



15 September 2020

Mr Corey Lian
Adviser, Listings Compliance (Sydney)
Australian Stock Exchange

Dear Corey,

Cardiex Limited (ACN 113 252 234)

RE: Response to CardieX Limited: Accounts – Query

Financial Report for the year ended 30 June 2020

Reference: 23511

We refer to your letter dated 8 September 2020 (the **ASX Letter**) querying specific elements of the financial report of CardieX Limited (**CardieX** or the **Company**) for the year ended 30 June 2020 and provide our response as follows:

1. Is Cardiex Limited able to confirm that in the Directors' Opinion the Full Year Accounts:

(a) comply with the relevant Accounting Standards; and

(b) give a true and fair view of Cardiex Limited's financial performance and position?

A: The Directors of CardieX confirm that the Accounts:

(a) comply with the relevant Accounting Standards; and

(b) give a true and fair view of Cardiex Limited's financial performance and position.

2. Please explain the basis for and the factors considered by the Directors to satisfy themselves the particular investments in convertible notes warranted the carrying value attached in the Full Year Accounts.

A: The carrying value of the convertible notes in the Accounts were assessed to be fair based on the expected credit loss assessment of those convertible notes.

This assessment included a detailed review of the operations and financial positions of the respective Note Issuers to repay the principals in the future, including:

1. Recent restructure of a convertible note agreement with an Issuer (inHealth) as recently as June 2020 whereby a material amount of the principal was reduced following a cash repayment and additional equity apportionment in favour of the Company;
2. Change in credit risk of the entities, including net current asset positions;
3. Ongoing business and operational development, including onboarding of new enterprise clients and expansion of the inHealth practice network; and

4. Historical success of the Note Issuers in raising capital.

From this perspective, the directors are satisfied that the business development of issuers are progressing in line with expectations established for the convertible note investments.

However, due to the 'start-up' nature of the Issuers and CardieX itself, there has been minimal historical sales activity up to the signing date. Consequently, it was not possible to provide sufficiently verifiable inputs as audit evidence for future cash flows to repay the principal or to establish a fair-value for an equity stake in the Issuers where the notes are converted.

Similarly, it is the nature of start-ups to rely on ongoing capital and debt raising for funding. At the lodgement date, the Issuers did not have sufficient cash balances to fully repay the convertible notes if demanded. Both Issuers were in initial stages of raising capital but no funds were received by signing date.

3. *What steps has CardieX Limited taken since the release of the Full Year Accounts to obtain an unqualified opinion with regards to its future financial statements?*

A: The Company is not in position to influence the opinion of the independent auditor and it would be inappropriate in the Board and Audit Committee's view to seek to solicit or induce any change in an auditor's opinion in a prior financial period.

This does not change the Company's opinion and is not in the Board's opinion a negative indication of the Company's level of confidence, that it can substantiate and justify the carrying amount in the financial statements of the convertible note balance, notwithstanding the independent auditor's position.

4. *What steps does CardieX Limited intend to take to obtain an unqualified audit opinion with regards to its future financial statements?*

A: The Company will work closely with the Note Issuers to ensure additional sufficient audit evidence is available to substantiate the carrying value of the convertible notes.

If such evidence is unable to be obtained, the convertible notes will be reviewed for impairment accordingly, with reference to other macro or investment relevant thematics of the underlying note or converted equity assumptions of those investments.

5. *Does CardieX Limited consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX as required under listing rule 12.1?*

In answering this question, please explain the basis for this conclusion. In answering this question, please comment on the nature of CardieX Limited's current business activities.

A: The Company is confident that its level of operations is sufficient to warrant continued quotation of its securities on ASX as required under Listing Rule 12.1 and is concerned by the enquiry of the ASX into such a fundamental assumption of its listing on the ASX.

