

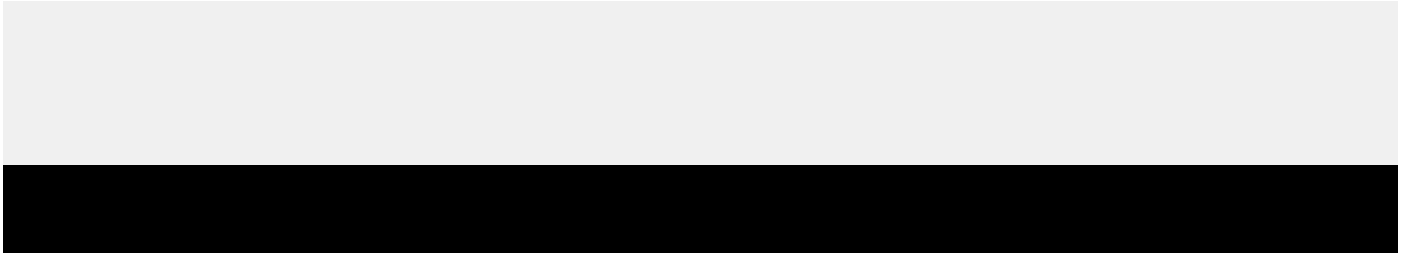
## FINANCIAL STATEMENTS

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- > SLEEP DIAGNOSTICS & TREATMENT
- > NEURO DIAGNOSTICS
- > BRAIN RESEARCH
- > ULTRASONIC BLOOD FLOW MONITORING
- > MEDICAL INNOVATIONS

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# Annual Financial Statements

for the year ended 30 June 2020

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## Contents

|  |           |
|--|-----------|
| <b>Corporate Information</b>   | <b>1</b>  |
| <b>Directors' Report</b>   | <b>2</b>  |
| <b>Auditor's Independence Declaration</b>                                      | <b>15</b> |
| <b>Financial Statements – 30 June 2020</b>                                     | <b>16</b> |
| <b>Consolidated Statement of Profit or Loss And Other Comprehensive Income</b> | <b>17</b> |
| <b>Consolidated Statement of Financial Position</b>                            | <b>18</b> |
| <b>Consolidated Statement of Changes in Equity</b>                             | <b>19</b> |
| <b>Consolidated Statement of Cash Flows</b>                                    | <b>20</b> |
| <b>Notes to the Financial Statements</b>                                       | <b>21</b> |
| <b>Directors' Declaration</b>  | <b>65</b> |
| <b>Independent Auditor's Report</b>  | <b>66</b> |

## Corporate Information

This annual report covers Compumedics Limited as a consolidated entity comprising Compumedics Limited and its subsidiaries. The Group's functional and presentation currency is AUD (\$).

A description of the Group's operations and its principal activities is included in the review of operations and activities in the directors' report on pages 2 to 14. The directors' report is not part of the financial report.

|   |   |
|---|---|
| <b>Directors</b>                                | Dr. David Burton<br>Mr. David Lawson<br>Mr. Tucson Dunn   |
| <b>Secretary</b>                                | Mr. David Lawson  |
| <b>Executive team</b>                           | <b>Executive Chairman, CEO</b><br>David Burton<br><b>Executive Director and CFO</b><br>David Lawson<br><b>Chief Technology Officer</b><br>Warwick Freeman<br><b>General Managing Director DWL Compumedics Germany GmbH</b><br>Christoph Witte |
| <b>Notice of annual general meeting</b>         | The annual general meeting of Compumedics Limited<br><b>will be held at</b> Compumedics Limited<br>30-40 Flockhart Street<br>Abbotsford VIC 3067<br><b>time</b> 10.30am<br><b>date</b> Thursday 19 November 2020                              |
| <b>Principal registered office in Australia</b> | 30-40 Flockhart Street<br>Abbotsford VIC 3067<br>Telephone: (03) 8420 7300  |
| <b>Share registers</b>                          | Automic Pty Ltd<br>Level 12<br>575 Bourke Street<br>Melbourne VIC 3000<br>Phone: Local: 1300 288 664<br>Phone: International: +61 2 9698 5414   |
| <b>Auditor</b>                                  | Nexia Melbourne Audit Pty Ltd<br>Level 12<br>31 Queen Street<br>Melbourne VIC 3000  |
| <b>Stock exchange listings</b>                  | Compumedics Limited shares are listed on the Australian Stock Exchange. Compumedics' ASX code is CMP.   |
| <b>Website address</b>                          | <a href="http://www.compumedics.com.au">www.compumedics.com.au</a>  |

## Directors' Report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Compumedics Limited and the entities it controlled at the end of, or during, the year ended 30 June 2020.

The following persons were directors of Compumedics Limited during the whole of the financial year and up to the date of this report unless otherwise stated:

Dr. David Burton  
Mr. David Lawson  
Mr. Tucson Dunn

### Principal activities

During the year the principal continuing activities of the Group were the research, development, manufacture and distribution of medical equipment. There have been no significant changes in the operation of the Group during the year.

### Dividends

The directors have not declared a dividend in the current financial year (2019: nil).

### Review of operations

Information on the operations and financial position of the Group and its business strategies and prospects and a summary of consolidated revenue and results by operating segments are set out below:

|   | Total Revenue |               | Segment Results |              |
|---|---------------|---------------|-----------------|--------------|
|   | 2020          | 2019          | 2020            | 2019         |
|   | \$000         | \$000         | \$000           | \$000        |
| USA                                     | 12,581        | 13,773        | 726             | 1,457        |
| Australia and Asia Pacific              | 14,972        | 18,634        | 1,836           | 3,883        |
| Europe                                  | 7,516         | 9,098         | (320)           | 558          |
| Total continuing operations             | <b>35,069</b> | <b>41,505</b> | <b>2,242</b>    | <b>5,898</b> |
| Depreciation and amortisation           |               |               | (1,664)         | (550)        |
| Impairment of intangible assets         |               |               | (7,661)         | -            |
| Finance costs                           |               |               | (420)           | (261)        |
| Other income                            |               |               | -               | -            |
| Profit/(loss) before income tax expense |               |               | (7,503)         | 5,087        |
| Income tax benefit/(expense)            |               |               | 1,665           | (1,071)      |
| Profit/(loss) for the year              |               |               | <b>(5,838)</b>  | <b>4,016</b> |

Comments on the operations and the results of those operations are set out below:

During the second half of the 2020 financial year the Company was adversely impacted by the containment measures taken globally to minimise the spread of COVID-19. Up until that time the Company had been planning for the second installation phase of its first MEG sale at the Barrow Neurological Institute (BNI) in the USA. At the same time, the Group had also progressed development of and commercialisation activities relating to the Somfit, consumer based, sleep monitoring device and technology. In addition, the Company had concurrently with these two step-out growth opportunities, continued to grow its core sleep, neuro diagnostic and trans cranial Doppler business. These activities were halted or significantly slowed in the last quarter of the 2020 financial year as the Company's main markets were effectively shut for a period. Subsequently the Company responded quickly in order to minimise spending and to avail itself of various government support around the world, enabling the Company to trade profitably, on an underlying basis, pre the write-down of the carrying value of its intangible assets.

## FINANCE

During the second half of the 2020 financial year the Company sought and obtained additional and temporary working capital facilities in order to trade through the unknown circumstances of the COVID-19 pandemic. This involved an additional \$1.5m increase in the Company's existing \$1.0m overdraft facility. The Company also converted its existing USD1m facility in relation to the MEG business into an AUD1.6m bank bill maturing in June 2021. There were no other financing activities during the 2020 financial year.

