977	-4%

Revenue

Total revenue and product sales for the six month period ended September 30, 2019 increased by 13% to 16.0 million, compared with \$14.1 million for the six month period ended September 30, 2018. The increase in total revenue was due to \$0.7 million of other revenues arising from the achievement of product development milestones in the six month period ended September 30, 2019 and an increase of 8% in product sales. Products sold by standing purchase order were 70% of product sales for the six month period ended September 30, 2019, compared with 67% for the six month period ended September 30, 2018.

The table below sets forth revenue by product group:

	Six months ended September 30,					
	2019		2018		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
(in thousands, except percentages)						
Revenue:						
Product sales - OEM customers	\$ 10,431	65%	\$ 10,025	71%	\$ 406	4%
Product sales - direct customers and distributors	4,834	30%	4,086	29%	748	18%
Other revenues	750	5%	19	0%	731	—
Total revenue	\$ 16,015	100%	\$ 14,130	100%	\$ 1,885	13%

OEM Sales. Product sales to OEM customers increased 4% to \$10.4 million for the six month period ended September 30, 2019, compared with \$10.0 million for the six month period ended September 30, 2018. The increase was due to increased sales to existing customers and the impact of recently launched new products.

Direct Sales to Customers and Distributors. Product sales directly to customers and distributors of \$4.8 million for the six month period ended September 30, 2019 increased by \$0.7 million compared with \$4.1 million for the six month period ended September 30, 2018. This increase was due to increased direct sales in the United States which increased to \$4.4 million in the six month period ended September 30, 2019 from \$3.6 million in the six month period ended September 30, 2018 as a result of recent product launches and the expansion of our customer base.

Other Revenues. Other revenues in the six month period ended September 30, 2019 consisted of product development fees, which arose as a result of the achievement of product development milestones under the terms of our umbrella supply agreement with Ortho. See Note 2 “Summary of Significant Accounting Policies — Revenue Recognition” to our condensed consolidated financial statements included in this Quarterly Report for additional information. Other revenues in the six month period ended September 30, 2018 consisted of sales of ancillary products related to the MosaiQ instruments, which we sold to a development partner in the year ended March 31, 2018, and sales of licenses to use our conventional reagents products.

Cost of revenue and gross margin

Cost of revenue decreased by 1% to \$8.5 million for the six month period ended September 30, 2019, compared with \$8.6 million for the six month period ended September 30, 2018. In the six month period ended September 30, 2018, we were in the process of moving our conventional reagents manufacturing operations to our new Biocampus facility in Edinburgh, Scotland and we incurred additional expenditure as a result of operating two facilities. We completed the relocation at the start of 2019 and we no longer bear any costs related to our previous facility in Edinburgh. This decrease in cost of revenue was partially offset by incremental costs associated with the 8% increase in product sales in the six month period ended September 30, 2019.

Gross profit on total revenue for the six month period ended September 30, 2019 was \$7.5 million, compared with \$5.5 million for the six month period ended September 30, 2018. The increase was attributable to \$0.7 million of other revenues in the six month period ended September 30, 2019 and the increase in gross margin on product sales described below.

Gross profit on product sales, which excludes other revenues, was \$6.7 million for the six month period ended September 30, 2019 compared with \$5.5 million for the six month period ended September 30, 2018. This increase was due to the gross profit on increased sales to existing customers and the impact of recently launched new products. In addition, as described above, in the six month period ended September 30, 2018, we were in the process of moving our conventional reagents manufacturing operations to our new Biocampus facility in Edinburgh, Scotland and we incurred additional expenditure as a result of operating two facilities. Gross margin on product sales, which excludes other revenues, was 44% for the six month period ended September 30, 2019 compared with 39% for the six month period ended September 30, 2018.

Sales and marketing expenses

Sales and marketing expenses were \$4.8 million for the six month period ended September 30, 2019, compared with \$4.1 million for the six month period ended September 30, 2018. This increase was attributable to greater personnel and other expenses related to the planned commercial launch of MosaiQ. As a percentage of total revenue, sales and marketing expenses were 30% for the six month period ended September 30, 2019 compared to 29% for the six month period ended September 30, 2018.

Research and development expenses

	Six months ended September 30,					
	2019		2018		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Research and development expenses:						
MosaiQ research and development	\$ 23,767	148%	\$ 24,940	177%	\$ (1,173)	-5%
Other research and development	1,135	7%	747	5%	388	52%
Tax credits	(166)	-1%	(119)	-1%	(47)	—
Total research and development expenses	<u>\$ 24,736</u>	<u>154%</u>	<u>\$ 25,568</u>	<u>181%</u>	<u>\$ (832)</u>	<u>-3%</u>

Research and development expenses decreased by 3% to \$24.7 million for the six month period ended September 30, 2019, compared with \$25.6 million for the six month period ended September 30, 2018. Our research and development expenses included an expense of \$1.0 million in the six month period ended September 30, 2019 and an expense of \$0.5 million in the six month period ended September 30, 2018 related to the costs of our intellectual property license with TTP for MosaiQ. The decrease in research and development expenses reflected reduced overall expenditure as the initial development of MosaiQ nears completion offset by this increase in intellectual property license costs.

General and administrative expenses

General and administrative expenses decreased by 4% to \$14.8 million for the six month period ended September 30, 2019, compared with \$15.4 million for the six month period ended September 30, 2018. In the six month period ended September 30, 2018 we incurred approximately \$0.7 million of costs associated with the relocation of our conventional reagents manufacturing operations to our new Biocampus facility, which did not recur in the six month period ended September 30, 2019. We recognized \$2.2 million of stock compensation expense in the six month period ended September 30, 2019 compared with \$2.5 million in the six month period ended September 30, 2018. As a percentage of total revenue, general and administrative expenses were 92% for the six month period ended September 30, 2019 and 109% for the six month period ended September 30, 2018.

