
**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, 2018

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)

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 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 5, 2018, there were 54,331,551 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 development, regulatory approval and commercialization of MosaiQ™;
- the design of blood grouping and disease screening capabilities of MosaiQ 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 conventional reagent 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;
- our anticipated cash needs and 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, 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, 2018, 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.

Where you can find more information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You can inspect, read and copy these reports, proxy statements and other information at the Securities and Exchange Commission's Public Reference Room, which is located at 100 F Street, N.E., Washington, D.C. 20549. You can obtain information regarding the operation of the Securities and Exchange Commission's Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission also maintains a website at www.sec.gov that makes available reports, proxy statements and other information regarding issuers that file electronically.

We make available free of charge at www.quotientbd.com (in the "Investors" section) copies of materials we file with, or furnish to, the Securities and Exchange Commission. By referring to our corporate website, www.quotientbd.com, we do not incorporate any such website or its contents into this Quarterly Report on Form 10-Q.

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, 2018	March 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,562	\$ 20,165
Short-term investments	64,916	5,669
Trade accounts receivable, net	2,509	2,862
Inventories	15,278	16,278
Prepaid expenses and other current assets	3,189	7,065
Total current assets	89,454	52,039
Restricted cash	7,511	5,040
Property and equipment, net	51,456	60,156
Intangible assets, net	799	914
Deferred income taxes	627	649
Other non-current assets	4,689	5,043
Total assets	\$ 154,536	\$ 123,841
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 2,642	\$ 5,441
Accrued compensation and benefits	4,362	5,312
Accrued expenses and other current liabilities	12,185	15,340
Current portion of long-term debt	9,600	—
Current portion of deferred lease rental benefit	441	443
Current portion of capital lease obligation	484	515
Total current liabilities	29,714	27,051
Long-term debt, less current portion	112,406	85,063
Deferred lease rental benefit, less current portion	997	443
Capital lease obligation, less current portion	1,080	1,422
Defined benefit pension plan obligation	6,225	6,168
7% Cumulative redeemable preference shares	18,850	18,325
Total liabilities	169,272	138,472
Commitments and contingencies	—	—
Shareholders' equity (deficit):		
Ordinary shares (nil par value) 54,229,503 and 45,646,424 issued and outstanding at September 30, 2018 and March 31, 2018 respectively	303,176	253,934
Additional paid in capital	26,211	23,708
Accumulated other comprehensive loss	(15,946)	(16,634)
Accumulated deficit	(328,177)	(275,639)
Total shareholders' deficit	(14,736)	(14,631)
Total liabilities and shareholders' deficit	\$ 154,536	\$ 123,841

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,	
	2018	2017	2018	2017
Revenue:				
Product sales	\$ 6,247	\$ 5,910	\$ 14,111	\$ 12,136
Other revenues	—	—	19	600
Total revenue	6,247	5,910	14,130	12,736
Cost of revenue	(4,552)	(2,786)	(8,617)	(5,618)
Gross profit	1,695	3,124	5,513	7,118
Operating expenses:				
Sales and marketing	(1,845)	(1,869)	(4,126)	(3,551)
Research and development, net of government grants	(12,998)	(13,341)	(25,568)	(26,014)
General and administrative expense:				
Compensation expense in respect of share options and management equity incentives	(1,155)	(1,187)	(2,503)	(2,472)
Other general and administrative expenses	(6,761)	(4,787)	(12,917)	(10,047)
Total general and administrative expense	(7,916)	(5,974)	(15,420)	(12,519)
Total operating expense	(22,759)	(21,184)	(45,114)	(42,084)
Operating loss	(21,064)	(18,060)	(39,601)	(34,966)
Other income (expense):				
Interest expense, net	(5,819)	(4,197)	(8,935)	(8,407)
Other, net	(468)	565	(3,980)	1,444
Other expense, net	(6,287)	(3,632)	(12,915)	(6,963)
Loss before income taxes	(27,351)	(21,692)	(52,516)	(41,929)
Provision for income taxes	(11)	—	(22)	—
Net loss	\$ (27,362)	\$ (21,692)	\$ (52,538)	\$ (41,929)
Other comprehensive income (loss):				
Change in fair value of effective portion of foreign currency cash flow hedges	\$ (29)	\$ 128	\$ (361)	\$ 473
Change in unrealized gain on short-term investments	221	(6)	247	32
Foreign currency gain	373	(504)	730	1,312
Provision for pension benefit obligation	36	44	72	87
Other comprehensive income (loss), net	601	(338)	688	1,904
Comprehensive loss	\$ (26,761)	\$ (22,030)	\$ (51,850)	\$ (40,025)
Net loss available to ordinary shareholders - basic and diluted	\$ (27,362)	\$ (21,692)	\$ (52,538)	\$ (41,929)
Loss per share - basic and diluted	\$ (0.53)	\$ (0.58)	\$ (1.07)	\$ (1.13)
Weighted-average shares outstanding - basic and diluted	52,059,037	37,657,409	48,944,896	37,223,957

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

CONDENSED CONSOLIDATED STATEMENT 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' Equity (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,	
	2018	2017
OPERATING ACTIVITIES:		
Net loss	\$ (52,538)	\$ (41,929)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	6,422	5,081
Share-based compensation	2,503	2,472
Increase in (amortization of) deferred lease rental benefit	197	(215)
Swiss pension obligation	309	329
Amortization of deferred debt issue costs	2,159	2,882
Accrued preference share dividends	525	525
Deferred income taxes	22	—
Net change in assets and liabilities:		
Trade accounts receivable, net	201	231
Inventories	315	(1,065)
Accounts payable and accrued liabilities	(3,886)	(540)
Accrued compensation and benefits	(691)	(560)
Other assets	3,371	197
Net cash used in operating activities	(41,091)	(32,592)
INVESTING ACTIVITIES:		
Increase in short-term investments	(59,000)	(43,000)
Realization of short-term investments	—	48,402
Purchase of property and equipment	(1,639)	(12,261)
Purchase of intangible assets	—	(68)
Net cash used in investing activities	(60,639)	(6,927)
FINANCING ACTIVITIES:		
Repayment of finance leases	(231)	(56)
Proceeds from drawdown of new debt	36,000	—
Issue costs of new debt	(1,213)	—
Proceeds from issuance of ordinary shares and warrants	49,242	45,266
Net cash generated from financing activities	83,798	45,210
Effect of exchange rate fluctuations on cash, cash equivalents and restricted cash	3,800	(1,314)
Change in cash, cash equivalents and restricted cash	(14,132)	4,377
Beginning cash, cash equivalents and restricted cash	25,205	9,794
Ending cash, cash equivalents and restricted cash	\$ 11,073	\$ 14,171
Supplemental cash flow disclosures:		
Income taxes paid	\$ —	\$ —
Interest paid	\$ 5,096	\$ 5,068
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 3,562	\$ 9,131
Restricted cash	7,511	5,040
Total cash, cash equivalents and restricted cash	\$ 11,073	\$ 14,171

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 and cash flows for the interim periods presented. The March 31, 2018 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, 2018 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, 2018 are not necessarily indicative of the results of operations that may be expected for the year ending March 31, 2019 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 \$328.2 million as of September 30, 2018. At September 30, 2018 the Company had available cash holdings and short-term investments of \$68.5 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 or debt. The Company expects additional financing to be available from these funding sources, and accordingly has 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 \$7.2 million and \$5.0 million at September 30, 2018 and March 31, 2018, respectively, held in a cash reserve account pursuant to the indenture governing the Company’s 12% Senior Secured Notes (“the Secured Notes”) and \$311 at September 30, 2018 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, 2018 and at March 31, 2018. 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, 2018 and March 31, 2018. This customer represented 39% and 51% of the accounts receivable balances as of September 30, 2018 and March 31, 2018, 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, 2018 and September 30, 2017. This customer represented 58% of total product sales for the six month period ended September 30, 2018 and 65% for the six month period ended September 30, 2017.

