

5 April 2019

Ms A Sinniah
Senior Adviser, Listings Compliance
ASX Limited
Level 40
152 St Georges Terrace
PERTH WA 6000

By email: ListingsCompliancePerth@asx.com.au

Dear Ms Sinniah

I refer to your letter dated 3 April 2019 regarding ASX queries on the accounts of HeraMED Limited (**HMD**).

In response to the questions outlined in your letter, and using the same paragraph numbering as used in that letter, HMD responds as follows:

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

1.1 comply with the relevant Accounting Standards; and

1.2 give a true and fair view of HMD's financial performance and position?

Yes, HMD confirms that in the Directors' opinion the Full Year Accounts comply with the relevant Accounting Standards and give a true and fair view of HMD's financial performance and position.

2. Please explain the basis for and the factors considered by the Directors to satisfy themselves that:

2.1 further funding can be achieved noting that HMD completed a recent capital raising of \$6,000,000 on 5 December 2018 as part of the initial public offering and admission to the official list; and

2.2 The level of expenses can be managed.

The HMD Board is confident that new and existing shareholders will support HMD should it need to raise additional capital in the future due to:

- the successful capital raising by HMD through the IPO in December, 2018 of the maximum number of shares offered;
- the sustained level of HMD's post IPO share trading price in excess of the \$0.20/share issue price, and volume of trading, since commencement of ASX quotation; and
- the clear statement in the IPO Prospectus that it would be likely that future capital raisings could be required by HMD (see Section 1.7, last paragraph on page 23, Section 3(k), Limited Cash on Page 48).

This view is a matter of judgement and will depend upon the state of HMD and the state of equity markets at the time.

The business of HMD has been operating for more than seven years and has successfully managed its cashflow through this time. Accordingly, the Board is confident that management can continue to operate HMD in such a manner.

- 3. Noting that HMD reported a net loss for the 6 month period ended 30 June 2018 in the amount of US\$599,000 and a reported loss of \$3,964,730 for the period ended 31 December 2018, please explain the reasons for the significant losses incurred by HMD in the intervening period between 30 June 2018 to 31 December 2018?**

In the Annual Report lodged with ASX on 29 March 2019, the total comprehensive loss for the year ended 31 December 2018 was reported as \$3,964,730 with the loss for the year being \$3,766,480 (see Pages 4 and 19).

The losses incurred by HMD in the period between 30 June 2018 to 31 December 2018 are attributed as follows:

- a non-cash share-based payment expense of US\$1,008,415 was recognised at 31 December 2018. Further details are included in Note 19 of the Annual Report (see Pages 4 and 19).
- a non-recurring non-cash once off finance expense of US\$927,524 was recognised at 31 December 2018. This once off finance expense was the result of the conversion of A\$2,150,000 convertible notes to 17,200,000 ordinary shares, each at a price of A\$0.125 per share. The shares issued have been valued at the offer issue price of A\$0.20 and the difference between the carrying amount of the outstanding liabilities and the fair value of the shares granted has been recognised as a finance expense.
- IPO listing expenses US\$394,894.

If the abovementioned expenses are excluded from the reported loss of US\$3,766,480, then the annual loss would have been US\$1,435,647 (i.e. a loss of US\$836,647 for the second half of 2018 compared to a loss of US\$599,000 for the first half of 2018) which is a result of the increased activity of HMD reflecting HMD's goals to expedite its commercial launch in several geographies.

- 4. Noting that the pro forma statement of financial position in the Prospectus and in the Updated Pro Forma Balance Sheet states that after the maximum raising HMD would have a cash and cash equivalents position of US\$5,231,000 and a total equity position of US\$5,544,000, please explain the reasons why HMD has a significantly reduced cash and cash equivalents position of US\$4,033,829 and a total equity position of US\$4,340,037 as at 31 December 2018.**

The pro forma statement of financial position of HMD in the Prospectus and in the Updated Pro Forma Balance Sheet states that after the maximum raising HMD would have a cash and cash equivalents position of US\$5,231,000 and a total equity position of US\$5,544,000 as it does not take into account the expenses incurred during the second half of 2018.

- 5. Noting that as at 15 October 2018 the IAR Findings did not disclose a material uncertainty about HMD's ability to continue as a going concern based on a capital raising of \$6,000,000 as contemplated by the Prospectus and the Updated Pro Forma Balance Sheet, please explain why the Full Year Auditors' Opinion contains a modified opinion regarding a material uncertainty about HMD's ability to continue as a going concern given HMD has completed the capital raising as contemplated in the Prospectus and the IAR Findings.**

HMD notes and this has been confirmed by HMD's auditor, BDO, that the Full Year Auditors' Opinion does not contain a modified opinion. HeraMED agrees that the Independent Auditor's Report has noted that there is a "material uncertainty related to going concern" and they subsequently refer to Note 1(c) within the financial accounts. This is defined as an emphasis of matter under Auditing Standards.