## OPERATIONS

Compumedics research and development (R&D) investment was lower than the prior year at approximately 11% of sales for the 2020 financial year, which remains about twice the industry standard. Consequently, the Group has retained its technological leadership, with a strong pipeline of new and exciting upcoming product releases and upgrades.

In order to ensure the Group operates as efficiently as possible a number of existing projects have concluded and new projects commenced during the financial year. These include reviewing production location for its new range of products being released over the next 12 months.

While these structural transforms have demanded on-going investment in the short term, in terms of personnel, engineering and components, they have and will continue to result in substantial savings and elevated shareholder returns in the medium term through on-going improved margins.

## STRENGTHENED SALES AND MARKETING

The Group achieved the following geographical outcomes.

### *(a) USA*

Total US revenues were \$12.6m for the year ended 30 June 2020 compared to \$13.8m for the prior year. The reduced sales revenue in the US reflects the impacts of the COVID-19 pandemic in the second half of the 2020 financial year. Despite the pandemic the Company continues to strengthen the structure of the general and sales and marketing management and team members to drive growth as the pandemic subsides.

### *(b) Asia Pacific*

Australian and Asia Pacific revenues for the year ended 30 June 2020 were \$15.0m compared to \$18.6m for the prior year. The Chinese and other Asian markets were particularly hard hit by the COVID-19 pandemic from late January 2020 onwards, whereas Australia was not significantly down on the prior year. It is expected that the Company's China-based sales will not grow as strongly as they have in the past.

### *(c) Europe*

European revenues for the year ended 30 June 2020 were \$7.5m compared to the prior year of \$9.1m reflecting reduced sales as a consequence of most of the major European markets being in lockdown in response to the COVID-19 pandemic through most of the last quarter of the 2020 financial year.

The Group, with a focus on working around the COVID-19 pandemic continues to look for ways to make gains in Neuro diagnostic markets around the world, particularly where we sell directly, such as, the US, Australia, Germany and France.

In the Group's core sleep diagnostic business, Compumedics has the most sophisticated and advanced range of sleep-monitoring systems of any of the companies competing in these markets. The Group continues to be recognised as a leading sleep diagnostic Company worldwide and as such global sleep diagnostic markets continue to offer opportunities for growth as the Company and customers respond to new ways of operating through the COVID-19 pandemic.

The Group is continuing to develop its eHealth, Cloud or WEB enabled, sleep diagnostic solution for key markets around the world. This has included detailed discussions around joint venture and other similar structures with potential key international strategic partners. The Company now has more than 46 sites in the US and Australia for its Nexus 360 Professional sleep diagnostic cloud-based service with invoiced revenues of about \$1.1m in FY2020 (\$666k in FY2019) and a contracted revenue run rate over \$1.5m as we exit the 2020 financial year.

The Group is also planning the installation of the second phase of its first MEG system to the Barrow Neurological Institute in Phoenix, Arizona, USA.

## **BREAKOUT MEDICAL INNOVATIONS**

Compumedics Medical Innovation (CMI) division has continued to develop a number of breakout technology platforms. Each of these CMI platforms incorporates a folio of patents, compliments Compumedics' core business, presents unique and significant product differentiation, and has been independently validated, as outlined in the subsequent sections.

## **SUMMARY**

The Group is clearly focused on the following key goals being:

- 1 The geographical expansion of the core sleep diagnostic and neuro diagnostic monitoring businesses into global territories, where the Group has little or no market share.
- 2 Completing the second and final phase of the first MEG sale to Barrow Neurological Institute in Phoenix, AZ, USA, whilst concurrently pursuing the next MEG opportunities.
- 3 Substantially grow the Nexus 360 cloud-based sleep diagnostic business from the current 46 sites in the US and Australia.
- 4 Continue the productivity enhancement programs to eliminate and reconfigure expensive and inefficient processes with all parts of the business.
- 5 Commercialisation of the Group's consumer sleep technology, Somfit.

This is a great Company and we remain confident the operational initiatives currently being undertaken will continue to improve profitability in the short-term, allowing our very positive prospects for the medium and long-term to be realised. The demand for innovative healthcare solutions continues to be underpinned by an ever-increasing ageing population, coupled with the growing incidence and awareness of neurology and sleep disorders.

## **Likely Developments and Expected Results**

The focus for the Group will be on guiding the business through the COVID-19 pandemic and restoring the profitable growth achieved in prior years to further capitalise on the larger and growing customer base of the Group. The Group will also continue development of its MEG business and commercialisation of its Somfit product with interested international partners.

Given the ongoing and uncertain impacts of the COVID-19 pandemic on our key markets around the world it remains very difficult to forecast the Company's expected results for any given future period. As such, the Company remains unable to provide guidance at this time.

## **Significant Changes in State of Affairs**

There have been no significant changes in the state of affairs of the Group during the financial year.

## **Matters Subsequent to the End of the Financial Year**

The Directors are not aware of any matters subsequent to the end of the financial year that would have a material impact on the financial performance of the Group.

## **Environmental Regulation**

The Group is not subject to significant environmental regulation in respect of its activities.

## Information on directors

### ***Dr. David Burton, Chairman and Chief Executive Officer, Age 61***

#### *Experience and expertise*

Founder and major shareholder through related entity. He was awarded an Associate Diploma in Engineering (Electronics) by the Royal Melbourne Institute of Technology and a Ph.D. (Eng. Sc.) by Monash University, Melbourne (Australia). Dr. Burton's engineering background includes the design and project management of the Compumedics' first sleep laboratory and portable sleep systems. Dr. Burton has authored fifteen patents or patent applications that form part of Compumedics' key intellectual property. Extensive experience in the development, design, manufacture and sale of medical devices and the development of the business.

#### *Other current directorships*

D & DJ Burton Holdings Pty Ltd  
Intellirad Pty Ltd  
Electro Molecular Pty Ltd

#### *Former directorships in last 3 years*

None

#### *Special responsibilities*

Chairman of the Board  
Member of Remuneration Committee  
Member of Audit Committee

#### *Interests in shares and options through related entities*

98,044,319 ordinary shares in Compumedics Limited  
Nil options over ordinary shares in Compumedics Limited

### ***Mr David Lawson, Executive Director and Chief Financial Officer, Age 55***

#### *Experience and expertise*

Has a Bachelor of Commerce from Melbourne University and is a Member of Chartered Accountants Australia and New Zealand. He has extensive experience in the development of the Compumedics business over the last 20 years and prior to that held a number of management positions with another listed public entity.

#### *Other current directorships*

None

#### *Former directorships in last 3 years*

Swinburne Ventures Pty Ltd (ceased 4 June 2018)

#### *Special responsibilities*

Member of the Remuneration Committee  
Member of the Audit Committee

#### *Interests in shares and options*

3,470,724 ordinary shares in Compumedics Limited

### ***Mr Tucson Dunn Non-Executive Director, Age 58***

#### *Experience and expertise*

Currently working with JLM Investment, (USA) as CEO of Healthcare where he is responsible for healthcare ventures. Prior to joining JLM, Mr. Dunn served as Managing Director of Fosun Healthcare Holdings in Shanghai China. Mr. Dunn has over 25 years of international healthcare leadership experience developing and managing hospitals, clinics and related business throughout Asia, Middle East, Europe and USA.

#### *Other current directorships*

None

#### *Former directorships in last 3 years*

None



*Special responsibilities*

None at this report

*Interests in shares and options*

Nil

**Company secretary**

The Company secretary is Mr. D. F. Lawson, Chartered Accountant. Mr. Lawson was appointed to the position of Company Secretary in 2000. Mr. Lawson has a Bachelor of Commerce from Melbourne University and is a Member of Chartered Accountants Australia and New Zealand.