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, 2018 and March 31, 2018.

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 25 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 and Goodwill

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, 2018 or September 30, 2017.

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 full performance of a particular part of a development program and, 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”), in June 2013, the Company executed a product attachment relating to the development of a range of rare antisera products. This product attachment was amended in August 2016. During the year ended March 31, 2018, the Company recognized a milestone of \$600 related to the receipt of FDA approval of certain rare antisera products. The Company is entitled to receive a milestone payment of \$1,500 upon the updating of the FDA approvals to cover use of the products on Ortho’s automation platforms.

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, 2018, revenue recognized from performance obligations related to prior periods was not material and, at September 30, 2018, 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, 2018, the Company had two classes of warrants to purchase ordinary shares outstanding: (i) 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; and (ii) pre-funded warrants issued in October 2017 as part of the private placement of ordinary shares in October 2017. 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

At the inception of each lease, the Company reviews the terms of the lease in accordance with ASC 840 *Leases* in order to determine whether the lease concerned is a capital or an operating lease. In the case of capital 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.

Rentals relating to operating leases are expensed over the life of the lease. Rental incentives and the gain on the sale and leaseback of the manufacturing facility near Edinburgh, Scotland completed in March 2018, are included within deferred lease rental benefit in the balance sheet and amortized over the life of the related lease.

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.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017, or the TCJA, was enacted. This tax reform legislation made significant changes in U.S. tax law including a reduction in the corporate tax rates, changes to net operating loss carryforwards and carrybacks, and a repeal of the corporate alternative minimum tax. The legislation reduced the U.S. corporate tax rate from the rate of 34% to 21% effective on January 1, 2018. As a result, the Company revalued its U.S. deferred tax assets and liabilities at the 21% rate with effect from January 1, 2018. This revaluation and also the other provisions of the TCJA did not have a material impact on the Company's consolidated financial statements.

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.

The royalty rights agreements entered into with subscribers to the two issuances of the Secured Notes are treated as sales of future revenues that meet the requirements of Accounting Standards Codification Topic 470 "*Debt*" to be treated as debt. The future cash outflows under the royalty rights agreements have been combined with the issuance costs 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, 2018. 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 May 2014, the FASB issued Accounting Standards Update, or ASU, 2014-09, *Revenue from Contracts with Customers*, or ASU 2014-09. Under ASU 2014-09, a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In addition, ASU 2014-09 requires certain additional disclosures around the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB has issued several amendments to the standard, including clarification on accounting for licenses of intellectual property, identifying performance obligations and other technical corrections. The Company adopted ASU 2014-09 on April 1, 2018, using the modified retrospective approach. The adoption of ASU 2014-09 did not have a material impact on the Company's financial position, results of operations, equity or cash flows as of the adoption date or for the six months ended September 30, 2018.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash*, or ASU 2016-18. ASU 2016-18 requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the total beginning and ending amounts for the periods shown on the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017 (including interim periods within) using a retrospective transition method to each period presented. The Company adopted ASU 2016-18 retrospectively as of April 1, 2018. The adoption of ASU 2016-18 has not had a material impact on the Company's consolidated statement of cash flows.

In March 2017, the FASB issued ASU 2017-07 *Compensation-Retirement Benefits*, or ASU 2017-07, in order to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost in the statements of operations. Under ASU 2017-07, the service cost component of the net periodic benefit cost is disclosed in the same income statement 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 outside of any subtotal of operating income. ASU 2017-07 is effective for annual periods beginning after December 15, 2017 (including interim periods within) using a retrospective transition method to each period presented. The Company adopted the provisions of ASU 2017-07 on April 1, 2018 and applied the change retrospectively in its consolidated statement of comprehensive loss using the practical expedient. The adoption of ASU 2017-07 has not had a material impact on the Company's consolidated statement of comprehensive loss.

In May 2017, the FASB issued ASU 2017-09, *Scope of Modification Accounting*, or ASU 2017-09. ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting of a share-based payment award. The guidance should be applied prospectively to an award modified on or after the adoption date. The Company adopted ASU 2017-09 prospectively on April 1, 2018. The adoption of ASU 2017-09 has not had a material impact on the Company's financial position, results of operations or related disclosures.

Recent Accounting Pronouncements Not Yet Adopted

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 in respect of both capital and operating leases but recognize expenses in their income statements in a manner similar to current accounting standards. ASU 2016-02 will also require 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. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The new standard will apply to the Company's fiscal year ending March 31, 2020.

In adopting this standard the Company expects to apply 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 expects to elect 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 Company has completed a preliminary review of the existing portfolio of leases and is currently evaluating the impact adopting the new standard will have on its consolidated financial statements and related disclosures. The Company does not expect any material impact on its consolidated statements of comprehensive loss but does expect to add significant right-of-use assets and associated lease liabilities of approximately equal amounts to its consolidated balance sheet in respect of its existing operating lease arrangements.

Note 3. Intangible Assets

	September 30, 2018			Weighted Average Remaining Useful Life
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Customer relationships	\$ 2,565	\$ (2,565)	\$ —	—
Brands associated with acquired cell lines	529	(147)	382	28.9 years
Product licenses	887	(470)	417	4.7 years
Other intangibles	167	(167)	—	—
Total	<u>\$ 4,148</u>	<u>\$ (3,349)</u>	<u>\$ 799</u>	16.3 years

	March 31, 2018			Weighted Average Remaining Useful Life
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Customer relationships	\$ 2,758	\$ (2,758)	\$ —	—
Brands associated with acquired cell lines	569	(150)	419	29.5 years
Product licenses	954	(459)	495	5.2 years
Other intangibles	179	(179)	—	—
Total	<u>\$ 4,460</u>	<u>\$ (3,546)</u>	<u>\$ 914</u>	16.3 years

Note 4. Debt

Long-term debt comprises:

	September 30, 2018	March 31, 2018
Total debt	\$ 120,000	\$ 84,000
Less current portion	(9,600)	—
Long-term debt	\$ 110,400	\$ 84,000
Deferred debt costs and royalty liability, net of amortization	2,006	1,063
	<u>\$ 112,406</u>	<u>\$ 85,063</u>

The Company's debt at September 30, 2018 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. 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 \$7.2 million of the total proceeds of the two issuances into the cash reserve account maintained with the collateral agent under the terms of the indenture, \$2.2 million of which related to the second issuance on June 29, 2018.