Other income (expense)

Net interest expense was \$13.4 million for the six month period ended September 30, 2019, compared with \$8.9 million for the six month period ended September 30, 2018. Interest expense in the six month period ended September 30, 2019 included \$8.4 million of interest charges on our Secured Notes compared with \$6.1 million in the six month period ended September 30, 2018. The increase was due to the additional issuances of \$36 million of Secured Notes on June 29, 2018 and \$25 million of Secured Notes on May 15, 2019. Interest expense in the six month periods ended September 30, 2019 and September 30, 2018 included amortization of deferred debt issue costs of \$5.0 million and \$2.2 million, respectively, which included, in the 2019 period, the amortization of the expected costs of the royalty rights agreements entered into in October 2016, June 2018, December 2018 and May 2019 in connection with the issuances of the Secured Notes and the amendment of the indenture relating to the Secured Notes and, in the 2018 period, amortization of the expected costs of the royalty rights agreements entered into in October 2016 and June 2018. The additional royalty rights agreements entered into in December 2018 and May 2019 increased in aggregate the amount of royalties payable pursuant to royalty rights agreements from 2% to 3.4% of net sales of MosaiQ instruments and consumables made in the donor testing market in the United States and the European Union. Net interest expense also included \$0.5 million of dividends accrued on the 7% cumulative redeemable preference shares in each of the six month periods ended September 30, 2019 and September 30, 2018. In addition, in the six month period ended September 30, 2019 we realized interest income of \$0.6 million on our short-term money market investments.

Other, net in the six month period ended September 30, 2019 was comprised of \$0.3 million of foreign exchange losses arising on monetary assets and liabilities denominated in foreign currencies compared to \$4.0 million of foreign exchange losses for the six month period ended September 30, 2018.

Provision for income taxes

Provision for income taxes in the six month period ended September 30, 2019 reflects a reduction in the net operating losses available to be carried forward in a subsidiary as a result of the offset of historic tax losses against the profits of this subsidiary.

Quarterly Results of Operations

Our quarterly product sales can fluctuate depending upon the shipment cycles for our red blood cell based products, which account for approximately two-thirds of our current product sales. For these products, we typically experience 13 shipping cycles per year. This equates to three shipments of each product per quarter, except for one quarter per year when four shipments occur. In fiscal 2019, the greatest impact of extra product shipments occurred in our first quarter and the greatest impact thus far in fiscal 2020 has also occurred in the first quarter. The timing of shipment of bulk antisera products to our OEM customers may also impact revenues from quarter to quarter. We also experience some seasonality in demand around holiday periods in both Europe and the United States. As a result of these factors, we expect to continue to see seasonality and quarter-to-quarter variations in our product sales. The timing of product development fees included in other revenues is mostly dependent upon the achievement of pre-negotiated project or revenue milestones.

Liquidity and Capital Resources

Since our commencement of operations in 2007, we have incurred net losses and negative cash flows from operations. As of September 30, 2019, we had an accumulated deficit of \$431.2 million. During the six month period ended September 30, 2019, we incurred a net loss of \$50.6 million and used \$42.7 million of cash in operating activities. As described under results of operations, our use of cash during the six month period ended September 30, 2019 was primarily attributable to our investment in the development of MosaiQ and corporate costs, including costs related to being a public company.

From our incorporation in 2012 to March 31, 2019, we have raised \$160.0 million of gross proceeds through the private placement of our ordinary and preference shares and warrants, \$250.1 million of gross proceeds from public offerings of our shares and issuances of ordinary shares upon exercise of warrants and \$120.0 million of gross proceeds from the issuance of the Secured Notes.

On May 15, 2019, we issued an additional \$25.0 million aggregate principal amount of the Secured Notes. On May 15, 2019, we paid \$1.5 million of the net proceeds of the issuance into the cash reserve account maintained with the collateral agent under the terms of the indenture governing the Secured Notes, which together with the \$7.2 million paid into the cash reserve account in respect of previous issuances, brought the total in the cash reserve account to \$8.7 million at September 30, 2019.

On May 31, 2019, we entered into an Open Market Sale Agreement, or the "Sale Agreement" with Jefferies LLC, as sales agent and/or principal, or "Jefferies", pursuant to which we may issue and sell from time to time up to an aggregate of \$80 million of our ordinary shares. Sales of the shares, if any, pursuant to the Sale Agreement, may be made by any method that is deemed to be an "at-the-market offering" as defined in Rule 415(a)(4) promulgated under the Securities Act, including sales made directly on or through The Nasdaq Global Market, or any other existing trading market for our ordinary shares, sales made to or through a market maker other than on an exchange or otherwise, in negotiated transactions with our consent at market prices prevailing at the time of sale or prices related to such prevailing market prices, and/or any other method permitted by law. Under the terms of the Sale Agreement, we will pay Jefferies a commission equal to 3% of the gross proceeds of the shares sold through it under the Sale Agreement.

We have no obligation to sell any of the shares under the Sale Agreement, and may at any time suspend offers under the Sale Agreement upon proper notice to Jefferies or terminate the Sale Agreement upon one trading day's written notice. In addition, the Maximum Program Amount is subject to adjustment pursuant to the terms of the Sales Agreement under certain circumstances, including based on the number or dollar amount of shares that are registered under our Registration Statement on Form S-3 (File No. 333-226800) and the number or dollar amount of shares that we are permitted to sell thereunder. We intend to use the net proceeds of the offering to fund the ongoing scale up and commercialization of MosaiQ and for working capital and other general corporate purposes. At September 30, 2019, no shares had been issued or sold under the Sale Agreement.