**Meetings of directors**

The numbers of meetings of the Company's Board of directors and of each Board committee held during the year ended 30 June 2020 and the numbers of meetings attended by each director were:

|                  | Meetings of committees     |   |       |   |              |   |
|------------------|----------------------------|---|-------|---|--------------|---|
|                  | Full meetings of directors |   | Audit |   | Remuneration |   |
|                  | A                          | B | A     | B | A            | B |
| Dr. David Burton | 7                          | 7 | 2     | 2 | 1            | 1 |
| Mr. David Lawson | 7                          | 7 | 2     | 2 | 1            | 1 |
| Mr. Tucson Dunn  | 7                          | 7 | 2     | 2 | 1            | 1 |

A – Number of meetings attended

B – Number of meetings held during the time the director held office or was a member of the committee during the year

**Remuneration report (audited)**

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation
- E Additional information

The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

**A Principles used to determine the nature and amount of remuneration**

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders and conforms to market practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management

The Group has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation. The Board is satisfied remuneration recommendations are made free from undue influence by the members of the key management personnel.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price
- delivering constant return on assets as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution

The framework provides a mix of fixed and variable pay, and a blend of short and long-term incentives. As executives gain seniority with the group, the balance of this mix shifts to a higher proportion of "at risk" rewards.

The Board has established a remuneration committee, which provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors. The Corporate Governance Statement provides further information on the role of this committee.

### **Non-executive directors**

Fees and payments to non-executive directors reflect the demands, which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

Non-executive directors do not receive share options.

#### *Directors' fees*

The current base remuneration was last reviewed with effect from 1 July 2007. The Chairman's remuneration is inclusive of committee fees while other non-executive directors who chair a committee receive additional yearly fees.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$250,000 total pool per annum.

The following fees have been applied:

|                                   | From 1 July 2019<br>to 30 June 2020<br>\$ | From 1 July 2018<br>to 30 June 2019<br>\$ |
|-----------------------------------|---|---|
| <b>Base fees</b>                  |   |   |
| Chairman                          | 50,000                                    | 50,000                                    |
| Other non-executive directors     | 30,000                                    | 30,000                                    |
| <b>Additional Fees</b>            |   |   |
| Audit committee – chairman        | 5,000                                     | 5,000                                     |
| Audit committee – member          | 2,500                                     | 2,500                                     |
| Remuneration committee – chairman | 5,000                                     | 5,000                                     |
| Remuneration committee – member   | 2,500                                     | 2,500                                     |

### ***Executive pay***

The executive pay and reward framework has 5 components:

- Base pay and benefits
- Short-term performance incentives
- Long-term incentives through participation in the Compumedics Limited Employee Option Plan
- Other remuneration such as superannuation, and
- Long-term equity linked incentive program specifically for the head of the Medical Innovations Division.

The combination of these comprises the executive's total remuneration.

#### ***Base pay***

Structured as a total employment cost package, which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

#### ***Benefits***

Executives may receive benefits including health insurance, car allowances, other expense reimbursements and tax advisory services.

#### ***Superannuation***

Retirement benefits are currently limited to the statutory rate of superannuation but are not capped based on salary. Executives may elect to make further salary sacrifice additions to superannuation funds of their choice, up to the allowable limits prescribed.

#### ***Short-term incentives***

Should the Group achieve a pre-determined profit target set by the remuneration committee a pool of short-term incentive (STI) is available to executives during the annual review. Using a profit target ensures variable award is only available when value has been created for shareholders and when profit is consistent with the business plan. The incentive pool is leveraged for performance above the threshold to provide an incentive for executive out-performance.

Each executive has a target STI opportunity depending on the accountabilities of the role and impact on the organisation or business unit performance. The maximum target bonus opportunity can be up to 60% of base pay, as determined by the remuneration committee each year.

Each year, the remuneration committee considers the appropriate targets and key performance indicators (KPIs) to link the STI plan and the level of payout if targets are met. This includes setting any maximum payout under the STI plan, and minimum levels of performance to trigger payment of STI.

For the year ended 30 June 2020, the KPIs linked to short-term incentive plans were based on Group, individual business and personal objectives. KPIs are set according to the individual responsibilities of each member of the executive team.

Each year the remuneration committee considers the appropriate targets and key performance indicators (KPI's) to link the Short-Term Incentive (STI) plan and the level of payout if targets are met. This includes setting any maximum payout under the STI plan and minimum levels of performance to trigger payment of STI.

The short-term bonus payments may be adjusted up or down in line with under or over achievement against the target performance levels. This is at the discretion of the remuneration committee.

The STI target payment is assessed by the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) following the end of each financial year and any payments due are recommended to the remuneration committee for authorisation. The CEO and CFO recommend STI targets for the following year for key executives, which are put to the remuneration committee for review and authorisation annually.

*Long-term incentives*

The Group has instigated a long-term incentive program for one executive. At 30 June 2020 no other long-term incentive plans were in place for any other Director or key management personnel. Any instigation of a long-term incentive program for any other executive of the Group will be determined by and authorised by the remuneration committee and the remuneration committee will assess subsequent performance.

Medical Innovation Long Term Performance Plan (MI-LTPP)

The Group has formalised and gained approval at the 2009 and 2014 annual general meetings for the MI-LTPP for the head of the Medical Innovations Division ("Division Head"), who is currently the Executive Chairman. The rationale of the MI-LTPP is to reward the Division Head where future commercial projects are met on the following criteria:

1. The future commercial project is based on innovative, novel and patentable technology;
2. The patented technology is supplementary to, but consistent with, the ongoing businesses of Compumedics Limited; and
3. There is significant risk attached to the development of the intellectual property or technology and the commercialisation thereof.

On the basis that these 3 criteria exist, and, determined by the Remuneration Committee, a commercial project will be eligible for inclusion under the MI-LTPP. At 30 June 2020 the Remuneration Committee has approved several projects that are eligible under the MI-LTPP subject to the parameters discussed below.

The parameters of the MI-LTPP include that the Division Head will be entitled to an incremental 8% equity in any subsidiary entities of the Group that develop projects that meet all of criteria 1 to 3. The 8% equity will only deliver value to the Divisional Head where value is created for the whole Group, in which case the Group receives 92% of the incremental value created.

The entitlement will be calculated after repayment of any initial costs of establishment or development costs outlaid by Compumedics. The Directors have sought and gained expert advice that the entitlements under the plan form part of remuneration for the purposes of accounting standards and are fair and reasonable, having regard to relevant circumstances.

The Board recommended to shareholders and the shareholders approved, at the 2014 AGM, the 8% equity be issued to the Division Head. As a result, 8% of the issued capital of Compumedics Medical Innovation Pty Ltd was issued to David Burton, late October 2014.

Compumedics Employee Option Plan

Information on the Compumedics Option Plan is set out in section D and note 29 to the Financial Statements. There are no share-based payments for the year ended 30<sup>th</sup> June 2020.

**Details of remuneration***Amounts of remuneration*

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of Compumedics Group are set out in the following tables.