Current business activities include:

1. Marketing and Sales in Global Markets:

- a. Established medical devices product lines for the management and diagnosis of cardiovascular disease, hypertension, and other vascular disorders (XCEL and Oscar 2 medical devices);
- b. Clinical trial services to research and pharmaceutical companies and institutions;
- c. Technology licensing;
- d. Over 4,500 devices installed in locations across 20+ countries globally;
- e. Partner to clinical trials using the company's devices with Bayer and other globally substantial pharmaceutical companies.

2. Product development:

- a. Development of consumer and medical wearable technologies;
- b. Digital health including telehealth, SaaS, and clinician and consumer digital portals and apps;
- c. The development of home vital signs monitors incorporating the company's patented & FDA-cleared SphygmoCor® technology.

3. Financial Capability:

The Group has cash and cash equivalents of \$2,061,642 as at 30 June 2020 (2019: \$4,980,826). As at that date, the Group had net assets of \$5,880,001 (2019: \$6,950,935).

The Group has raised \$1,000,000 in late 2019, equity funding and \$1,500,000 in debt funding in the previous 12-month reporting period, as well as a further \$2,500,000 since 30 June 2020.

The Directors have no reason to believe that it will not be able to continue to source equity or alternative funding if required.

6. Does Cardiac Limited consider that the financial condition of Cardiac Limited is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.

A: The Company is confident that the financial condition of the Company is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2 and refers to its response to Query 5 above in response to this query. Again the Company reiterates its concern by the enquiry of the ASX into such a fundamental assumption of its listing on the ASX.

7. If the answer to question 6 is "No", please explain what steps Cardiac Limited has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rules 12.1 and 12.2.

A: Not applicable.

8. In relation to the Full Year, did the Board receive the CFO and CEO declaration, as described in section 4.2 of Cardix Limited's Corporate Governance Disclosure, that in the opinion of the CFO and CEO, the financial records of Cardix Limited have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of Cardix Limited and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?

A: Yes.

9. If the answer to Question 8 is 'no', why did the Board not receive the CEO and CFO declaration as described in section 4.2 of Cardix Limited's Corporate Governance Disclosure?

A: Not applicable.

10. What enquiries did the Board make of management to satisfy itself that the financial records of Cardix Limited have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of Cardix Limited?

A: The Board relies on a competent and qualified finance function to review and reconcile all financial transactions across the Group.

In addition, the Audit Committee has consistently adopted all recommendations made by its independent auditors with respect to the segregation of duties including approval process and bank account access to ensure the proper day to day reporting of operational numbers and financial data.

The Group also engages an external Chartered Accounting practice to prepare its annual report and financial reporting disclosures that are audited in order to obtain accurate and expert advice on relevant matters as to accounting policy, fair value assessments, and other material assumptions to CardieX's financial reports.

Together with the review and audit by a mid-tier international independent auditor, the Directors are confident that the financial statements have been prepared in accordance with the Australian Accounting Standards.

11. Commenting specifically on the qualified opinion, does the board consider that Cardix Limited has a sound system of risk management and internal control which is operating effectively?

A: Yes. The qualification is due to the Auditor's inability to obtain sufficient information to verify the carrying values of CardieX's financial assets and specifically the convertible note balances and financial position of the underlying Issuers.

This is not abnormal or unexpected given the nature of the Company's investment or rights to such information in the investee entities and to assist in providing additional information the Board maintains frequent communication with the underlying Note Issuers to ensure they remain compliant with the terms of the convertible notes and to examine if there is any indicator of impairment.

12. Given the qualified opinion relates to the Auditor's inability to obtain sufficient information to verify the carrying values of Cardix Limited's financial assets, please explain how the directors satisfied themselves that the carrying values are appropriate and adheres to the current Australian Accounting Standards.

In answering this question, reference should be made to the underlying assumptions used by

the directors in coming to this conclusion, as well as any independent valuations and the validity of the assumptions upon which these valuations are based.

A: Refer to answer to Item 2 as above.