As of September 30, 2019, we had available cash, cash equivalents and short-term investments of \$72.8 million and \$9.0 million of restricted cash held as part of the arrangements relating to our Secured Notes and the lease of our property in Eysins, Switzerland.

Cash Flows for the Six Month Periods ended September 30, 2019 and 2018

Operating activities

Net cash used in operating activities was \$42.7 million during the six month period ended September 30, 2019, which included net losses of \$50.6 million offset by non-cash items of \$14.4 million. Non-cash items were depreciation and amortization expense of \$6.1 million, share-based compensation expense of \$2.2 million, Swiss pension costs of \$0.4 million, amortization of deferred debt issue costs of \$5.0 million, and accrued preference share dividends of \$0.5 million and deferred lease rentals of \$0.2 million. We also experienced a net cash outflow of \$6.5 million from changes in operating assets and liabilities during the period, consisting of a \$0.1 million reduction in accounts payable and accrued liabilities, a \$1.8 million reduction in accrued compensation and benefits, a \$1.2 million increase in accounts receivable, a \$2.9 million increase in inventories and a \$0.6 million increase in other assets.

Net cash used in operating activities was \$41.1 million during the six month period ended September 30, 2018, which included net losses of \$52.5 million offset by non-cash items of \$12.1 million. Non-cash items were depreciation and amortization expense of \$6.4 million, share-based compensation expense of \$2.5 million, Swiss pension costs of \$0.3 million, amortization of deferred debt issue costs of \$2.2 million, accrued preference share dividends of \$0.5 million and deferred lease rentals of \$0.2 million. We also experienced a net cash outflow of \$0.7 million from changes in operating assets and liabilities during the period, consisting of a \$3.9 million reduction in accounts payable and accrued liabilities and a \$0.7 million reduction in accrued compensation and benefits, offset by a \$0.2 million decrease in accounts receivable, a \$0.3 million decrease in inventories and a \$3.4 million decrease in other assets.

Investing activities

Net cash generated from investing activities was \$21.4 million for the six month period ended September 30, 2019 compared to \$60.6 million of net cash used in investing activities for the six month period ended September 30, 2018. We spent \$2.6 million on purchases of property and equipment in the six month ended September 30, 2019, which was mainly related to payments for an additional assembly unit for our MosaiQ manufacturing facility. Purchases of property and equipment in the six month ended September 30, 2018 were \$1.6 million, which was mainly related to the payment of final costs related to the construction of our new Biocampus conventional reagents manufacturing facility. We also realized \$23.9 million net from our short-term money market investments in the six month period ended September 30, 2019 compared with an increase of \$59.0 million in the short-term money market investments in the six month period ended September 30, 2018.

Financing activities

Net cash provided by financing activities was \$24.2 million during the six month ended September 30, 2019 consisting of \$24.1 million of net proceeds from the issuance of additional Secured Notes on May 15, 2019 and \$0.4 million from the exercise of share options, offset by \$0.2 million of repayments on finance leases. Net cash provided by financing activities was \$83.8 million during the six month period ended September 30, 2018, consisting of \$34.8 million of net proceeds from the issuance of additional Secured Notes on June 29, 2018 and \$49.2 million of proceeds from the issuance of ordinary shares (including in connection with the exercise of warrants and share options), offset by \$0.2 million of repayments on finance leases.

Operating and Capital Expenditure Requirements

We have not achieved profitability on an annual basis since we commenced operations in 2007 and we expect to incur net losses for at least the next fiscal year. As we move towards the commercial launch of MosaiQ, we expect our operating expenses during the year ended March 31, 2020 to be similar to those of the year ended March 31, 2019, as we continue to invest in growing our customer base, expanding our marketing and distribution channels, hiring additional employees and investing in other product development opportunities while our development expenditures on MosaiQ decrease.

As of September 30, 2019, we had available cash, cash equivalents and short-term investments of \$72.8 million and \$9.0 million of restricted cash held as part of the arrangements relating to our Secured Notes and the lease of our property in Eysins, Switzerland.

Our future capital requirements will depend on many factors, including:

- our progress in developing and commercializing MosaiQ and the cost required to complete development, obtain regulatory approvals and complete our manufacturing scale up;
- Ortho's progress in commercializing MosaiQ for the patient testing market and, if we were to terminate the Ortho Agreement, our ability to explore successfully available options for commercializing MosaiQ in this market;
- our ability to manufacture and sell our conventional reagent products, including the costs and timing of further expansion of our sales and marketing efforts;
- our ability to collect our accounts receivable;
- our ability to generate cash from operations;
- any acquisition of businesses or technologies that we may undertake; and
- our ability to penetrate our existing market and new markets.

We expect to fund our operations in the near-term, including the ongoing development of MosaiQ through successful field trial completion, achievement of required regulatory authorizations and commercialization, from a combination of funding sources. These expected funding sources include the use of existing available cash and short-term investment balances and the issuance of new equity. We expect additional financing to be available from these funding sources, and accordingly have prepared the financial statements on the going concern basis. However, there can be no assurance that we will be able to obtain adequate financing when necessary and the terms of any financings may not be advantageous to us and may result in dilution to our shareholders.

Contractual Obligations

Our contractual obligations and commitments were summarized in our Annual Report on Form 10-K for the year ended March 31, 2019.