The key management personnel of the Group are the directors of Compumedics Limited (see pages 5 to 6 above) and those executives that report directly to the Chief Executive Officer being:

- Warwick Freeman, Chief Technology Officer
- Christoph Witte, Managing Director – Compumedics Germany GmbH

**Remuneration of key management personnel and other executives of the Group**

| 2020   | Short-term benefits     |               |                          | Post-employment benefits |                        | Long term benefits    | Share based payments |                  |
|--|-------------------------|---------------|--------------------------|--------------------------|------------------------|-----------------------|----------------------|------------------|
| Name   | Cash salary and fees \$ | Cash bonus \$ | Non-monetary benefits \$ | Super-annuation \$       | Retirement benefits \$ | Long service leave \$ | Options \$           | Total \$         |
| <i>Non-executive directors</i>                     |                         |               |                          |                          |                        |                       |                      |                  |
| Tucson Dunn  | 28,500                  | -             | -                        | -                        | -                      | -                     | -                    | 28,500           |
| <b>Sub-total non-executive directors</b>           | <b>28,500</b>           | <b>-</b>      | <b>-</b>                 | <b>-</b>                 | <b>-</b>               | <b>-</b>              | <b>-</b>             | <b>28,500</b>    |
| <i>Executive Chairman</i>                          |                         |               |                          |                          |                        |                       |                      |                  |
| David Burton                                       | 47,500                  | -             | -                        | -                        | -                      | -                     | -                    | 47,500           |
| <i>Executive Director &amp; CEO</i>                |                         |               |                          |                          |                        |                       |                      |                  |
| David Burton                                       | 169,365                 | -             | -                        | 20,602                   | -                      | -                     | -                    | 189,967          |
| <i>Executive Director</i>                          |                         |               |                          |                          |                        |                       |                      |                  |
| David Lawson                                       | 33,250                  | -             | -                        | -                        | -                      | -                     | -                    | 33,250           |
| <i>Executive Director &amp; CFO</i>                |                         |               |                          |                          |                        |                       |                      |                  |
| David Lawson                                       | 212,583                 | -             | -                        | 20,195                   | -                      | 4,277                 | -                    | 237,055          |
| <i>Other key management personnel</i>              |                         |               |                          |                          |                        |                       |                      |                  |
| Warwick Freeman                                    | 223,478                 | -             | -                        | 21,230                   | -                      | 11,130                | -                    | 255,838          |
| Christoph Witte                                    | 332,609                 | -             | 29,987                   | 24,736                   | -                      | -                     | -                    | 387,332          |
| <b>Total key management personnel compensation</b> | <b>1,047,285</b>        | <b>-</b>      | <b>29,987</b>            | <b>86,763</b>            | <b>-</b>               | <b>15,407</b>         | <b>-</b>             | <b>1,179,442</b> |

| 2019   | Short-term benefits     |               |                          | Post-employment benefits |                        | Long term benefits    | Share based payments |                  |
|--|-------------------------|---------------|--------------------------|--------------------------|------------------------|-----------------------|----------------------|------------------|
| Name   | Cash salary and fees \$ | Cash bonus \$ | Non-monetary benefits \$ | Super-annuation \$       | Retirement benefits \$ | Long service leave \$ | Options \$           | Total \$         |
| <i>Non-executive directors</i>                     |                         |               |                          |                          |                        |                       |                      |                  |
| Alan Anderson                                      | 22,798                  | -             | -                        | -                        | -                      | -                     | -                    | 22,798           |
| <b>Sub-total non-executive directors</b>           | <b>22,798</b>           | <b>-</b>      | <b>-</b>                 | <b>-</b>                 | <b>-</b>               | <b>-</b>              | <b>-</b>             | <b>22,798</b>    |
| <i>Executive Chairman</i>                          |                         |               |                          |                          |                        |                       |                      |                  |
| David Burton                                       | 50,000                  | -             | -                        | -                        | -                      | -                     | -                    | 50,000           |
| <i>Executive Director &amp; CEO</i>                |                         |               |                          |                          |                        |                       |                      |                  |
| David Burton                                       | 178,280                 | -             | -                        | 21,687                   | -                      | -                     | -                    | 199,967          |
| <i>Executive Director</i>                          |                         |               |                          |                          |                        |                       |                      |                  |
| David Lawson                                       | 35,000                  | -             | -                        | -                        | -                      | -                     | -                    | 35,000           |
| <i>Executive Director &amp; CFO</i>                |                         |               |                          |                          |                        |                       |                      |                  |
| David Lawson                                       | 222,870                 | -             | -                        | 21,172                   | -                      | 2,139                 | -                    | 246,181          |
| <i>Other key management personnel</i>              |                         |               |                          |                          |                        |                       |                      |                  |
| Warwick Freeman                                    | 257,920                 | -             | -                        | 21,177                   | -                      | 2,139                 | -                    | 281,236          |
| Christoph Witte                                    | 316,182                 | -             | 11,482                   | 23,923                   | -                      | -                     | -                    | 351,587          |
| <b>Total key management personnel compensation</b> | <b>1,083,050</b>        | <b>-</b>      | <b>11,482</b>            | <b>87,959</b>            | <b>-</b>               | <b>4,278</b>          | <b>-</b>             | <b>1,186,769</b> |

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

| Name  | Fixed Remuneration |        | At risk – STI |        | At risk - LTI |        |
|---|--------------------|--------|---------------|--------|---------------|--------|
|   | 2020 %             | 2019 % | 2020 %        | 2019 % | 2020 %        | 2019 % |
| Directors of Compumedics Limited                      |                    |        |               |        |               |        |
| David Burton  | 100                | 100    | -             | -      | -             | -      |
| Tucson Dunn   | 100                | 100    | -             | -      | -             | -      |
| David Lawson  | 100                | 100    | -             | -      | -             | -      |
| Other key management personnel of Compumedics Limited |                    |        |               |        |               |        |
| Warwick Freeman                                       | 100                | 100    | -             | -      | -             | -      |
| Other key management personnel of the Group           |                    |        |               |        |               |        |
| Christoph Witte                                       | 100                | 100    | -             | -      | -             | -      |

The table below identifies for each cash bonus and grant of options included in the tables on page 10, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria set. No other cash bonus targets were set for any other executive of the Group for the year ended 30 June 2020. As such no other executive was eligible for a cash bonus and as a consequence did not forfeit a cash bonus.

| Name            | Cash bonus |                |
|-----------------|------------|----------------|
|                 | Paid<br>%  | Forfeited<br>% |
| David Burton    | N/A        | N/A            |
| David Lawson    | N/A        | N/A            |
| Christoph Witte | N/A        | N/A            |

## C Service agreements

On appointment to the Board, all non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office of the director.

Remuneration and other terms of employment for the Chief Financial Officer and the other key management personnel are also formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses, other benefits including health insurance, car allowances and tax advisory services, and other benefits set out below.

All contracts with executives may be terminated early by either party, subject to termination payments, as detailed below.

Remuneration payments for the year ended 30 June 2020, have been temporarily reduced by 20% from 1<sup>st</sup> April 2020 in response to the COVID-19 pandemic.

### *David Burton, Chief Executive Officer/Chairman*

- Fee for services provided for the year ended 30 June 2020 of AUD189,967, to be reviewed annually by the remuneration committee. Directors fees of \$47,500 were also paid (2019: \$50,000). David Burton is also entitled to participate in the Medical Innovation Long Term Performance Plan as approved at the 2009 and 2014 Annual General Meetings.
- D & DJ Burton Holdings Pty Ltd a Company associated with D. Burton receives licence fees, described in Note 30.
- Performance bonus: No performance bonus was paid during the financial year. (2019: NIL).
- Review of last salary and fees -1 July 2019
- David Burton has a formal Employment Contract, which covers the above terms, amongst other items, including a twelve-month notice period.