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, 2019, the Company will also pay an installment of principal of the Secured Notes on each April 15 and October 15 until October 15, 2023 pursuant to a fixed amortization schedule.

In connection with the initial issuance on October 14, 2016, and the additional issuance on June 29, 2018, the Company entered into royalty rights agreements, pursuant to which the Company sold to the note purchasers in the issuances, the rights to receive a payment equal to 1.4% and 0.6% respectively, 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 enters into a contract for the sale of MosaiQ instruments or 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 contract 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 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, 2018, the outstanding debt was repayable as follows:

Within 1 year	\$	9,600
Between 1 and 2 years		19,200
Between 2 and 3 years		22,800
Between 3 and 4 years		25,200
Between 4 and 5 years		27,600
After 5 years		15,600
Total debt	\$	<u>120,000</u>

Note 5. Consolidated Balance Sheet Detail

Inventory

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

	September 30, 2018	March 31, 2018
Raw materials	\$ 9,224	\$ 10,024
Work in progress	4,217	4,226
Finished goods	1,837	2,028
Total inventories	<u>\$ 15,278</u>	<u>\$ 16,278</u>

Inventory at September 30, 2018 included \$7,549 of raw materials, \$1,636 of work in progress and \$299 of finished goods related to the MosaiQ project. Inventory at March 31, 2018, included \$8,441 of raw materials and \$1,528 of work in progress and \$389 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, 2018	March 31, 2018
Plant and equipment	\$ 50,103	\$ 51,912
Leasehold improvements	32,283	34,611
Total property and equipment	82,386	86,523
Less: accumulated depreciation	(30,930)	(26,367)
Total property and equipment, net	<u>\$ 51,456</u>	<u>\$ 60,156</u>

Depreciation expenses were \$3,063 and \$2,594 in the quarters ended September 30, 2018 and September 30, 2017, respectively, and \$6,370 and \$5,036 in the six month periods ended September 30, 2018 and 2017, respectively.

Accrued compensation and benefits

Accrued compensation and benefits consist of the following:

	September 30, 2018	March 31, 2018
Salary and related benefits	\$ 1,161	\$ 455
Accrued vacation	326	504
Accrued payroll taxes	1,287	1,353
Accrued incentive payments	1,588	3,000
Total accrued compensation and benefits	<u>\$ 4,362</u>	<u>\$ 5,312</u>

Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	September 30, 2018	March 31, 2018
Accrued legal and professional fees	\$ 469	\$ 280
Accrued interest	5,726	4,612
Goods received not invoiced	1,749	1,272
Accrued capital expenditure	1,002	3,309
Other accrued expenses	3,239	5,867
Total accrued expenses and other current liabilities	<u>\$ 12,185</u>	<u>\$ 15,340</u>

At March 31, 2018, other accrued expenses included a value added tax liability of \$2,905 related to the completion of the sale of the Company’s new conventional reagents manufacturing facility (the “Biocampus facility”) in March 2018. There was an offsetting value added tax recoverable balance within prepaid expenses and other current assets at March 31, 2018. There were no equivalent amounts at September 30, 2018.

Note 6. Commitments and Contingencies

Government grant

In 2008, the Company was awarded research and development grant funding from Scottish Enterprise amounting to £1,791, for the development of MosaiQ. The total grant claimed to September 30, 2018 is £1,790. The Company updates Scottish Enterprise periodically with the status of the project and, while the terms of the grant award provide for full repayment of the grant in certain circumstances, the Company does not consider that any repayment is likely.

Hedging arrangements

The Company's subsidiary in the United Kingdom ("UK") has entered into three contracts to sell \$500 in each calendar month from October 2018 through December 2018 at £1:\$1.4315, three contracts to sell \$500 and purchase pounds sterling at £1:\$1.4140 in each calendar month from January 2019 through March 2019, and three contracts to sell \$500 and purchase pounds sterling at £1:\$1.3520 in each calendar month from April 2019 through June 2019 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, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Pension plan assets ⁽¹⁾	\$ —	\$ 9,653	\$ —	\$ 9,653
Short-term investments ⁽²⁾	64,916	—	—	64,916
Total assets measured at fair value	<u>\$ 64,916</u>	<u>\$ 9,653</u>	<u>\$ —</u>	<u>\$ 74,569</u>

	September 30, 2018			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Foreign currency forward contracts ⁽³⁾	\$ —	\$ 308	\$ —	\$ 308
Total liabilities measured at fair value	<u>\$ —</u>	<u>\$ 308</u>	<u>\$ —</u>	<u>\$ 308</u>

	March 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Pension plan assets ⁽¹⁾	\$ —	\$ 9,616	\$ —	\$ 9,616
Short-term investments ⁽²⁾	5,669	—	—	5,669
Foreign currency forward contracts ⁽³⁾	—	118	—	118
Total assets measured at fair value	<u>\$ 5,669</u>	<u>\$ 9,734</u>	<u>\$ —</u>	<u>\$ 15,403</u>

	March 31, 2018			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Foreign currency forward contracts ⁽³⁾	\$ —	\$ 64	\$ —	\$ 64
Total liabilities measured at fair value	<u>\$ —</u>	<u>\$ 64</u>	<u>\$ —</u>	<u>\$ 64</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, 2018	March 31, 2018	
Ordinary shares	54,229,503	45,646,424	\$ —
Total	<u>54,229,503</u>	<u>45,646,424</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, 2018	March 31, 2018	September 30, 2018	March 31, 2018
7% Cumulative Redeemable Preference shares	666,665	666,665	\$ 28.28	\$ 27.50
Total	666,665	666,665		

In the period between March 31, 2018 and July 31, 2018, 8,414,683 warrants that were previously issued in connection with the Company's October 2017 private placement of ordinary shares were exercised for 8,414,683 ordinary shares at \$5.80 per share, which generated \$48.8 million of proceeds. On August 3, 2018, the Company entered into two subscription agreements with Franz Walt, the Company's Chief Executive Officer, and with Heino von Prondzynski, the Company's Chairman, pursuant to which we issued a combined total of 55,000 ordinary shares at a price of \$7.54 per share for aggregate proceeds of \$0.4 million.

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 \$1,155 and \$1,187 in the quarters ended September 30, 2018 and September 30, 2017, respectively, and \$2,503 and \$2,472 in the six month periods ended September 30, 2018 and September 30, 2017, 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, 2018	2,096,283	\$ 7.79	84
Granted	30,000	4.71	120
Exercised	(11,324)	1.99	—
Forfeited	(15,653)	10.34	—
Outstanding — September 30, 2018	2,099,306	\$ 7.76	79
Exercisable — September 30, 2018	1,610,926	\$ 7.96	72

The closing price of the Company's ordinary shares on The NASDAQ Global Market at September 30, 2018 was \$7.55.

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
April 1, 2018	30,000	\$ 4.71	\$ 4.71	\$ 2.99

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 is 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 is based on the US Treasury 10-year bond yield in effect at the time of grant.