On May 15, 2019, we issued an additional \$25 million aggregate principal amount of the Secured Notes and entered into additional royalty rights agreements with the purchasers of the Secured Notes. As a result of these transactions, the aggregate amounts payable under the Secured Notes is \$145.0 million, with zero due in less than a year, \$42.3 million due in 1-3 years and \$102.7 million due in 3-5 years. Interest payments due on the Secured Notes total \$65.7 million with \$17.2 million due in less than a year, \$32.6 million due in 1-3 years and \$15.9 million due in 3-5 years. The aggregate estimated amount payable in connection with the royalty rights agreements is \$103.2 million, with zero due in less than a year, \$4.5 million due in 1-3 years, \$20.5 million due in 3-5 years and \$78.2 million due in more than 5 years.

We note that the capital leases referred to in the summary of our contractual obligations in our Annual Report on Form 10-K are now accounted for as finance leases under current GAAP; however, the nature of these obligations has not changed. There were no other major changes in the nature of our contractual obligations and commitments between March 31, 2019 and September 30, 2019.

Critical Accounting Policies and Significant Judgments and Estimates

We have prepared our condensed consolidated financial statements in accordance with U.S. GAAP. Our preparation of these condensed consolidated financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, expenses and related disclosures at the date of the consolidated financial statements, as well as revenue and expenses during the reporting periods. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could therefore differ materially from these estimates under different assumptions or conditions.

While our significant accounting policies are described in more detail in Note 2 to our condensed consolidated financial statements included in this Quarterly Report, we believe the following accounting policies to be critical to the judgments and estimates used in the preparation of our financial statements.

Revenue recognition and accounts receivable

Revenue is recognized in accordance with Accounting Standards Update, or ASU, 2014-09, *Revenue from Contracts with Customers*. Product revenue is recognized at a point in time upon transfer of control of a product to a customer, which is generally at the time of delivery at an amount based on the transaction price. Customers have no right of return except in the case of damaged goods and we have not experienced any significant returns of our products.

We also earn revenue from the provision of development services to a small number of OEM customers. These development service contracts are reviewed individually to determine the nature of the performance obligations and the associated transaction prices. In recent years, our product development revenues have been commensurate with achieving milestones specified in the respective development agreements relating to those products. These milestones may include the approval of new products by the European or U.S. regulatory authorities, which are not within our control. While there can be no assurance that this will continue to be the case, the nature of the milestones has been such that they effectively represent completion of our performance obligations under a particular part of a development program. Should we fail to achieve these milestones, we are not entitled under the terms of the development agreements to any compensation related to the work undertaken to date. As a result, we typically fully recognize milestone-related revenues as the contractual milestones are achieved.

Under certain development contracts, we also manufacture and supply the customer with finished products once they have been approved for use by relevant regulatory agencies. These agreements reflect both arrangements for product development and the sales prices and other contractual terms for subsequent supply of the product to the customer. Under these development contracts, we view the development service revenue as distinct from subsequent product sales revenue, and we recognize each separately as described above.

Accounts receivable consist primarily of amounts due from OEM customers, hospitals, donor testing laboratories, and distributors. Accounts receivable are reported net of an allowance for uncollectible accounts, which we also refer to as doubtful accounts. The allowance for doubtful accounts represents a reserve for estimated losses resulting from our inability to collect amounts due from our customers. Direct sales, where we may make many low value sales to a large number of customers, represents a larger risk of doubtful accounts, as opposed to OEM customer sales consisting primarily of a small number of well established businesses with whom we have a long trading history. The collectability of our trade receivables balances is regularly evaluated based on a combination of factors such as the ageing profile of our receivables, past history with our customers, changes in customer payment patterns, customer credit-worthiness and any other relevant factors. Based on these assessments, we adjust the reserve for doubtful accounts recorded in our financial statements.

Inventories

We record inventories at the lower of cost (first-in, first-out basis) or market (net realizable value), net of reserves. We record adjustments to inventory based upon historic usage, expected future demand and shelf life of the products held in inventory. We also calculate our inventory value based on the standard cost of each product. This approach requires us to analyze variances arising in the production process to determine whether they reflect part of the normal cost of production, and should therefore be reflected as inventory value, or whether they are a period cost and should thus not be included in inventory.

Intangible assets

The intangible assets included in our financial statements include intangible assets identified as at the time of the acquisition of the business of Alba Bioscience on August 31, 2007. At the time of this acquisition, we identified intangible assets related to customer relationships, master cell lines and certain other items, which include domain names and product trademarks. The customer relationships have been amortized over a five-year period, which resulted in them becoming fully amortized at August 31, 2012. The other items were amortized over a seven-year period from August 31, 2007, which resulted in them becoming fully amortized at August 31, 2014.

The intangible assets related to master cell lines reflect the know-how and market recognition associated with the cell lines, which are used as the source material of certain of our products. These cell lines are maintained by us and have an indefinite life. We have nevertheless decided to amortize the intangible assets over a forty-year period to reflect the possibility of market changes or other events resulting in the lines becoming technically obsolete at some future date. In the event that any of the lines cease to be used, we would record additional amortization at that point.

We also include in intangible assets the costs of obtaining product licenses for our products. These include external costs such as regulatory agency fees associated with the approval and bringing to market of our products once the development is complete. We amortize these over an expected product life of ten years, although if any such product ceased to be produced, we would record additional amortization at that point.

Income taxes

We account for income taxes under the asset and liability method, which requires, among other things, that deferred income taxes be provided for temporary differences between the tax basis of our assets and liabilities and their financial statement reported amounts. In addition, deferred tax assets are recorded for the future benefit of utilizing NOLs and research and development credit carry forwards. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized.

We follow the accounting guidance for uncertainties in income taxes, which prescribes a recognition threshold and measurement process for recording uncertain tax positions taken, or expected to be taken, in a tax return in the financial statements. Additionally, the guidance also prescribes the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. We accrue for the estimated amount of taxes for uncertain tax positions if it is more likely than not that we would be required to pay such additional taxes. An uncertain tax position will not be recognized if it has less than a 50% likelihood of being sustained.