### *David Lawson, Executive Director, Chief Financial Officer/Company Secretary*

- Base salary inclusive of superannuation, for the year ended 30 June 2020 of AUD 237,055 to be reviewed annually by the remuneration committee. Directors fees of \$33,250 were also paid (2019: \$35,000)
- Performance bonus: No performance bonus was granted or paid during the financial year. (2019: NIL)
- Review of last salary -1 July 2019
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which includes a twelve-month termination notice period, amongst other statutory conditions.

### *Warwick Freeman, Chief Technology Officer*

- Base salary inclusive of superannuation, for the year ended 30 June 2020 of AUD255,838 to be reviewed annually by the remuneration committee
- Review of last salary -1 October 2019
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which includes a twelve-month termination notice period, amongst other basic statutory conditions.

*Christoph Witte, Managing Director, DWL*

- Base salary inclusive of superannuation, for the year ended 30 June 2020 of EUR216,640 to be reviewed annually by the remuneration committee.
- Car Allowance of EUR7,200
- Performance bonus – no performance bonus was granted or paid during the year ended 30 June 2020. (2019: NIL)
- Review of last salary -1 July 2019
- Christoph Witte's service agreement contains a notice period of six months, amongst other conditions.

**D Share-based compensation**

The establishment of the Compumedics Limited Employee Option Plan was approved by shareholders immediately prior to the listing of the Company in December 2000. All staff are eligible to participate in the plan. Options are typically granted under the plan for no consideration except when options are issued in lieu of a cash bonus as noted below. Options are granted for a five-year period and each new tranche vests is exercisable on the following basis:

- (i) 20% of each new tranche vests and is exercisable at the 1st anniversary date of the grant
- (ii) 30% of each new tranche vests and is exercisable at the 2nd anniversary date of the grant
- (iii) 50% of each new tranche vests and is exercisable at the 3rd anniversary date into one ordinary share of the Company.

The exercise price of the options is based on the closing price at which the Company's shares are traded on the Australian Securities Exchange on the day prior to the grant.

Where options have been taken in lieu of a cash bonus the vesting period does not apply and the exercise price is 1 cent per share. The number of options issued is calculated by dividing the cash bonus available by the average share price for the 5 trading days prior to the granting of the options taken in lieu of the cash bonus.

The Group did not have any share-based payments in the full year ended 30 June 2020. Unissued ordinary shares in Compumedics Limited under option at the date of this report held by directors are Nil.

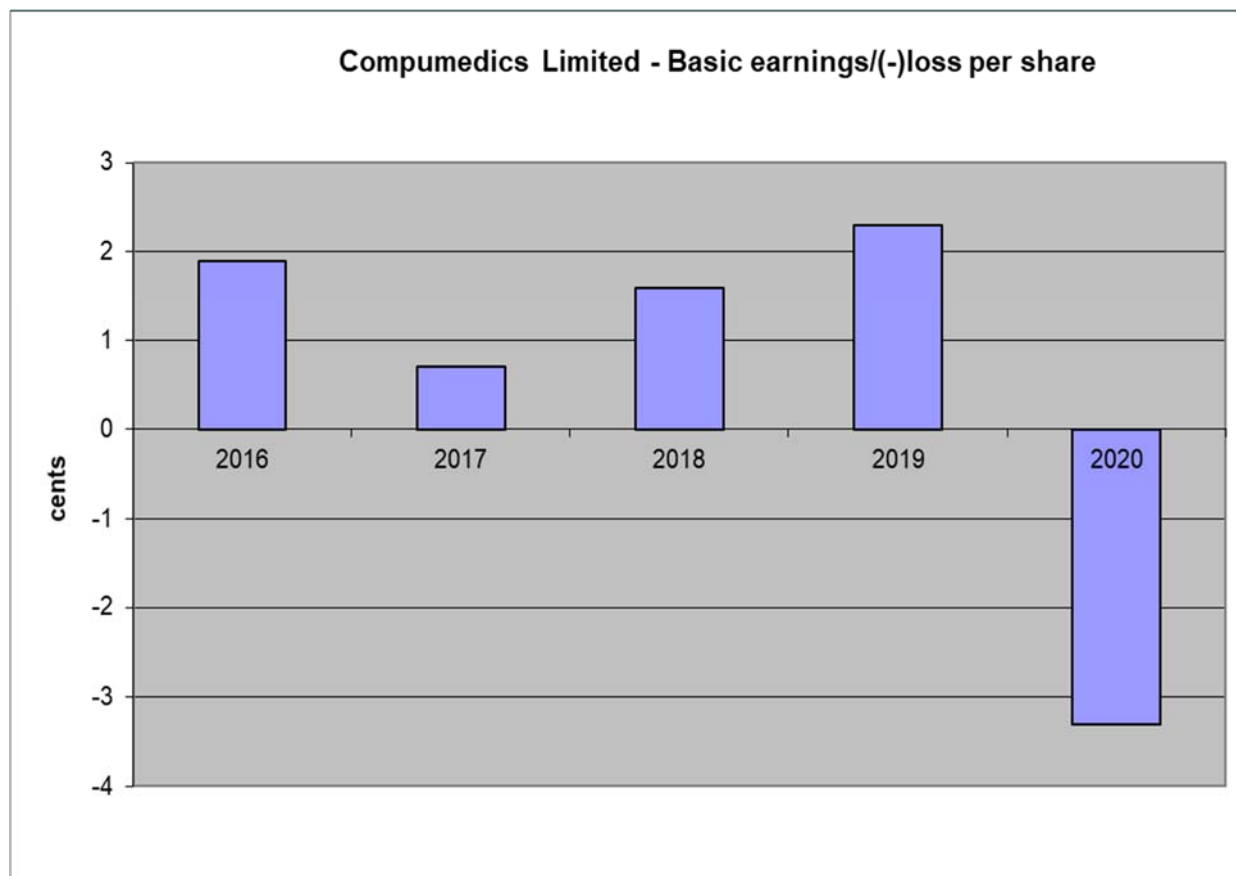
**E Additional information****Loans to directors and executives**

There are no current loans to directors and executives.

**Shares under option**

There were no unissued ordinary shares of Compumedics Limited under option at the date of this report. No options expired during the financial year ended 30 June 2020 (2019: NIL).

There were no new options issued during the year.

**Group performance**

The earnings/(loss) per share performance of the Compumedics Group reflects the impacts of the containment measures taken around the world in relation to the COVID-19 pandemic on the financial performance of the Group. The Group did take a \$7.6m once-off non-cash charge to earnings per share in the 2020 financial year to reduce the carrying value of the Group's intangible assets. Without this charge the Groups earnings per share were earnings of one cent per share. The directors remain focused on profitably guiding the Group through the COVID-19 pandemic and restoring earnings per share growth as quickly as circumstances allow.

**Insurance of officers**

During the financial year, Compumedics Limited paid premiums of \$31,370 to insure the Directors and Secretary of the Company and its Australian-based controlled entities, and the Executives and other senior managers of each of the divisions of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for them or someone else or to cause detriment to the Group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

**Proceedings on behalf of the Company**

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.



## Non-audit services

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the auditor Nexia Melbourne Audit Pty Ltd, for non-audit services provided during the year are set out below.

The Board of directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

|   | <b>Consolidated</b> |               |
|---|---------------------|---------------|
|   | <b>2020</b>         | <b>2019</b>   |
|   | <b>\$</b>           | <b>\$</b>     |
| <b>Non-audit services</b>                       |                     |               |
| <i>Taxation services</i>                        |                     |               |
| Tax compliance services                         | 42,000              | 40,000        |
| Fringe Benefits Tax services                    | 3,000               | 2,500         |
| <b>Total remuneration for taxation services</b> | <b>45,000</b>       | <b>42,500</b> |

## Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 15.