Expected term. The expected term is 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 its 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 are 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>April 1, 2018</u>
Risk-free interest rate	2.74%
Expected lives (years)	6
Volatility	67.02%
Dividend yield	—
Grant date fair value (per share)	\$ 4.71
Number granted	30,000

A summary of the RSUs and MRSUs in issue at September 30, 2018 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	442,803	14	N/A
RSUs subject to milestone based vesting	364,953	N/A	N/A
MRSUs with vesting based on \$60 share price	72,500	N/A	Apr - Dec 2018
MRSUs with vesting based on \$40 share price	85,000	N/A	Apr - Dec 2018
MRSUs with vesting based on \$22 share price	106,000	N/A	Apr - Dec 2019

At September 30, 2018, 442,803 RSUs were subject to time-based vesting and the weighted average remaining vesting period was 14 months. In addition, 364,953 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, 2018 comprised 72,500 MRSUs, which will vest between April 1, 2018 and December 31, 2018 if the Company's ordinary share price exceeds \$60 for 20 consecutive days in this period, 85,000 MRSUs, which will vest between April 1, 2018 and December 31, 2018 if the Company's ordinary share price exceeds \$40 for 20 consecutive days in this period, and 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 September 30,		Six months ended September 30,	
	2018	2017	2018	2017
Income tax expense at statutory rate	\$ —	\$ —	\$ —	\$ —
Foreign tax rate differential	(1,307)	(1,122)	(2,369)	(2,245)
Increase in valuation allowance against deferred tax assets	1,318	1,122	2,391	2,245
Provision for income tax	<u>\$ 11</u>	<u>\$ —</u>	<u>\$ 22</u>	<u>\$ —</u>

Significant components of deferred tax are as follows:

	September 30, 2018	March 31, 2018
Provisions and reserves	\$ 1,366	\$ 1,327
Net operating loss carry forwards	14,884	12,476
Gross deferred tax assets	\$ 16,250	\$ 13,803
Fixed assets basis difference	\$ (247)	\$ (284)
Gross deferred tax liabilities	\$ (247)	\$ (284)
Net deferred tax asset	\$ 16,003	\$ 13,519
Valuation allowance	(15,376)	(12,870)
Total	<u>\$ 627</u>	<u>\$ 649</u>

The balance sheet classification of deferred tax is as follows:

	September 30, 2018	March 31, 2018
Net noncurrent deferred tax assets	\$ 627	\$ 649
Total	<u>\$ 627</u>	<u>\$ 649</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. However, at September 30, 2018, the transfer of these allowances had not been completed and thus the effect of the transfer has not been reflected in the financial statements.

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 September 30,		Six months ended September 30,	
	2018	2017	2018	2017
Employer service cost	\$ 400	\$ 398	\$ 795	\$ 791
Interest cost	39	27	77	54
Expected return on plan assets	(33)	(29)	(66)	(57)
Amortization of prior service credit	(4)	(3)	(7)	(7)
Amortization of net loss	39	47	78	93
Net pension cost	<u>\$ 441</u>	<u>\$ 440</u>	<u>\$ 877</u>	<u>\$ 874</u>

The employer contributions for the six month periods ended September 30, 2018 and September 30, 2017 were \$569 and \$545, respectively. The estimated employer contributions for the fiscal year ending March 31, 2019 are \$1,124.

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,	
	2018	2017	2018	2017
Numerator:				
Net loss	\$ (27,362)	\$ (21,692)	\$ (52,538)	\$ (41,929)
Net loss available to ordinary shareholders - basic and diluted	<u>\$ (27,362)</u>	<u>\$ (21,692)</u>	<u>\$ (52,538)</u>	<u>\$ (41,929)</u>
Denominator:				
Weighted-average shares outstanding - basic and diluted	<u>52,059,037</u>	<u>37,657,409</u>	<u>48,944,896</u>	<u>37,223,957</u>
Loss per share - basic and diluted	\$ (0.53)	\$ (0.58)	\$ (1.07)	\$ (1.13)

The following table sets out the numbers of ordinary shares excluded from the above computation of earnings per share at September 30, 2018 and September 30, 2017 as their inclusion would have been anti-dilutive.

	September 30, 2018	September 30, 2017
Ordinary shares issuable on exercise of options to purchase ordinary shares	2,099,306	2,207,722
Restricted share units awarded, including the multi-year performance related restricted share units	1,071,256	991,563
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>3,896,087</u>	<u>3,374,810</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, 2018 filed with the Securities and Exchange Commission on May 30, 2018.

The information set forth and discussed below for the quarters and six month periods ended September 30, 2018 and September 30, 2017 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, 2018, 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.

The acquisition of Alba, QBDI and QSIP by us is treated for accounting purposes as a combination of entities under common control as these entities were all controlled by QBDG prior to their acquisition by us. We recognized the assets and liabilities of Alba, QBDI and QSIP at their carrying amounts in the financial statements of those companies. We are a continuation of QBDG and its subsidiaries and, accordingly, our consolidated financial statements include the assets, liabilities and results of operations of the subsidiaries transferred since their inception.

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 identification. 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. MosaiQ will initially comprise two separate microarrays, one for immunohematology and one for serological disease screening, and a high-throughput instrument. We are also developing a third microarray for molecular disease screening. 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 operate as one business segment with 390 employees in the United States, the United Kingdom and Switzerland as of September 30, 2018. Our principal markets are the United States, Europe and Japan. Based on the location of the customer, revenues outside the United States accounted for 51% of total revenue during each of the six month periods ended September 30, 2018 and September 30, 2017.

We have incurred net losses and negative cash flows from operations in each year since we commenced operations in 2007. As of September 30, 2018, we had an accumulated deficit of \$328.2 million. We expect our operating losses to continue for at least the remainder of the current year as we continue our investment in the development and commercialization of MosaiQ. For the six month period ended September 30, 2018, our total revenue was \$14.1 million and our net loss was \$52.5 million.

From our incorporation in 2012 to March 31, 2018, we have raised \$110.8 million of gross proceeds through the private placement of our ordinary and preference shares and warrants, \$181.1 million of gross proceeds from public offerings of our shares and issuances of ordinary shares upon exercise of warrants and \$84.0 million of gross proceeds from the issuance of 12% Senior Secured Notes (the “Secured Notes”).

On June 29, 2018, we issued an additional \$36.0 million aggregate principal amount of the Secured Notes. As referenced above, we previously issued \$84.0 million aggregate principal amount of the Secured Notes on October 14, 2016. On June 29, 2018, we paid \$2.2 million of the net proceeds of the issuance of the additional Secured Notes into the cash reserve account maintained with the collateral agent under the terms of the indenture governing the Secured Notes, which together with the \$5.0 million paid into the cash reserve account on October 14, 2016, brought the total in the cash reserve account to \$7.2 million at September 30, 2018.

In the period between March 31, 2018 and July 31, 2018, 8,414,683 warrants that were previously issued in connection with our October 2017 private placement of ordinary shares were exercised for 8,414,683 ordinary shares at \$5.80 per share, which generated \$48.8 million of proceeds.

On August 3, 2018, we entered into two subscription agreements with Franz Walt, our Chief Executive Officer, and with Heino von Prondzynski, our Chairman, pursuant to which we issued a combined total of 55,000 ordinary shares at a price of \$7.54 per share (which was equal to the closing bid price of our ordinary shares as reported on the NASDAQ Global Market on August 2, 2018) for aggregate proceeds of \$0.4 million.