We did not have any accrued interest or penalties associated with any unrecognized tax positions, and there were no such interest or penalties recognized during the six month period ended September 30, 2019 or in the year ended March 31, 2019.

Stock compensation expense

Stock compensation expense is measured at the grant date based on the fair value of the award and is recognized as an expense in the income statement over the vesting period of the award. The calculation of the stock compensation expense is sensitive to the fair value of the underlying ordinary shares. The fair value of option awards and multi-year performance based restricted share units or MRSUs at the grant date is calculated using the Black-Scholes model or other valuation models, which use a number of assumptions to determine the fair value. Details of the assumptions used are set out in the notes to the condensed consolidated financial statements included in this Quarterly Report.

Defined Benefit Pension Obligations

We account for the pension obligations of our Swiss subsidiary as a defined benefit plan under Accounting Standards Codification Topic 715 *Compensation – Retirement Benefits*, or ASC 715. This requires that an actuarial valuation be performed to determine the funded status of the pension arrangements. The actuarial valuation is based on a number of assumptions, details of which are set out in the notes to the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2019.

Royalty Liability

The royalty rights agreements entered into in connection with the issuances of our Secured Notes and the amendment of the related indenture are treated as sales of future revenues that meet the requirements of Accounting Standards Codification Topic 470 *Debt* to be treated as debt. The estimated future cash outflows under the royalty rights agreements have been combined with the Secured Notes issuance costs and interest payable to calculate the effective interest rate of the Secured Notes and will be expensed through interest expenses using the effective interest rate method over the term of the Secured Notes and royalty rights agreements. Estimating the future cash outflows under the royalty rights agreements requires us to make certain estimates and assumptions about future sales of MosaiQ products. These estimates of the magnitude and timing of MosaiQ sales are subject to significant variability due to the current status of development of MosaiQ products, and thus are subject to significant uncertainty. Therefore, the estimates are likely to change as we gain experience of marketing MosaiQ, which may result in future adjustments to the accretion of the interest expense and the amortized cost based carrying value of the Secured Notes.

Leases

In February 2016, the Financial Accounting Standards Board, or FASB, issued Accounting Standard Update or ASU 2016-02, *Leases*, or ASU 2016-02, to enhance the transparency and comparability of financial reporting related to leasing arrangements. We adopted ASU 2016-02 on April 1, 2019, or the effective date, and used the effective date as our date of initial application.

At the inception of an arrangement, we determine whether the arrangement is or contains a lease based on the unique facts and circumstances present. We also review the terms of the lease in accordance with ASU 2016-02 in order to determine whether the lease concerned is a finance or an operating lease. Most leases with a term greater than one year are recognized on the balance sheet as right-of-use assets, lease liabilities and, if applicable, long-term lease liabilities. We have elected not to recognize on the balance sheet leases with terms of one year or less.

For finance leases, an asset is included within property and equipment and a lease liability equal to the present value of the minimum lease payments is included in current or long-term liabilities. Interest expense is recorded over the life of the lease at a constant rate.

Operating lease liabilities and their corresponding right-of-use assets are recorded based on the present value of lease payments over the expected remaining lease term. The operating lease right-of-use assets also include any lease payments made prior to the commencement date and any initial direct costs incurred, less any lease incentives received. The interest rate implicit in lease contracts is typically not readily determinable. As a result, we utilize our incremental borrowing rates, which are the rates incurred to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. The incremental borrowing rate is determined at lease commencement, or as of April 1, 2019 for operating leases existing upon the adoption of ASU 2016-02. The incremental borrowing rate is subsequently reassessed upon modification to the lease arrangement. Operating lease expense is recognized on a straight-line basis over the lease term.

In accordance with the guidance in ASU 2016-02, components of a lease should be split into three categories: lease components (e.g., land, building, etc.), non-lease components (e.g., common area maintenance, maintenance, consumables, etc.), and non-components (e.g., property taxes, insurance, etc.). Although separation of lease and non-lease components is required, certain practical expedients are available. In particular, entities may elect a practical expedient to not separate lease and non-lease components and instead account for each lease component and the related non-lease component together as a single component. We have elected to account for the lease and non-lease components of each of its operating leases as a single lease component and allocate all of the contract consideration to the lease component only. The lease component results in an operating lease right-of-use asset being recorded on the balance sheet and amortized on a straight-line basis as lease expense.

The finance lease assets and operating lease right-of-use assets are assessed for impairment in accordance with the Company's accounting policy for long-lived assets.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or for any other contractually narrow or limited purpose.

Recent Accounting Pronouncements

Refer to Note 2 to our accompanying unaudited condensed consolidated financial statements included elsewhere in this report for a discussion of recently issued accounting pronouncements.

JOBS Act

Under the Jumpstart Our Business Startups Act of 2012, emerging growth companies that become public can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks in the ordinary course of our business. These market risks are principally limited to interest rate fluctuations and foreign currency exchange rate fluctuations.

Interest rate sensitivity

We are exposed to market risk related to changes in interest rates as it impacts our interest income and expense.

Cash, cash equivalents and cash reserve account. At September 30, 2019, we had cash and cash equivalents of \$5.8 million and we also held \$9.0 million of restricted cash. Our exposure to market risk includes interest income sensitivity, which is impacted by changes in the general level of U.S. and European interest rates. Our cash and cash equivalents and the restricted cash are held in interest-bearing savings accounts and bank accounts. We do not enter into investments for trading or speculative purposes. Due to the current levels of interest rates, we do not believe an immediate one percentage point change in interest rates would have a material effect on the fair market value of our holdings, and therefore we do not expect our operating results or cash flows to be significantly affected by changes in market interest rates.