The prospective nature of CardieX's financial assets has contributed to Auditor's inability to obtain sufficient information to verify the carrying values of those financial assets. The carrying value of the convertible notes in the Accounts were assessed based on the expected credit loss of those convertible notes. This assessment included a detailed review of the operations and financial positions of the Issuers to repay the principals where required, including:

1. Recent restructure of a convertible note agreement with an Issuer (inHealth) as recently as June 2020 whereby a material amount of the principal was reduced following a physical repayment and additional equity apportionment in favour of the Company;
2. Change in credit risk of the entities, including net current asset positions;
3. Ongoing business and operational development, including onboarding of new enterprise clients and expansion of the inHealth practice network; and
4. Historical success of the Note Issuers in raising capital.

From this perspective, the directors are satisfied that the business development of issuers are progressing in line with expectations established for the convertible note investments.

13. *Please confirm that CardieX Limited is complying with the Listing Rules and, in particular, Listing Rule 3.1.*

A: Yes.


14. *Please confirm that CardieX Limited's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of CardieX Limited with delegated authority from the board to respond to ASX on disclosure matters.*

A: Confirmed and approved for release unanimously by the Board of Directors.

Please do not hesitate to contact the writer with any queries.

Yours sincerely,

CARDIEX LIMITED


Jarrod White
Director



8 September 2020

Reference: 23511

Mr Jarrod White
Director & Chief Financial Officer
Cardiex Limited
Suite 303, Level 3, 15 Lime St
Sydney, NSW 2000

By email:

Dear Mr White

Cardiex Limited ('Cardiex Limited'): Accounts - Query

ASX refers to the following:

- A. Cardiex Limited's full year accounts for the full year ended 30 June 2020 lodged with ASX Market Announcements Platform and released on 1 September 2020 ('Full Year Accounts').
- B. ASX notes that the Independent Auditor's Report attached to the Full Year Accounts ('Auditor's Report') contains a qualified opinion together with the Basis for qualified opinion:

"...[CDX's] financial assets balance includes investments in convertible notes which are carried in the statement of financial position at \$6,028,392 as at 30 June 2020 as detailed in Note 17. Due to the investees being at their development stage, there was limited evidence available to support the carrying value of the investment. The economic uncertainty associated with the global COVID-19 outbreak has further impacted the availability of appropriate documentation to support the carrying value of the investment..."

- C. Cardiex Limited's Corporate Governance Statement for 2020 lodged on the ASX Market Announcements Platform on 1 September 2020 which provides confirmation that Cardiex Limited complies with recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations which states:

"The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively."

- D. Listing Rule 12.1 which states:

12.1 The level of an entity's operations must, in ASX's opinion, be sufficient to warrant the continued +quotation of the entity's +securities and its continued listing.

- E. Listing Rule 12.2 which states:

12.2 An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued +quotation of its +securities and its continued listing.

- F. Listing Rule 19.11A which states:

19.11A If a listing rule requires an entity to give ASX +accounts, the following rules apply.

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- (a) *If the entity controls an entity within the meaning of section 50AA of the Corporations Act or is the holding company of an entity, required by any law, regulation, rule or accounting standard, or if ASX requires, the +accounts must be consolidated +accounts.*
 - (b) *The +accounts must be prepared to Australian accounting standards. If the entity is a +foreign entity the +accounts may be prepared to other standards agreed by ASX.*
 - (c) *If the listing rule requires audited +accounts, the audit must be conducted in accordance with Australian auditing standards by a registered company auditor. If the entity is a +foreign entity, the audit may be conducted in accordance with other standards agreed by ASX and may be conducted by an overseas equivalent of a registered company auditor.*
 - (d) *If the listing rule requires +accounts to be reviewed, the review must be conducted in accordance with Australian auditing standards. If the entity is a +foreign entity, the review may be conducted in accordance with other standards agreed by ASX. Unless the listing rule says an independent accountant may conduct the review, it must be conducted by a registered company auditor (or, if the entity is a +foreign entity, an overseas equivalent of a registered company auditor).*
 - (e) *If there is a +directors' declaration that relates to the +accounts, the +directors' declaration must be given to ASX with the +accounts.*
 - (f) *If there is a +directors' report that relates to the period covered by the +accounts, the +directors' report must be given to ASX with the +accounts.*