As of September 30, 2018, we had available cash, cash equivalents and short-term investments of \$68.5 million and \$7.5 million of restricted cash held as part of the arrangements relating to our Secured Notes and the lease of our property in Eysins, Switzerland.

Revenue

We generate 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 67% and 74% for the six month periods ended September 30, 2018 and September 30, 2017, 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 and gross margin represents gross profit expressed as a percentage of total revenue. 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 our 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 note and loan balances and the amortization of debt issuance costs, 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 note or loan 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 and June 2018 with the purchasers 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 reflects a reduction in the net operating losses available for carrying forward in one 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, 2018 and 2017

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,					
	2018		2017		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Revenue:						
Product sales	\$ 6,247	100%	\$ 5,910	100%	\$ 337	6%
Other revenues	—	0%	—	0%	—	—
Total revenue	6,247	100%	5,910	100%	337	6%
Cost of revenue	4,552	73%	2,786	47%	1,766	63%
Gross profit	1,695	27%	3,124	53%	(1,429)	-46%
Operating expenses:						
Sales and marketing	1,845	30%	1,869	32%	(24)	-1%
Research and development	12,998	208%	13,341	226%	(343)	-3%
General and administrative	7,916	127%	5,974	101%	1,942	33%
Total operating expenses	22,759	364%	21,184	358%	1,575	7%
Operating loss	(21,064)	-337%	(18,060)	-306%	(3,004)	17%
Other income (expense):						
Interest expense, net	(5,819)	-93%	(4,197)	-71%	(1,622)	39%
Other, net	(468)	-7%	565	10%	(1,033)	-183%
Total other expense, net	(6,287)	-101%	(3,632)	-61%	(2,655)	73%
Loss before income taxes	(27,351)	-438%	(21,692)	-367%	(5,659)	26%
Provision for income taxes	(11)	—	—	—	(11)	—
Net loss	\$ (27,362)	-438%	\$ (21,692)	-367%	\$ (5,670)	26%

Revenue

Total revenue for the quarter ended September 30, 2018 increased by 6% to \$6.2 million, compared with \$5.9 million for the quarter ended September 30, 2017, and comprised wholly of product sales revenue during each period. 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 70% of product sales for the quarter ended September 30, 2018, compared with 68% for the quarter ended September 30, 2017.

The table below sets forth revenue by product group:

	Quarter ended September 30,					
	2018		2017		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Revenue:						
Product sales - OEM customers	\$ 4,378	70%	\$ 4,235	72%	\$ 143	3%
Product sales - direct customers and distributors	\$ 1,869	30%	1,675	28%	194	12%
Other revenues	—	0%	—	0%	—	—
Total revenue	\$ 6,247	100%	\$ 5,910	100%	\$ 337	6%

OEM Sales. Product sales to OEM customers increased 3% to \$4.4 million for the quarter ended September 30, 2018, compared with \$4.2 million for the quarter ended September 30, 2017. 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 \$1.9 million for the quarter ended September 30, 2018 increased by \$0.2 million compared with \$1.7 million for the quarter ended September 30, 2017. This mainly consisted of direct sales in the United States which increased to \$1.8 million in the quarter ended September 30, 2018 from \$1.4 million in the quarter ended September 30, 2017 as a result of recent product launches and the expansion of our customer base.

Other Revenues. There were no other revenues in the quarter ended September 30, 2018 or in the quarter ended September 30, 2017.

Cost of revenue and gross margin

Cost of revenue increased by 63% to \$4.6 million for the quarter ended September 30, 2018, compared with \$2.8 million for the quarter ended September 30, 2017. The increase in cost of revenue partially reflected incremental costs associated with greater sales volumes. In addition, in the quarter ended September 30, 2018, we were in the process of moving our conventional reagents manufacturing operations to the Biocampus facility, our new facility in Edinburgh, Scotland, the construction of which was completed earlier in 2018, from our other Edinburgh manufacturing facilities. We incurred additional costs of operating our new facility as well as our existing facility amounting to approximately \$1.6 million in the quarter ended September 30, 2018 as compared with the single facility that existed in the quarter ended September 30, 2017. We expect to be able to vacate our other Edinburgh facilities before December 31, 2018.

Gross profit on total revenue equaled gross profit on product sales in each quarter due to there being no other revenue in either period. Gross profit on product sales was \$1.7 million for the quarter ended September 30, 2018 compared with \$3.1 million for the quarter ended September 30, 2017. This decrease was due to the additional costs of approximately \$1.6 million of operating two manufacturing facilities in the quarter ended September 30, 2018 as compared with the single facility that existed in the quarter ended September 30, 2017 partially offset by the effect of increased sales to existing customers and the impact of recently launched new products. Gross margin on product sales was 27% for the quarter ended September 30, 2018 compared with 53% for the quarter ended September 30, 2017.

Sales and marketing expenses

Sales and marketing expense was \$1.8 million for the quarter ended September 30, 2018, compared with \$1.9 million for the quarter ended September 30, 2017. As a percentage of total revenue, sales and marketing expenses were 30% for the quarter ended September 30, 2018, compared with 32% for the quarter ended September 30, 2017.

Research and development expenses

	Quarter ended September 30,				Change	
	2018		2017		Amount	%
	Amount	% of revenue	Amount	% of revenue		
(in thousands, except percentages)						
Research and development expenses:						
MosaiQ research and development	\$ 12,676	203%	\$ 13,073	221%	\$ (397)	-3%
Other research and development	381	6%	336	6%	45	13%
Tax credits	(59)	-1%	(68)	-1%	9	-13%
Total research and development expenses	\$ 12,998	208%	\$ 13,341	226%	\$ (343)	-3%

Research and development expenses decreased by 3% to \$13.0 million for the quarter ended September 30, 2018, compared with \$13.3 million for the quarter ended September 30, 2017. The decrease in costs mainly reflected reduced overall expenditure as the initial development of MosaiQ nears completion. Our research and development expenses in the quarter ended September 30, 2018 include the costs of field trials for MosaiQ as well as an expense of \$0.5 million related to the costs of our intellectual property license with TTP for MosaiQ.

General and administrative expenses

General and administrative expenses increased by 33% to \$7.9 million for the quarter ended September 30, 2018, compared with \$6.0 million for the quarter ended September 30, 2017, reflecting greater personnel-related costs as we move towards commercialization of MosaiQ, advisory fees and costs associated with the relocation of our manufacturing facility in Scotland. We recognized \$1.2 million of stock compensation expense in the quarter ended September 30, 2018 compared with \$1.2 million in the quarter ended September 30, 2017. As a percentage of total revenue, general and administrative expenses increased to 127% for the quarter ended September 30, 2018, compared with 101% for the quarter ended September 30, 2017.