Senior secured notes. At September 30, 2019, we had term debt of \$145 million outstanding under the Secured Notes. The Secured Notes are fixed-rate instruments and, as a result, a change in market interest rates has no impact on our interest expense incurred or cash flows.

Foreign currency exchange risk

The main currencies that we use for our trading operations are the U.S. Dollar, the Pound Sterling, the Swiss Franc and, to a lesser extent, the Euro. Our meaningful cash balances are held in a mixture of U.S. Dollars, Euros, Pounds Sterling and Swiss Francs. These cash balances may not be the same as the functional currencies of the Quotient entities in which they are held and, as a result, exchange rate fluctuations may result in foreign exchange gains and losses on our income statement.

We are subject to market risks arising from changes in foreign currency exchange rates between the U.S. Dollar and the Pound Sterling and the U.S. Dollar and the Swiss Franc. Accordingly, fluctuations in the U.S. Dollar versus Pounds Sterling and U.S. Dollar versus the Swiss Franc exchange rate give rise to exchange gains and losses. These gains and losses arise from the conversion of U.S. Dollars and Euros to Pounds Sterling and the retranslation of cash, accounts receivable, intercompany indebtedness and other asset and liability balances. Based on our assets and liabilities held in Pounds Sterling at September 30, 2019, we estimate that a 5% strengthening of the Pound Sterling against the U.S. Dollar would give rise to a gain of approximately \$0.9 million and a 5% weakening of the Pound Sterling against the U.S. Dollar would give rise to loss of approximately \$0.9 million. Based on our assets and liabilities held in Swiss Francs at September 30, 2019, we estimate that a 5% strengthening of the Swiss Franc against the U.S. Dollar would give rise to a gain of approximately \$1.2 million and a 5% weakening of the Swiss Franc against the U.S. Dollar would give rise to loss of approximately \$1.2 million.

Most of our revenues are earned in U.S. Dollars, but the costs of our conventional reagent manufacturing operations are payable mainly in Pounds Sterling. We therefore closely monitor the results of our UK operations to address this difference. During the year ended March 31, 2019, the net operating expenses arising in Pounds Sterling from our UK conventional reagent manufacturing operations amounted to \$27.0 million. This expenditure was offset by revenues arising in U.S. Dollars and other currencies. We have entered into forward contracts to hedge against the effects of fluctuations in the U.S. Dollar versus the Pounds Sterling exchange rate. The principal value of the hedges related to the results of fiscal year 2020 is \$6.0 million and, based on this, a hypothetical instantaneous 5% strengthening of the Pound Sterling against the U.S. Dollar would reduce our net income by \$1.1 million in the year ending March 31, 2020 after taking account of the shelter provided by our existing hedging arrangements through March 31, 2020. Similarly, a hypothetical instantaneous 5% weakening of the Pound Sterling against the U.S. Dollar would increase group net income by \$1.1 million over the same period.

We do not use financial instruments for trading or other speculative purposes.

Our management does not believe that inflation in past years has had a significant impact on our results from operations. In the event inflation affects our costs in the future, we will offset the effect of inflation and maintain appropriate margins through increased selling prices.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2019, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management, including our Chief Executive and Chief Financial Officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting

There were no material changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We did implement internal controls to ensure we properly assess the impact of the new accounting standard related to leases on our financial statements to facilitate its adoption on April 1, 2019. However, there were no material changes to our internal control over financial reporting due to the adoption of the new accounting standard.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently a party to any pending legal proceedings that we believe could have a material adverse effect on our business or financial condition. However, we may be subject to various claims and legal actions arising in the ordinary course of business from time to time.

Item 1A. Risk Factors

Except as set forth below, there have been no material changes in the risk factors described in Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended March 31, 2019.

Recent global economic and political conditions could result in significant changes to legislation, government policies, rules and regulations, which may have a material adverse effect on our business.

The impact of recent political and economic developments in the United States, the United Kingdom and Europe, including the legislative and trade policy agenda of President Donald Trump and the referendum in the United Kingdom in which voters approved an exit from the European Union, commonly referred to as "Brexit," are uncertain. These political and economic developments could result in changes to legislation or reformation of government policies, rules and regulations pertaining to the U.S. healthcare system, tax and trade. Such changes could have a significant impact on our business by increasing the cost of doing business, affecting our ability to sell our products and negatively impacting our profitability. In addition, these developments, or continuing uncertainty surrounding these developments, could result in significant financial market volatility, and could also exacerbate, or result in, a slow-down of growth in global, local and U.S. economies, which could have a material adverse effect on our operating performance and the market price of our ordinary shares.

Efforts to repeal and replace the U.S. Patient Protection and Affordable Care Act, or the PPACA, have been ongoing since the 2016 election, but it is unclear if these efforts will be successful. Since January 2017, President Trump has signed two Executive Orders to delay, circumvent or loosen the implementation of certain requirements mandated by the PPACA or otherwise circumvent some of the requirements for health insurance mandated by the PPACA. In addition, as part of the December 2017 Tax Cuts and Jobs Act, the "individual mandate," which required individuals to purchase insurance, was repealed. The PPACA significantly impacts the pharmaceutical and medical device industries and clinical laboratories, and the repeal, replacement or modification of the PPACA, or other legislative or regulatory actions, could meaningfully further change the way healthcare services are delivered and may materially impact aspects of our business. We cannot predict whether future healthcare initiatives will be implemented at the federal or state level or in countries outside of the United States in which we may do business, or the effect any future legislation or regulation will have on us.