Request for information

In light of the information contained in the Full Year Accounts and the Auditor's Report, and the application of the Listing Rules stated above, please respond to each of the following questions:

1. Is Cardix Limited able to confirm that in the Directors' Opinion the Full Year Accounts:
 - (a) comply with the relevant Accounting Standards; and
 - (b) give a true and fair view of Cardix Limited's financial performance and position?
2. Please explain the basis for and the factors considered by the Directors to satisfy themselves the particular investments in convertible notes warranted the carrying value attached in the Full Year Accounts.
3. What steps has Cardix Limited taken since the release of the Full Year Accounts to obtain an unqualified opinion with regards to its future financial statements?
4. What steps does Cardix Limited intend to take to obtain an unqualified audit opinion with regards to its future financial statements?
5. Does Cardix Limited consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX as required under listing rule 12.1? In answering this question, please explain the basis for this conclusion. In answering this question, please comment on the nature of Cardix Limited's current business activities.
6. Does Cardix Limited consider that the financial condition of Cardix Limited is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.

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7. If the answer to question 6 is “No”, please explain what steps Cardix Limited has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rules 12.1 and 12.2.
 8. In relation to the Full Year, did the Board receive the CFO and CEO declaration, as described in section 4.2 of Cardix Limited’s Corporate Governance Disclosure, that in the opinion of the CFO and CEO, the financial records of Cardix Limited have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of Cardix Limited and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?
 9. If the answer to Question 8 is ‘no’, why did the Board not receive the CEO and CFO declaration as described in section 4.2 of Cardix Limited’s Corporate Governance Disclosure?
 10. What enquiries did the Board make of management to satisfy itself that the financial records of Cardix Limited have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of Cardix Limited?
 11. Commenting specifically on the qualified opinion, does the board consider that Cardix Limited has a sound system of risk management and internal control which is operating effectively?
 12. Given the qualified opinion relates to the Auditor’s inability to obtain sufficient information to verify the carrying values of Cardix Limited’s financial assets, please explain how the directors satisfied themselves that the carrying values are appropriate and adheres to the current Australian Accounting Standards. In answering this question, reference should be made to the underlying assumptions used by the directors in coming to this conclusion, as well as any independent valuations and the validity of the assumptions upon which these valuations are based.
 13. Please confirm that Cardix Limited is complying with the Listing Rules and, in particular, Listing Rule 3.1.
 18. Please confirm that Cardix Limited’s responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of Cardix Limited with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **9:00 AM AEST Wednesday, 16 September 2020**. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, Cardix Limited’s obligation is to disclose the information ‘immediately’. This may require the information to be disclosed before the deadline set out in the previous paragraph and may require Cardix Limited to request a trading halt immediately.

Your response should be sent to me by e-mail at ListingsComplianceSydney@asx.com.au. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in Cardix Limited’s securities under Listing Rule 17.1. If you wish a trading halt, you must tell us:

- the reasons for the trading halt;

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- how long you want the trading halt to last;
 - the event you expect to happen that will end the trading halt;
 - that you are not aware of any reason why the trading halt should not be granted; and
 - any other information necessary to inform the market about the trading halt, or that we ask for.

We require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

Suspension

If you are unable to respond to this letter by the time specified above, ASX will likely suspend trading in Cardix Limited's securities under Listing Rule 17.3.

Listing Rules 3.1 and 3.1A

In responding to this letter, you should have regard to Cardix Limited's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure*: Listing Rules 3.1 – 3.1B. It should be noted that Cardix Limited's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Release of correspondence between ASX and entity

We reserve the right to release a copy of this letter, your reply and any other related correspondence between us to the market under Listing Rule 18.7A.

Questions

If you have any questions in relation to the above, please do not hesitate to contact me.

Kind regards

Corey Lian
Adviser, Listings Compliance (Sydney)