Other income (expense)

Net interest expense was \$5.8 million for the quarter ended September 30, 2018, compared with \$4.2 million for the quarter ended September 30, 2017. Interest expense in the quarter ended September 30, 2018 included \$3.6 million of interest charges on our Secured Notes compared with \$2.5 million in the quarter ended September 30, 2017. The increase was due to the additional issuance of \$36 million of Secured Notes on June 29, 2018. Interest expense in the quarters ended September 30, 2018 and September 30, 2017 included amortization of deferred debt issue costs of \$1.9 million and \$1.4 million, respectively, which included amortization of the expected costs of the royalty rights agreements entered into in October 2016 and June 2018 in connection with the issuances of the Secured Notes. 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, 2018 and September 30, 2017.

Other expense for the quarter ended September 30, 2018 was comprised of \$0.5 million of foreign exchange losses arising on monetary assets and liabilities denominated in foreign currencies. Other income for the quarter ended September 30, 2017 included \$0.6 million of foreign exchange gains.

Provision for income taxes

Provision for income taxes reflects a reduction in the net operating losses available for carrying forward in one 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, 2018 and 2017

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,				Change	
	2018		2017		Amount	%
	Amount	% of revenue	Amount	% of revenue		
(in thousands, except percentages)						
Revenue:						
Product sales	\$ 14,111	100%	\$ 12,136	95%	\$ 1,975	16%
Other revenues	19	0%	600	5%	(581)	-97%
Total revenue	14,130	100%	12,736	100%	1,394	11%
Cost of revenue	8,617	61%	5,618	44%	2,999	53%
Gross profit	5,513	39%	7,118	56%	(1,605)	-23%
Operating expenses:						
Sales and marketing	4,126	29%	3,551	28%	575	16%
Research and development	25,568	181%	26,014	204%	(446)	-2%
General and administrative	15,420	109%	12,519	98%	2,901	23%
Total operating expenses	45,114	319%	42,084	330%	3,030	7%
Operating (loss)	(39,601)	-280%	(34,966)	-275%	(4,635)	13%
Other income (expense):						
Interest expense, net	(8,935)	-63%	(8,407)	-66%	(528)	6%
Other, net	(3,980)	-28%	1,444	11%	(5,424)	-376%
Total other expense, net	(12,915)	-91%	(6,963)	-55%	(5,952)	85%
Loss before income taxes	(52,516)	-372%	(41,929)	-329%	(10,587)	25%
Provision for income taxes	(22)	0%	—	—	(22)	100%
Net loss	<u>\$ (52,538)</u>	<u>-372%</u>	<u>\$ (41,929)</u>	<u>-329%</u>	<u>\$ (10,609)</u>	<u>25%</u>

Revenue

Total revenue for the six month period ended September 30, 2018 increased by 11% to \$14.1 million, compared with \$12.7 million for the six month period ended September 30, 2017. Product sales revenue increased 16% to \$14.1 million for the six month period ended September 30, 2018, compared with \$12.1 million for the six month period ended September 30, 2017. 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 67% of product sales for the six month period ended September 30, 2018, compared with 74% for the six month period ended September 30, 2017.

The table below sets forth revenue by product group:

	Six months ended September 30,					
	2018		2017		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
(in thousands, except percentages)						
Revenue:						
Product sales - OEM customers	\$ 10,025	71%	\$ 8,796	69%	\$ 1,229	14%
Product sales - direct customers and distributors	4,086	29%	3,340	26%	746	22%
Other revenues	19	0%	600	5%	(581)	-97%
Total revenue	\$ 14,130	100%	\$ 12,736	100%	\$ 1,394	11%

OEM Sales. Product sales to OEM customers increased 14% to \$10.0 million for the six month period ended September 30, 2018, compared with \$8.8 million for the six month period ended September 30, 2017. 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 \$4.1 million for the six month period ended September 30, 2018 increased by \$0.7 million compared with \$3.3 million for the six month period ended September 30, 2017. This mainly consisted of direct sales in the United States which increased to \$3.6 million in the six month period ended September 30, 2018 from \$2.9 million in the six month period ended September 30, 2017 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, 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 reagents products. Other revenues of \$0.6 million in the six month period ended September 30, 2017 consisted of product development fees as the result of the achievement of a product development milestone under the terms of our umbrella supply agreement with Ortho-Clinical Diagnostics Inc., or 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. In both periods, the cost of these other revenues was included in research and development expenses.

Cost of revenue and gross margin

Cost of revenue increased by 53% to \$8.6 million for the six month period ended September 30, 2018, compared with \$5.6 million for the six month period ended September 30, 2017. The increase in cost of revenue partially reflected incremental costs associated with greater sales volumes. In addition, in the six month period ended September 30, 2018, we were in the process of moving our conventional reagents manufacturing operations to the Biocampus facility, our new facility in Edinburgh, Scotland, the construction of which was completed earlier in 2018, from our other Edinburgh manufacturing facilities. We incurred additional costs of operating two manufacturing facilities of approximately \$2.4 million in the six month period ended September 30, 2018 as compared with the single facility that existed in the six month period ended September 30, 2017. We expect to be able to vacate our other Edinburgh facilities before December 31, 2018.

Gross profit on total revenue for the six month period ended September 30, 2018 was \$5.5 million, a decrease of 23% compared with \$7.1 million in the six month period ended September 30, 2017. This decrease was attributable to the decrease of \$0.6 million in other revenues in the six month period ended September 30, 2018, and the additional costs of operating two manufacturing facilities of approximately \$2.4 million described above, which was partially offset by increased sales to existing customers and the impact of recently launched new products. Gross profit expressed as a percentage of total revenue was 39% for the six month period ended September 30, 2018, compared with 56% for the six month period ended September 30, 2017.

Gross profit on product sales was \$5.5 million for the six month period ended September 30, 2018 compared with \$6.5 million for the six month period ended September 30, 2017. This decrease was attributable to the approximately \$2.4 million of additional costs of operating two manufacturing facilities described above, which was partially offset by increased sales to existing customers and the impact of recently launched new products. Gross margin on product sales, which excludes other revenues, was 39% for the six month period ended September 30, 2018 compared with 54% for the six month period ended September 30, 2017.

Sales and marketing expenses

Sales and marketing expense was \$4.1 million for the six month period ended September 30, 2018, compared with \$3.6 million for the six month period ended September 30, 2017. As a percentage of total revenue, sales and marketing expenses were 29% for the six month period ended September 30, 2018, compared with 28% for the six month period ended September 30, 2017. The growth in sales and marketing expense in the six month period ended September 30, 2018 was mainly attributable to increased costs related to the marketing of MosaiQ, including attendance at trade conferences, in the six month period.

Research and development expenses

	Six months ended September 30,					
	2018		2017		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Research and development expenses:						
MosaiQ research and development	\$ 24,940	177%	\$ 25,454	200%	\$ (514)	-2%
Other research and development	747	5%	696	5%	51	7%
Tax credits	(119)	-1%	(136)	-1%	17	-13%
Total research and development expenses	<u>\$ 25,568</u>	<u>181%</u>	<u>\$ 26,014</u>	<u>204%</u>	<u>\$ (446)</u>	<u>-2%</u>

Research and development expenses decreased by 2% to \$25.6 million for the six month period ended September 30, 2018, compared with \$26.0 million for the six month period ended September 30, 2017. The decrease in costs mainly reflected reduced overall expenditure as the initial development of MosaiQ nears completion. Our research and development expenses in the six month period ended September 30, 2018 include the costs of field trials for MosaiQ, which were underway during this period, and an expense of \$0.5 million related to the costs of our intellectual property license with TTP for MosaiQ.