Our conventional reagent products are manufactured in Scotland and our MosaiQ Instruments and Microarrays are manufactured in Germany and Switzerland, respectively. In the United States, President Trump's administration has discussed, and in some cases implemented, changes with respect to certain tax and trade policies, tariffs and other government regulations affecting trade between the United States and other countries. For example, concerns regarding trade relations between the United States and China have escalated during calendar 2019, as both countries imposed significant tariffs on the importation of certain product categories. While it is not possible to predict whether or when any additional changes will occur or what form they may take, the implementation of a border tax, tariff or higher customs duties on our products imported into the United States, or any potential corresponding actions by other countries in which we do business, could negatively impact our financial performance. In addition, other countries may change their business and trade policies in anticipation of or in response to increased import tariffs and other changes in United States' trade policy and regulations, which could also negatively impact our financial performance.

As a result of the Brexit referendum, the United Kingdom and the European Union continue to be involved in a negotiation process to determine the future terms of the United Kingdom's relationship with the European Union, and it appears likely that these negotiations will continue to be lengthy. For example, while the U.K. government and the European Union had negotiated an agreement by which the United Kingdom would withdraw from the European Union and the European Union had approved this withdrawal agreement, the British Parliament has rejected this withdrawal agreement several times. The U.K. government and the European Union have subsequently renegotiated parts of the withdrawal agreement, but the British Parliament has postponed voting on the revised agreement. Furthermore, the date for the United Kingdom's exit from the European Union, which was originally scheduled for March 29, 2019, has been postponed several times, most recently to January 31, 2020.

While we believe we have developed plans to manage the risk to our business and operations, including in the event that the United Kingdom exits without any agreement on its future relationship with the European Union, it is unknown what the final terms of the relationship will be. If no agreement can be reached and the United Kingdom leaves the European Union with no agreement, there will be a period of considerable uncertainty, particularly in relation to the U.K. financial and banking markets, the regulatory process in Europe and movement of goods and people between the United Kingdom and European Union. It is also possible that, even if there is an agreement, there will be greater restrictions and transportation delays on imports and exports between the United Kingdom and European Union countries and increased regulatory complexities, which could result in delays and increased expenses relating to the regulatory approval of our products. In addition, depending on the terms of Brexit, the United Kingdom could lose the benefits of global trade agreements negotiated by the European Union on behalf of its members, which may result in increased trade barriers which could make our doing business worldwide more difficult. Furthermore, currency exchange rates in the pound sterling and the euro with respect to each other and the U.S. dollar have already been adversely affected by Brexit. Should this foreign exchange volatility continue, it could cause volatility in our financial results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following is a list of exhibits filed as part of this Quarterly Report on Form 10-Q:

<u>Exhibit No.</u>	<u>Description</u>
10.1	<u>Offer dated September 4, 2019 to vary the missives between Quotient Biocampus Limited (“Quotient”) and Roslin Assets Limited (“Roslin”) in respect of the purchase by Roslin from Quotient of the heritable property known as Site 3, Bio Campus, Roslin, Midlothian</u>
10.2	<u>Acceptance dated September 4, 2019 of offer to vary the missives between Quotient Biocampus Limited (“Quotient”) and Roslin Assets Limited (“Roslin”) in respect of the purchase by Roslin from Quotient of the heritable property known as Site 3, Bio Campus, Roslin, Midlothian</u>
31.1	<u>Certification of Franz Walt, Chief Executive pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	<u>Certification of Christopher Lindop, Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1	<u>Certification of Franz Walt, Chief Executive pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2	<u>Certification of Christopher Lindop, Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101*	The following financial statements from the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets (unaudited), (ii) Condensed Consolidated Statements of Comprehensive Loss (unaudited), (iii) Condensed Consolidated Statements of Changes in Shareholders’ Deficit (unaudited), (iv) Condensed Consolidated Statements of Cash Flows (unaudited) and (v) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text and including detailed tags.

* XBRL information is furnished and not filed for purposes of Section 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934, and is not subject to liability under those sections, is not part of any registration statement, prospectus or other document to which it relates and is not incorporated or deemed to be incorporated by reference into any registration statement, prospectus or other document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 4, 2019

QUOTIENT LIMITED

/s/ Franz Walt
Franz Walt
Chief Executive Officer

DWF LLP
110 Queen Street Glasgow G1 3HD OX GW9 LP- 1 Glasgow 12 T +44 (0)333 320
2220 F +44 (0)333 320 4440 www.dwf .law

David Ratter DWF LLP
96 Fountainbridge
EDINBURGH EH39QA

Your Ref:

Our Ref:

CJM/2016677/5

Please quote this when replying

Date:

4 September 2019

Please ask for :

Chris J. Mcleish

Ext:

562052

Direct Dial: E-mail: Direct Fax:

+44 141 228 8052

Chris.Mcleish@dwf.law

Dear Sirs

We refer to the Missives between our client, QUOTIENT BIOCAMPUS LIMITED, incorporated under the Companies Acts (Registered Number SC514165) and having its Registered Office formerly at Douglas Buildings, Pentlands Science Park, Bush Loan, Penicuik, EH26 OPL and now at 5 JAMES HAMILTON WAY MILTON BRIDGE PENICUIK EH26 OBF ("Quotient") and your client ROSLIN ASSETS LIMITED, incorporated under the Companies Acts (Registered Number 10893348) and having its Registered Office formerly at 5th Floor, Maybrook House, 40 Blackfriars Street, Manchester M3 2EG and now at 1st Floor Rico House, George Street, Prestwich, Manchester, Lancashire, M25 9WS ("Roslin") in respect of the purchase by Roslin from Quotient of the heritable property known as Site 3, Bio Campus, Roslin, Midlothian extending to 3.18 hectares , comprising our offer on behalf of Quotient dated 16 February 2018 ("the Offer") and your concluding letter on behalf of Roslin dated 19 February 2018 (together "the Missives") .