## Rounding of amounts

Compumedics Limited is a type of Company referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest \$1,000, or in certain cases, to the nearest dollar.

## Auditor

Nexia Melbourne Audit Pty Ltd continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors.



David Burton  
Director

Melbourne  
30 September 2020

## **Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the Directors of Compumedics Limited**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2020, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.



**Nexia Melbourne Audit Pty Ltd  
Melbourne**



**Andrew S. Wehrens  
Director**

Dated this 30<sup>th</sup> day of September 2020

## Financial Statements – 30 June 2020

This financial report covers consolidated financial statements for the consolidated entity consisting of Compumedics Limited and its subsidiaries. The financial report is presented in the Australian currency and all values are rounded to the nearest thousand dollars (\$000) unless otherwise stated.

Compumedics Limited is a Company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Compumedics Limited  
30-40 Flockhart Street  
Abbotsford VIC 3067  
Australia

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities on pages 2 - 3 in the directors' report, which is not part of this financial report.

The financial report was authorised for issue by the directors on 30 September 2020. The Company has the power to amend and reissue the financial report.

Through the use of the Internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company. All press releases, financial reports and other information are available to our investors on our website: [www.compumedics.com.au](http://www.compumedics.com.au).

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2020

|  | Notes | Consolidated<br>2020<br>\$'000 | 2019<br>\$'000 |
|--|-------|--------------------------------|----------------|
| <b>Revenue</b>   |       |                                |                |
| Sale of goods and services   | 5     | 35,069                         | 41,505         |
|  |       | <b>35,069</b>                  | <b>41,505</b>  |
| <b>Other income</b>  | 6     | 1,265                          | 381            |
| <b>Expenses</b>  |       |                                |                |
| Cost of sales  |       | (17,057)                       | (16,736)       |
| Administration   |       | (5,858)                        | (6,012)        |
| Sales and marketing  |       | (8,998)                        | (8,471)        |
| Research and development   | 7     | (3,843)                        | (5,319)        |
| Impairment of intangible assets  |       | (7,661)                        | -              |
| Finance costs  | 7     | (420)                          | (261)          |
| <b>Profit/(loss) before income tax</b>   |       | <b>(7,503)</b>                 | <b>5,087</b>   |
| Income tax benefit/(expense)   | 8     | 1,665                          | (1,071)        |
| <b>Net profit/(loss)</b>   |       | <b>(5,838)</b>                 | <b>4,016</b>   |
| <b>Other comprehensive income:</b>   |       |                                |                |
| <i>Items that will be reclassified subsequently to profit and loss when specific conditions are met.</i>       |       |                                |                |
| Foreign currency translation   |       | 437                            | 141            |
| Other comprehensive income/(loss) for the year   |       | 437                            | 141            |
| Tax impact of other comprehensive income/(loss)  |       | -                              | -              |
| <b>Total comprehensive income/(loss) for the year</b>  |       | <b>(5,401)</b>                 | <b>4,157</b>   |
| <b>Profit/(loss) is attributable to:</b>   |       |                                |                |
| Equity holders of Compumedics Limited  |       | <b>(5,838)</b>                 | <b>4,016</b>   |
| <b>Total comprehensive income/(loss) for the year is attributable to:</b>                                      |       |                                |                |
| Equity holders of Compumedics Limited  |       | <b>(5,401)</b>                 | <b>4,157</b>   |
| <b>Earnings/(loss) per share for profit/(loss) attributable to the ordinary equity holders of the Company:</b> |       | <b>Cents</b>                   | <b>Cents</b>   |
| Basic earnings / (loss) per share  | 35    | (3.3)                          | 2.3            |
| Diluted earnings / (loss) per share  | 35    | (3.3)                          | 2.3            |

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

## Consolidated Statement of Financial Position

As at 30 June 2020

|                                      |       | Consolidated   |                |
|--------------------------------------|-------|----------------|----------------|
|                                      | Notes | 2020<br>\$'000 | 2019<br>\$'000 |
| <b>ASSETS</b>                        |       |                |                |
| <b>Current assets</b>                |       |                |                |
| Cash and cash equivalents            | 9     | 6,412          | 4,599          |
| Trade and other receivables          | 10    | 13,643         | 17,817         |
| Inventories                          | 11    | 8,831          | 7,798          |
| <b>Total current assets</b>          |       | <b>28,886</b>  | <b>30,214</b>  |
| <b>Non-current assets</b>            |       |                |                |
| Deferred tax asset                   |       | 781            | -              |
| Right-of-use Asset                   | 27    | 1,618          | -              |
| Property, plant and equipment        | 12    | 1,465          | 1,652          |
| Intangible assets                    | 13    | 2,777          | 6,795          |
| <b>Total non-current assets</b>      |       | <b>6,641</b>   | <b>8,447</b>   |
| <b>Total assets</b>                  |       | <b>35,527</b>  | <b>38,661</b>  |
| <b>LIABILITIES</b>                   |       |                |                |
| <b>Current liabilities</b>           |       |                |                |
| Trade and other payables             | 14    | 3,832          | 4,386          |
| Borrowings                           | 15    | 3,051          | 1,570          |
| Lease liabilities                    | 27    | 902            | -              |
| Provisions                           | 16    | 2,828          | 2,850          |
| Deferred income                      | 17    | 1,717          | 1,376          |
| Income tax payable                   | 8     | 106            | 12             |
| <b>Total current liabilities</b>     |       | <b>12,436</b>  | <b>10,194</b>  |
| <b>Non-current liabilities</b>       |       |                |                |
| Borrowings                           | 18    | 11             | 23             |
| Lease liabilities                    | 27    | 835            | -              |
| Deferred tax liabilities             | 8     | -              | 997            |
| Provisions                           | 19    | 31             | 14             |
| Deferred income                      | 20    | 420            | 116            |
| <b>Total non-current liabilities</b> |       | <b>1,297</b>   | <b>1,150</b>   |
| <b>Total liabilities</b>             |       | <b>13,733</b>  | <b>11,344</b>  |
| <b>Net assets</b>                    |       | <b>21,794</b>  | <b>27,317</b>  |
| <b>EQUITY</b>                        |       |                |                |
| Contributed equity                   | 21    | 35,654         | 35,654         |
| Reserves                             | 22(a) | 164            | (273)          |
| Accumulated losses                   | 22(b) | (14,024)       | (8,064)        |
| <b>Total equity</b>                  |       | <b>21,794</b>  | <b>27,317</b>  |