HMD's auditor included the statement of material concern related to going concern after reviewing the HMD Group budget which reflected the use of funds in accordance with the Prospectus. As the auditor is required to review HMD's ability to pay its debts as and when they fall due for a period of at least twelve months from the adoption of the Annual Report, the budget indicated further funds would be required in this period. The period to which the auditors reviewed extended to March 2020. Accordingly, it was determined that disclosure should be included in the Annual Report to this effect and the auditor included an emphasis of matter in its audit report.

- 6. Do the directors of HMD consider that the Working Capital Statement remains accurate in light of the Full Year Auditors' Opinion and if so, the basis for their view that the statement remains accurate?**

The table defining the use of funds which is provided pages 12 and 13 is supported by the Notes and commentary to that table on pages 22 and 23 of the Prospectus.

The commentary states that the above table is a statement of current intentions as at the date of the Prospectus. Investors should note that, as with any budget, the allocation of funds set out in the above table may change depending on a number of factors including, but not limited to, the success of HMD' product R&D programmes and marketing programmes, as well as regulatory developments and economic conditions. In light of this, HMD

reserves the right to alter the way funds are applied.

The Board's view is that this statement remains accurate and through the use of our financial control systems it will continue to monitor HMD's expenses and revenues and if necessary, make appropriate budgetary adjustments to expenses to continue operations.

7. What steps has HMD taken since the release of the Full Year Accounts to obtain an unmodified opinion with regards to its future financial statements?

HMD received an Independent Auditor's Report that contained a matter of emphasis paragraph in relation to going concern. That paragraph states that *"Our opinion is not modified in respect of this matter"*. For this reason, HMD believes that it has received an unmodified opinion by virtue of the text of the Independent Auditor's Report.

The Board continues to closely manage its cash reserves, revenue and expenses to ensure that such a situation is avoided.

8. Does HMD consider that the financial condition of HMD 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.

HMD does consider that its financial condition is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2.

As at 31 December 2018, HMD had US\$4.3m in Current Assets. The Board believes that these funds are sufficient to meet the current budgetary requirements of the HMD Group and through the use of its financial control systems, the Board and management will continue to monitor expenses and revenues and if necessary, make appropriate budgetary adjustments to expenses to continue operations.

9. If the answer to question 8 is "No", please explain what steps HMD has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rule 12.2.

Not applicable.

10. Please confirm that HMD is complying with the Listing Rules and, in particular, Listing Rule 3.1.

HMD confirms that it is complying with the Listing Rules and, in particular, Listing Rule 3.1.

Yours sincerely



Stephen Buckley
Company Secretary
HeraMED Limited



3 April 2019

Mr Stephen Buckley
Company Secretary

By email:

Dear Mr Buckley

HERAMED LIMITED ('HMD'): Queries regarding Accounts

ASX refers to the following:

- A. HMD was admitted to the official list of ASX on Monday 10 December 2018 having completed an initial public offering raising \$6,000,000 on 5 December 2018.
- B. The Investigating Accountant's Report ("IAR") in the prospectus dated 15 October 2018 ("Prospectus") which states:

Pro Forma Historical Financial information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information as described in the Appendices to this Report, and comprising:

- *the pro forma historical Statement of Financial Position of HeraMed as at 30 June 2018,*

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 2 of this Report".

("IAR Findings").

- C. The statement in the Prospectus on page 12 and 23 being:

"The Directors are satisfied that upon completion of the Public Offer, the Company will have sufficient working capital to carry out its objectives set out in this Prospectus"

("Working Capital Statement").

- D. The statement of profit or loss and other comprehensive income in Appendix 1 of the IAR in the Prospectus, which disclosed that HMD's net loss for the 6-month period ended 30 June 2018 was US\$599,000.
- E. The statement of financial position in Appendix 2 of the IAR discloses that after the raising of \$6,000,000 as contemplated by the Prospectus public offer HMD would have cash and cash equivalents of US\$5,231,000 and a total equity position of US\$5,544,000.
- F. Pursuant to the updated pro forma balance sheet lodged with ASX Market Announcements Platform on 10 December 2018, HMD raised the maximum subscription amount of \$6,000,000 on 5 December 2018 ("Updated Pro Forma Balance Sheet").
- G. HMD's full year accounts for the full year ended 31 December 2018 lodged with ASX Market Announcements Platform and released on 29 March 2019 ("Full Year Accounts").
- H. The Full Year Accounts disclose that HMD reported a total loss of US\$3,964,730, had cash and cash equivalents of US\$4,033,829 and total equity of US\$4,340,037.