In terms of clauses 2.8 and 18 and Part 18 of the Schedule to the Offer, Quotient and Roslin agreed that the Price Retention (as defined in the Offer) was to be held in an interest bearing account as stakeholders for Quotient and Roslin pending the occurrence of the Payment Date (as defined in the Offer).

On behalf of and as instructed by Quotient we hereby offer to vary the Missives as follows:

1. Notwithstanding the arrangements for payment of the Price Retention set out in the Offer, the Price Retention shall now be released from the stakeholder account in which it is currently and distributed between Quotient and Roslin as follows:
 - a. To Quotient - TWO HUNDRED AND EIGHTY SIX THOUSAND SIX HUNDRED AND SEVENTY TWO POUNDS STERLING (£286 ,672)
 - b. To Roslin - SIXTY THREE THOUSAND THREE HUNDRED AND TWENTY EIGHT POUNDS STERLING. (£63 ,328)

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DWF LLP is a limited liability partnership registered in England and Wales with registered number OC328794 DWF LLP is recognised as both an Incorporated Practice and a Multi National Practice by The Law Society of Scotland (registered number 43186) The term 'Partner' is used to refer to a Member of DWF LLP or an employee or consultant with equivalent standing and qualifications
A list of Members of OWF LLP and of Non-Members who are designated as Partners is open to inspection at its registered office located at 1 Scott Place, 2 Hardman Street Manchester, M3 3AA
DWF LLP is listed on the Financial Services Register as an Exempt Professional Firm, able to carry out certain insurance mediation activities (regulated by the Law Society of Scotland)

4 September 2019

2. All interest accrued on the Price Retention shall be allocated between Quotient and Roslin on the basis that 81.9% of the total interest accrued shall be paid to Quotient and 18.1% shall be paid to Roslin.
3. Quotient and Roslin irrevocably instruct their respective solicitors to execute any documentation properly due to be executed by them in order to give proper effect to this agreement.
4. Quotient and Roslin agree that upon delivery by Quotient to Roslin of the Capital Allowances Election annexed to this letter Quotient shall have no further liability to Roslin in terms of Clauses 1.3, 1.4 and 1.11 of Part 18 of the Schedule to the Offer.
5. This offer to vary, if not previously withdrawn, will fall unless a binding written acceptance has been received by us by 5 pm on Monday 9 September , 2019.

Yours faithfully

/s/ Chris McLeish

.....
Chris Mcleish Partner ForDWF LLP

/s/ Ann D Freeburn

.....

Witness

Ann Douglas Freeburn
110 Queen Street
Glasgow G1 3HD

Chris Mcleish
DWF LLP
110 Queen Street Glasgow G1
3HD

Our Ref: DAR/M52733.45 Your
Ref: CJM/201667-5 4 September
2019

Dear Sirs,

Roslin Assets Limited Quotient
Biocampus Limited
Site 3, Bio Campus, Roslin, Midlothian

On behalf of and as instructed by my client Roslin Assets Limited, a company incorporated under the Companies Acts (Registered Number 10893348) and having their registered office formerly at 5th Floor, Maybrook House, 40 Blackfriars Street, Manchester, M3 2EG and now at 1st Floor, Rico House, George Street, Prestwich, Manchester, M25 9WS ("the Purchaser"), I hereby accept your offer dated 4 September 2019 ("the Offer") on behalf of your clients Quotient Biocampus Limited, incorporated under the Companies Acts (Registered Number SC514165) and having their registered office formerly at Douglas Buildings, Pentlands Science Park, Bush Loan, Penicuik, EH26 OPL and now at 5 James Hamilton Way, Milton Bridge, Penicuik, Scotland, EH26 OBF ("the Seller") offering to vary the Missives entered into between the Purchaser and the Seller constituted by offer and acceptance each dated 16 February 2018 in relation to the sale by the Seller to the Purchaser of the subjects known generally as Site 3, Bio Campus, Roslin, Midlothian, being the subjects more particularly described as the "the Property" in the Missives. I now hold the contract between the Seller and the Purchaser as varied as concluded .

Yours faithfully

/s/ David Ratter

/s/ Julie Gorrie

.....
David Ratter Julie Gorrie
Solicitor No. 2 Lochrin Square
No.2 Lochrin Square 96 Fountainbridge
Fountainbridge Edinburgh
Edinburgh EH3 9QA
as agent for Roslin Assets Limited

CERTIFICATION

I, Franz Walt, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Quotient Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period for which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2019

/s/ Franz Walt

Franz Walt
Chief Executive Officer

CERTIFICATION

I, Christopher Lindop, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Quotient Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period for which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2019

/s/ Christopher Lindop

Christopher Lindop
Chief Financial Officer

CERTIFICATION

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Quotient Limited, a company incorporated under the laws of Jersey, Channel Islands (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report for the quarter ended September 30, 2019 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2019

/s/ Franz Walt

Franz Walt

Chief Executive Officer

This certification is being furnished and not filed, and shall not be incorporated into any document for any purpose, under the Securities Exchange Act of 1934 or the Securities Act of 1933.

CERTIFICATION

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Quotient Limited, a company incorporated under the laws of Jersey, Channel Islands (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report for the quarter ended September 30, 2019 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2019

/s/ Christopher Lindop

Christopher Lindop

Chief Financial Officer

This certification is being furnished and not filed, and shall not be incorporated into any document for any purpose, under the Securities Exchange Act of 1934 or the Securities Act of 1933.