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

## Consolidated Statement of Changes in Equity

For the year ended 30 June 2020

|  | Contributed<br>equity<br>\$'000 | Reserves<br>\$'000 | Accumulated<br>losses<br>\$'000 | Total<br>\$'000 |
|--|---------------------------------|--------------------|---------------------------------|-----------------|
| <b>At 1 July 2018</b>  | <b>35,654</b>                   | <b>(414)</b>       | <b>(12,080)</b>                 | <b>23,160</b>   |
| Profit for the year  | -                               | -                  | 4,016                           | 4,016           |
| Other comprehensive income                                   | -                               | 141                | -                               | 141             |
| <b>Total comprehensive income for the year</b>               | <b>-</b>                        | <b>141</b>         | <b>4,016</b>                    | <b>4,157</b>    |
| <b>Transactions with owners in their capacity as owners:</b> |                                 |                    |                                 |                 |
| New shares issued  | -                               | -                  | -                               | -               |
| <b>At 30 June 2019</b>                                       | <b>35,654</b>                   | <b>(273)</b>       | <b>(8,064)</b>                  | <b>27,317</b>   |
| <b>At 1 July 2019</b>  | <b>35,654</b>                   | <b>(273)</b>       | <b>(8,186)</b>                  | <b>27,195</b>   |
| Restatement due to the adoption of AASB 16                   |                                 |                    | (122)                           | (122)           |
| At 1 July 2019 restated                                      | 35,654                          | (273)              | (8,308)                         | 27,073          |
| Loss for the year  | -                               | -                  | (5,838)                         | (5,838)         |
| Other comprehensive income                                   | -                               | 437                | -                               | 437             |
| <b>Total comprehensive income/(loss) for the year</b>        | <b>-</b>                        | <b>437</b>         | <b>(5,838)</b>                  | <b>(5,401)</b>  |
| <b>Transactions with owners in their capacity as owners:</b> |                                 |                    |                                 |                 |
| New shares issued  | -                               | -                  | -                               | -               |
| <b>At 30 June 2020</b>                                       | <b>35,654</b>                   | <b>164</b>         | <b>(14,024)</b>                 | <b>21,794</b>   |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## Consolidated Statement of Cash Flows

For the year ended 30 June 2020

|   | Notes | Consolidated   |                |
|---|-------|----------------|----------------|
|   |       | 2020<br>\$'000 | 2019<br>\$'000 |
| <b>Cash flows from operating activities</b>                               |       |                |                |
| Receipts from customers (inclusive of goods and services tax)             |       | 39,214         | 41,334         |
| Payments to suppliers and employees (inclusive of goods and services tax) |       | (34,702)       | (36,310)       |
| Interest and other costs of finance paid                                  |       | (394)          | (261)          |
| Income tax paid   |       | -              | (26)           |
| Receipts from other income  |       | 1,265          | 399            |
| <b>Net cash inflow from operating activities</b>                          | 34    | <b>5,383</b>   | <b>5,136</b>   |
| <b>Cash flows from investing activities</b>                               |       |                |                |
| Payment for property, plant and equipment                                 |       | (404)          | (1,314)        |
| Payment for intangible assets   |       | (3,829)        | (2,972)        |
| <b>Net cash (outflow) from investing activities</b>                       |       | <b>(4,233)</b> | <b>(4,286)</b> |
| <b>Cash flows from financing activities</b>                               |       |                |                |
| Proceeds from borrowings  |       | 3,075          | 881            |
| Repayment of borrowings   |       | (1,582)        | (732)          |
| Repayment of leases - principal   |       | (1,045)        | -              |
| <b>Net cash inflow from financing activities</b>                          |       | <b>448</b>     | <b>149</b>     |
| <b>Net increase in cash and cash equivalents</b>                          |       | <b>1,598</b>   | <b>999</b>     |
| Cash and cash equivalents at the beginning of the financial year          |       | 4,371          | 3,200          |
| Effects of exchange rate changes on cash and cash equivalents             |       | 46             | 172            |
| <b>Cash and cash equivalents at end of year</b>                           | 9     | <b>6,015</b>   | <b>4,371</b>   |

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

For the year ended 30 June 2020

## 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes financial statements for the consolidated entity consisting of Compumedics Limited and its subsidiaries. Compumedics Limited is the ultimate parent.

### (a) Basis of preparation

This general-purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The financial report has been prepared for a for-profit-entity.

#### **Compliance with IFRS**

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

#### **Historical cost convention**

These financial statements have been prepared under the historical cost convention.

#### **Critical accounting estimates**

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

#### **Going Concern and funding facilities**

During the year ended 30 June 2020 the Group reported a loss after tax of \$5.8m and net positive cash flow from operations of \$5.4m. The loss after tax was impacted by a \$7.7m impairment charge in relation to the carrying value of the intangible assets. This was a non-cash charge.

The Group reported cash of \$6.4m at 30 June 2020, compared to \$4.6m at 30 June 2019.

As such the Directors have prepared the financial statements on a going-concern basis.

#### **Changes in Accounting Policies**

##### **Leases – Adoption of AASB 16**

The Group has adopted AASB 16 Leases using the modified retrospective (cumulative catch-up) method from 1 July 2019 and therefore the comparative information for the year ended 30 June 2020 has not been restated and has been prepared in accordance with AASB 117 Leases and associated Accounting Interpretations.

##### **Impact of adoption of AASB 16**

The impact of adopting AASB 16 is described below:

##### **The Group as a lessee**

Under AASB 117, the Group assessed whether leases were operating, or finance leases based on its assessment of whether the significant risks and rewards of ownership had been transferred to the Group or remained with the lessor. Under AASB 16, there is no differentiation between finance and operating leases for the lessee and therefore all leases which meet the definition of a lease are recognised on the consolidated statement of financial position (except for short-term leases and leases of low value assets).



## 1. Summary of significant accounting policies

### Changes in Accounting Policies (continued)

#### Impact of Adoption of AASB 16 (continued)

The Group has elected to use the exception to lease accounting for short-term leases and leases of low value assets, and the lease expense relating to these leases are recognised in the consolidated statement of profit or loss on a straight-line basis. The Group has adopted AASB 16 *Leases* for the first time in the current financial year with a date of initial adoption of 1 July 2019.

#### *Practical expedients used on transition*

AASB 16 includes a number of practical expedients which can be used on transition, the Group has used the following expedients:

- contracts which had previously been assessed as not containing leases under AASB 117 were not re-assessed on transition to AASB 16;
- lease liabilities have been discounted using the Group's incremental borrowing rate at 1 July 2019;
- right-of-use assets at 1 July 2019 have been measured at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments;
- a single discount rate was applied to all leases with similar characteristics;
- excluded leases with an expiry date prior to 30 June 2020 from the consolidated statement of financial position and lease expenses for these leases have been recorded on a straight-line basis over the remaining term;
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease;
- for leases which were classified as finance leases under AASB 117, the carrying amount of the right-of-use asset and the lease liability at 1 July 2019 are the same value as the leased asset and liability on 30 June 2019.

#### Financial statement impact of adoption of AASB 16

The Group has recognised right-of-use assets of \$2,501,070 at 1 July 2019, for leases previously classified as operating leases.

The weighted average lessee's incremental borrowing rate applied to lease liabilities at 1 July 2019 was 5.5%.

|   |                |
|---|----------------|
| Operating lease commitments at 30 June 2019 financial statements (\$'000) | \$2,636        |
| Discounted using the incremental borrowing rate at 1 July 2019            | \$2,623        |
| Add:  |                |
| Finance lease liabilities   | \$NIL          |
| Variable lease payments linked to an index                                | \$NIL          |
| Less:   |                |
| Leases for low value assets included in commitments note                  | \$NIL          |
| <b>Lease liabilities recognised at 1 July 2019</b>                        | <b>\$2,623</b> |

### (b) Principles of consolidation

#### *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Compumedics Limited ("Group") as at 30 June 2020 and the results of all subsidiaries for the year then ended. Compumedics Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

## **1. Summary of significant accounting policies (continued)**

### **(b) Principles of consolidation (continued)**

#### *Subsidiaries (continued)*

Subsidiaries are fully consolidated from the date on which the Group obtains control and cease to be consolidated from the date on which control is transferred out of the Group.

The Group uses the acquisition method of accounting to account for the acquisition of subsidiaries.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### **(c) Operating segments**

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations, which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of directors.