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- I. The Independent Auditor's Report attached to the Full Year Accounts ("Auditor's Report") contains a modified audit opinion:

"Material uncertainty related to going concern"

We draw attention to Note 1(c) in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter."

("Full Year Auditor's Opinion").

- J. Note 1(c) of the Full Year Accounts which states the following:

"c) Going Concern"

The financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the ordinary course of business. The Group incurred a loss for the year ended 31 December 2018 of \$3,766,480 (2017: \$788,695) and net cash outflows from operating activities of \$1,766,146 (2017: \$546,736).

The ability of the Group to continue as a going concern is dependent on securing additional funding through either equity, debt or receipts from product sales, or a combination of all, to continue to fund its operational and technology development activities. These conditions indicate a material uncertainty that may cast a significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors believe the Group will continue as a going concern, after consideration of the following factors:

- *the Group has recently been successful in raising equity and believes that further funding can be raised if required; and*
- *the level of expenses can be managed.*

Should the Group not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements or raise additional capital through equity or debts raisings and that the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the Group not continue as a going concern and meet its debts as and when they become due and payable.

The directors plan to continue the Group's operations on the basis as outlined above and believe there will be sufficient funds for the Group to meet its obligations and liabilities for at least twelve months from the date of this report."

- K. 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.

- L. 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.

M. Listing Rule 19.11A which states:

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

- (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 HMD able to confirm that in the Directors' Opinion the Full Year Accounts:
 - 1.1 comply with the relevant Accounting Standards; and
 - 1.2 give a true and fair view of HMD's financial performance and position?
2. Please explain the basis for and the factors considered by the Directors to satisfy themselves that:
 - 2.1 further funding can be achieved noting that HMD completed a recent capital raising of \$6,000,000 on 5 December 2018 as part of the initial public offering and admission to the official list; and
 - 2.2 The level of expenses can be managed.
3. Noting that HMD reported a net loss for the 6 month period ended 30 June 2018 in the amount of US\$599,000 and a reported loss of \$3,964,730 for the period ended 31 December 2018, please explain the reasons for the significant losses incurred by HMB in the intervening period between 30 June 2018 to 31 December 2018?

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4. Noting that the pro forma statement of financial position in the Prospectus and in the Updated Pro Forma Balance Sheet states that after the maximum raising HMD would have a cash and cash equivalents position of US\$5,231,000 and a total equity position of US\$5,544,000, please explain the reasons why HMD has a significantly reduced cash and cash equivalents position of US\$4,033,829 and a total equity position of US\$4,340,037 as at 31 December 2018.
 5. Noting that as at 15 October 2018 the IAR Findings did not disclose a material uncertainty about HMD's ability to continue as a going concern based on a capital raising of \$6,000,000 as contemplated by the Prospectus and the Updated Pro Forma Balance Sheet, please explain why the Full Year Auditors' Opinion contains a modified opinion regarding a material uncertainty about HMD's ability to continue as a going concern given HMD has completed the capital raising as contemplated in the Prospectus and the IAR Findings.
 6. Do the directors of HMD consider that the Working Capital Statement remains accurate in light of the Full Year Auditors' Opinion and if so, the basis for their view that the statement remains accurate?
 7. What steps has HMD taken since the release of the Full Year Accounts to obtain an unmodified opinion with regards to its future financial statements?
 8. Does HMD consider that the financial condition of HMD 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.
 9. If the answer to question 8 is "No", please explain what steps HMD has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rule 12.2.
 10. Please confirm that HMD is complying with the Listing Rules and, in particular, Listing Rule 3.1.

When and where to send your response

Please note that ASX reserves its right under Listing Rule 18.7A to release this letter and HMD's response to the market. Accordingly, HMD's response should address each question separately and be in a format suitable for release to the market.

Unless the information is required immediately under Listing Rule 3.1, a response is requested as soon as possible and, in any event by no later than **9 am AWST Monday, 8 April 2019**.

Any response should be sent to me by return email at ListingsCompliancePerth@asx.com.au. It should not be sent to the ASX Market Announcements Office.

Enquiries

If you have any queries regarding any of the above, please contact me.

Regards

Anjuli Sinniah
Senior Adviser, Listings Compliance (Perth)