General and administrative expenses

General and administrative expenses increased by 23% to \$15.4 million for the six month period ended September 30, 2018, compared with \$12.5 million for the six month period ended September 30, 2017, reflecting greater personnel-related costs as we move towards commercialization of MosaiQ, advisory fees and costs associated with the relocation of our manufacturing facility in Scotland. We recognized \$2.5 million of stock compensation expense in each of the six month periods ended September 30, 2018 and September 30, 2017. As a percentage of total revenue, general and administrative expenses increased to 109% for the six month period ended September 30, 2018, compared with 98% for the six month period ended September 30, 2017.

Other income (expense)

Net interest expense was \$8.9 million for the six month period ended September 30, 2018, compared with \$8.4 million for the six month period ended September 30, 2017. Interest expense in the six month period ended September 30, 2018 included \$6.1 million of interest charges on our Secured Notes compared with \$5.0 million in the six month period ended September 30, 2017. The increase was due to the additional issuance of \$36 million of Secured Notes on June 29, 2018. Interest expense in the six month periods ended September 30, 2018 and September 30, 2017 included amortization of deferred debt issue costs of \$2.2 million and \$2.9 million, respectively, which included amortization of the expected costs of the royalty rights agreements entered into in October 2016 and June 2018 in connection with the issuances of the Secured Notes. 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, 2018 and September 30, 2017.

Other expense for the six month period ended September 30, 2018 was comprised of \$4.0 million of foreign exchange losses arising on monetary assets and liabilities denominated in foreign currencies. Other income for the six month period ended September 30, 2017 included \$1.4 million of foreign exchange gains.

Provision for income taxes

Provision for income taxes reflects a reduction in the net operating losses available for carrying forward in one 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 our sales of these products in Europe, 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. For our sales of these products in the United States, we ship on a two-week cycle, which also results in different numbers of shipments between quarters. In fiscal 2018, the greatest impact of extra product shipments occurred in our first quarter and the greatest impact thus far in fiscal 2019 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, 2018, we had an accumulated deficit of \$328.2 million. During the six month period ended September 30, 2018, we incurred a net loss of \$52.5 million and used \$41.1 million of cash in operating activities. As described under results of operations, our use of cash during the six month period ended September 30, 2018 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, 2018, we have raised \$110.8 million of gross proceeds through the private placement of our ordinary and preference shares and warrants, \$181.1 million of gross proceeds from public offerings of our shares and issuances of ordinary shares upon exercise of warrants and \$84.0 million of gross proceeds from the issuance of the Secured Notes.

On June 29, 2018, we issued an additional \$36.0 million aggregate principal amount of the Secured Notes. As referenced above, we previously issued \$84.0 million aggregate principal amount of the Secured Notes on October 14, 2016. On June 29, 2018, we paid \$2.2 million of the net proceeds of the issuance of the additional Secured Notes into the cash reserve account maintained with the collateral agent under the terms of the indenture governing the Secured Notes, which together with the \$5.0 million paid into the cash reserve account on October 14, 2016, brought the total in the cash reserve account to \$7.2 million at September 30, 2018.

In the period between March 31, 2018 and July 31, 2018, 8,414,683 warrants that were previously issued in connection with our October 2017 private placement of ordinary shares were exercised for 8,414,683 ordinary shares at \$5.80 per share, which generated \$48.8 million of proceeds.

On August 3, 2018, we entered into two subscription agreements with Franz Walt, our Chief Executive Officer, and with Heino von Prondzynski, our Chairman, pursuant to which we issued a combined total of 55,000 ordinary shares at a price of \$7.54 per share for aggregate proceeds of \$0.4 million.

As of September 30, 2018, we had available cash, cash equivalents and short-term investments of \$68.5 million and \$7.5 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, 2018 and 2017

Operating activities

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 an increase in the deferred lease rental benefit 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.

Net cash used in operating activities was \$32.6 million during the six month period ended September 30, 2017, which included net losses of \$41.9 million offset by non-cash items of \$11.1 million. Non-cash items were depreciation and amortization expense of \$5.1 million, share-based compensation expense of \$2.5 million, Swiss pension costs of \$0.3 million, amortization of deferred debt issue costs of \$2.9 million and accrued preference share dividends of \$0.5 million, offset by amortization of lease rental benefit of \$0.2 million. We also experienced a net cash outflow of \$1.7 million from changes in operating assets and liabilities during the period, consisting of a \$1.1 million increase in inventories, a \$0.5 million reduction in accounts payable and accrued liabilities and a \$0.6 million reduction in accrued compensation and benefits, offset by a \$0.2 million decrease in accounts receivable and a \$0.2 million decrease in other assets.

Investing activities

Net cash used in investing activities was \$60.6 million for the six month period ended September 30, 2018 and \$6.9 million for the six month period ended September 30, 2017. We spent \$1.6 million on purchases of property and equipment in the six month period ended September 30, 2018, which was mainly related to the payment of final costs related to the construction of our new Biocampus manufacturing facility. Purchases of property and equipment in the six month period ended September 30, 2017 were \$12.3 million, which was mainly related to the construction of our new Biocampus manufacturing facility. We also invested \$59.0 million in short-term money market funds in the six month period ended September 30, 2018 and realized \$5.4 million of net cash inflows from our investments in short-term money market funds in the six month period ended September 30, 2017.

Financing activities

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. Net cash provided by financing activities was \$45.2 million during the six month period ended September 30, 2017, consisting of \$45.3 million of net proceeds from the issuance of ordinary shares, offset by \$0.1 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, 2019 to continue at similar or slightly increased levels to those of the year ended March 31, 2018, as we continue to invest in completing the relocation to our new Biocampus manufacturing facility, 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, 2018, we had available cash, cash equivalents and short-term investments of \$68.5 million and \$7.5 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;
- 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 or debt. 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, 2018.

On June 29, 2018, we issued an additional \$36 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 \$120.0 million, with \$9.6 million due in less than a year, \$42.0 million due in 1-3 years, \$52.8 million due in 3-5 years and \$15.6 million due in more than 5 years, and the aggregate amount payable with the royalty rights agreements is \$56.9 million, with \$0 due in less than a year, \$2.1 million due in 1-3 years, \$10.9 million due in 3-5 years and \$43.8 million due in more than 5 years.

There were no other major changes in the nature of our contractual obligations and commitments between March 31, 2018 and September 30, 2018.

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 ASU 2014-09, *Revenue from Contracts with Customers*. Product revenue is recognized at a point in time which is generally at the time of delivery of products to customers.

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 ensure that our revenue recognition is in accordance with applicable accounting standards. 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 we will earn product development revenues when milestones are achieved, the nature of the milestones have been such that they effectively represent full completion of a particular part of a development program. As a result, we typically fully recognize milestone-related revenues as the milestones are achieved in accordance with applicable accounting standards.

Under certain development contracts, we also manufacture and supply the customer with finished products once it has 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, 2018 or in the year ended March 31, 2018.

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, 2018.

Royalty Liability

The royalty rights agreements entered into in connection with the issuances of our Secured Notes 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.

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, 2018, we had cash and cash equivalents of \$3.6 million and we also held \$7.5 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, 2018, we had term debt of \$120 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, 2018, 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, 2018, we estimate that a 5% strengthening of the Swiss Franc against the U.S. Dollar would give rise to a gain of approximately \$1.5 million and a 5% weakening of the Swiss Franc against the U.S. Dollar would give rise to loss of approximately \$1.5 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, 2018, the net operating expenses arising in Pounds Sterling from our UK conventional reagent manufacturing operations amounted to \$18.8 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 2019 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 \$0.6 million in the year ending March 31, 2019 after taking account of the shelter provided by our existing hedging arrangements through March 31, 2019. Similarly, a hypothetical instantaneous 5% weakening of the Pound Sterling against the U.S. Dollar would increase group net income by \$0.6 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, 2018, due to our identification of a material weakness in connection with our evaluation of the effectiveness of our internal control over financial reporting as of March 31, 2018, as further described in Item 9A of our Annual Report on Form 10-K for the year ended March 31, 2018, our disclosure controls and procedures were not 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.

We are in the process of taking the following steps to implement a remediation plan for the material weakness in internal control over financial reporting described in Item 9A of our Annual Report on Form 10-K for the year ended March 31, 2018:

- increase involvement of third party tax advisers to assist and review the tax implications of complex, non-routine transactions; and
- adopt and implement specific management review control procedures around the use of specialists, specifically the review of tax advice and the related accounting treatment under US GAAP.

Based on the foregoing processes and remediation measures, management believes that the above mentioned control deficiencies will be remediated, but the material weaknesses cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Changes in internal control over financial reporting

Other than the remediation measures noted above, there were no other 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. As part of our Annual Report on Form 10-K for the year ending March 31, 2019, we will provide a report of management on our internal control over financial reporting, including management's assessment of the effectiveness of our internal control over financial reporting as of March 31, 2019 following the implementation of this remediation plan.

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

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, 2018.

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

Unregistered Sales of Equity Securities

On August 3, 2018, we entered into two subscription agreements: (i) the first, by and between us and Franz Walt, our Chief Executive Officer, pursuant to which Mr. Walt subscribed for, and we agreed to issue, 45,000 ordinary shares at a price of \$7.54 per share (the "Subscription Price") (which was equal to the closing bid price of our ordinary shares as reported on the Nasdaq Global Market on August 2, 2018) for aggregate proceeds of \$339,300.00 and (ii) the second, by and between us and Heino von Prondzynski, the Chairman of our board of directors, pursuant to which Mr. von Prondzynski subscribed for, and we agreed to issue, 10,000 ordinary shares at the Subscription Price for aggregate proceeds of \$75,400.00. The subscription shares were sold in reliance upon the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended. Each of Mr. Walt and Mr. von Prondzynski represented in his subscription agreement that he was knowledgeable, sophisticated and experienced in financial and business matters, an accredited investor as defined in Regulation D and that he was acquiring the subscription shares with no present intention of distributing any of such shares or any arrangement or understanding with any other persons regarding the distribution of such shares, and appropriate legends were affixed to the subscription shares. The aggregate gross proceeds were \$0.4 million.

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	Subscription agreement dated as of August 3, 2018 by and between Quotient Limited and Franz Walt (filed as exhibit 10.1 to our Form 8-K filed on August 8, 2018 and incorporated herein by reference)
10.2	Subscription agreement dated as of August 3, 2018 by and between Quotient Limited and Heino von Prondzynski (filed as exhibit 10.2 to our Form 8-K filed on August 8, 2018 and incorporated herein by reference)
10.3	Amendment to employment agreement between Quotient Limited and Christopher Lindop dated September 19, 2018
31.1	Certification of Franz Walt, Chief Executive pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Christopher Lindop, Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Franz Walt, Chief Executive pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Christopher Lindop, Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101*	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, 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.

QUOTIENT LIMITED

Date: November 6, 2018

/s/ Franz Walt
Franz Walt
Chief Executive Officer

Transforming transfusion diagnostics.

Private & Confidential

Christopher Lindop
Chemin De Montoiseau 13B
1299 Cran-Près-Céligny

September 19, 2018

Dear Chris,

Contract Amendment

Further to recent conversations in relation to your return to the US, I am writing to confirm that effective October 1, 2018 your employer will be Quotient Limited and our letter of February 20, 2017 will no longer apply. For the avoidance of doubt, we will transfer employment from Quotient Suisse SA to Quotient Limited and your Employment Agreement dated February 9, 2017 will remain in force.

Due to your return to the US, the following amendments to your Employment Agreement dated February 9, 2017 will be made effective from October 1, 2018:-

2. Executive's Compensation, Perquisites and Benefits

2.1 Compensation. In line with local Quotient practice, Base Compensation will be paid in fortnightly installments. Your first payment will be made on October 5, 2018 which will include payment from October 1, 2018 to October 5, 2018.

2.5 Income Tax – Equalization. You will continue to be responsible for filing your US and Swiss tax returns. An external consultant will be provided by the Company to assist you in their preparation. It is your obligation to pay your US and Swiss taxes. Quotient will reimburse the difference should your total Quotient income tax exceed what would be paid if you solely worked for Quotient in the US. For income earned from any other source during your employment with Quotient, the worldwide tax liability on that income will remain your personal responsibility.

3. Place and Hours of Employment

Your normal place of work will be your home office, . Quotient will from time to time require you to travel and be at other locations for one week a month to fulfill your responsibilities. You shall work during Quotient's regular business hours in the geographic location in which you are working at any given time and otherwise as required to fulfill your duties.

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Registered in Switzerland
No. CHE-167.592.818

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Bonne Route de Crassier 13
1262 Eysins, Suisse

4. Relocation Allowance

With effect from October 1, 2018 Clause 4 will no longer be effective as your normal employment location is no longer Switzerland. For the avoidance of doubt the contract amendment dated April 5, 2018, will also no longer apply.

Furthermore, I can confirm that your current personal car leasing arrangement will be transferred to Quotient Suisse SA as soon as possible. Once transferred, you will not have any further personal financial liabilities in relation to this vehicle. Quotient will take full responsibility for the vehicle which will be made available during your business trips to Switzerland. When you are not in Switzerland, the vehicle will be made available to other Quotient employees travelling to Switzerland. If the transfer occurs after October 1, 2018, you may reclaim any costs in relation to the leasing and insurance of the vehicle up to the point of transfer through the Company expense process.

All other terms and conditions contained in your Employment Agreement dated February 9, 2017 remain the same.

Please confirm your acceptance of these amendments by signing both copies of this letter and returning one copy to the Human Resources department.

Yours sincerely,

/s/ Franz Walt

Franz Walt
Chief Executive Officer

I agree to the changes to the Terms and Conditions of Employment as outlined above

Signature /s/ Christopher Lindop _____

Date September 19, 2018 _____

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 6, 2018

/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 6, 2018

/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, 2018 (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 6, 2018

/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, 2018 (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 6, 2018

/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.