Operating segments have been identified based on the information provided to the chief operating decision maker being the executive management team.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services,
- Nature of the production processes,
- Type or class of customer for the products and services,
- Methods used to distribute the products or provide the services, and if applicable
- Nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

### **(d) Foreign currency translation**

#### *(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Compumedics Limited's functional and presentation currency.

#### *(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

#### *(iii) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency.

## **1. Summary of significant accounting policies (continued)**

### **(d) Foreign currency translation (continued)**

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to foreign currency translation reserve. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in profit or loss, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

### **(e) Revenue from contracts with customers**

The core principle of AASB15 is that revenue is recognised taking into consideration the following five elements in any contract of sale by the Company to a customer:

- 1 Identification of a contract with a customer
- 2 Identification of the performance obligations in the contract with a customer
- 3 Determination of the transaction price of the contract with a customer
- 4 Consideration of the transaction price alongside the performance obligations in the contract
- 5 Recognition of revenue (or the transaction price) when (or as) the Company satisfies a performance obligation

In assessing the above criteria, the Company has reviewed the parameters of the contracts of sale it typically enters into with customers when selling products and/or services to them and has grouped contracts of sale with similar parameters together for the purposes of recognising revenue.

The accounting policy for the sale of products and the sale of services is:

#### **The sale of products**

The Company typically sells its products, being medical devices (hardware and software), either directly to end-user customers, such as hospitals, private physicians, universities or medical service providers, or to distributors, who then sell the product onto end-user customers.

Where the Company sells products to end-user customers there is typically an installation and training obligation at the end-user customer site, once the goods have been shipped to the end-user customer. In such situations the contract of sale with the end-user customer will separately identify the installation and training obligation, with a separate price for that installation and training obligation.

Taking into consideration the terms and conditions of sale, which forms the basis of the contract of sale between the Company and the end-user customer the Company recognises the sale of the products when the products are shipped from the Company's facility to the end-user customer, excluding that part of the price that is separately attributable to the installation and training obligation. This revenue will be recognised once the installation and training obligation has been satisfied.

Where the Company sells its products to its distributors, who then sell those products to end-user customers the Company typically, does not have an installation and training obligation with the distributor. As such the Company will recognise revenue for the sale of products to its distributors when the products are shipped to the distributor.

Should the Company sell products to end-user customers or distributors that have different terms and conditions in the contract of sale, to those typically entered into then the Company will review the specific contract of sale and book revenue according to the completion of the terms of the contract of sale.

## **1. Summary of significant accounting policies (continued)**

### **(e) Revenue from contracts with customers (continued)**

#### **The sale of services**

The Company typically sells its services, being post product-sale technical service and support or software-as-a-service (typically diagnostic software sold on a per-use or per-user basis) either under an annual or multi-year contract with an end-user customer, or on a per-use, or once-off basis.

Typically, the entering of a contract for post product-sale technical service and support by an end-user customer will involve the Company providing pre-defined on-site, over the phone, or WEB-based technical advice regarding the use and/or application of the product. Typically the contract for service will also include performance parameters for service and repair of the products, should they malfunction, be broken or be damaged in use.

Where the Company sells post product-sale technical service and support services to end-user customers under an annual or multi-year contract, the Company will recognise the revenue associated with these contracts for service on a monthly basis as the service obligation for that month is satisfied.

If an end-user customer does not enter into an annual or multi-year service contract and requires these types of services to be performed by the Company then the end-user customer shall pay for these services on a per-use, or once-off basis. Revenue associated with these per-use or one-off contracts for service will be recognised at the time the service obligation by the Company is satisfied with the end-user customer.

Typically, distributors of the Company's products will not require services as described above, but where they do, revenue will be recognised in the manner described above.

Where the Company sells its diagnostic software on a per-use or per-user basis under an annual or multi-year contract to an end-user customer, the Company will recognise that revenue each month as the delivery of the diagnostic software obligation on a per-use or per-user basis is satisfied with the end-user customer for that month.

Should the Company sell services to end-user customers or distributors that have different performance obligations in the contract of service, to those typically entered into, and as described above, then the Company will review the specific contract of service in relation to terms of that contract and book revenue according to the obligations of the contract of service.

#### **Government grants**

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset. Government grants relating to an asset are presented in the Statement of Financial Position as unearned revenue.

Government grants and assistance that compensate for costs incurred are deferred and recognised in the Statement of Comprehensive income on systematic basis over the period in which the costs are recognised. Government grants and assistance that compensate for costs are presented in the Statement of Comprehensive income as other income.

### **(f) Income tax**

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

## 1. Summary of significant accounting policies (continued)

### (f) Income tax (continued)

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- ▶ When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- ▶ When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- ▶ When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- ▶ When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that enough taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

#### *Tax consolidation legislation*

Compumedics Limited and its wholly owned Australian controlled entities have not implemented the tax consolidation legislation.

#### *Other taxes*

Revenues, expenses and assets are recognised net of the amount of GST except:

- ▶ When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable

- ▶ Receivables and payables, which are stated with the amount of GST included the net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

## 1. Summary of significant accounting policies (continued)

### (g) Leases

#### Comparative Year

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 28). Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 28). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease. Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term.

#### Current Year

At inception of a contract, the Group assesses whether a lease exists - i.e. does the contract convey the right to control the use of an identified asset for a period of time in exchange for consideration.

This involves an assessment of whether:

- The contract involves the use of an identified asset - this may be explicitly or implicitly identified within the agreement. If the supplier has a substantive substitution right, then there is no identified asset.
- The Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use.
- The Group has the right to direct the use of the asset i.e. decision-making rights in relation to changing how and for what purpose the asset is used.

#### Lessee accounting

The non-lease components included in the lease agreement have been separated and are recognised as an expense as incurred.

At the lease commencement, the Group recognises a right-of-use asset and associated lease liability for the lease term. The lease term includes extension periods where the Group believes it is reasonably certain that the option will be exercised.

The right-of-use asset is measured using the cost model where cost on initial recognition comprises of the lease liability, initial direct costs, prepaid lease payments, estimated cost of removal and restoration less any lease incentives received.

The right-of-use asset is depreciated over the lease term on a straight-line basis and assessed for impairment in accordance with the impairment of assets accounting policy. The right-of-use asset is subject to the impairment requirements and is assessed for impairment indicators at each reporting date.

The lease liability is initially measured at the present value of the remaining lease payments at the commencement of the lease. The discount rate is the rate implicit in the lease, however where this cannot be readily determined then the Group's incremental borrowing rate is used.

Subsequent to initial recognition, the lease liability is measured at amortised cost using the effective interest rate method. The lease liability is remeasured whether there is a lease modification, change in estimate of the lease term or index upon which the lease payments are based (e.g. CPI) or a change in the Group's assessment of lease term.

Where the lease liability is remeasured, the right-of-use asset is adjusted to reflect the remeasurement or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

## **1. Summary of significant accounting policies (continued)**

### **(g) Leases (continued)**

#### **Exceptions to lease accounting**

The Group has elected to apply the exceptions to lease accounting for both short-term leases (i.e. leases with a term of less than or equal to 12 months) and leases of low-value assets. The Group recognises the payments associated with these leases as an expense on a straight-line basis over the lease term.

### **(h) Impairment of assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### **(i) Cash and cash equivalents**

For statement of cash flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

### **(j) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Debts, which are known to be uncollectible, are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within 'sales and marketing expenses'. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

### **(k) Inventories**

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## **1. Summary of significant accounting policies (continued)**

### **(I) Financial instruments**

Financial instruments are recognised initially on the date that the Group becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs.

#### **Financial assets**

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

##### *Classification*

On initial recognition, the Group classifies its financial assets into the following categories, those measured at:

- amortised cost
- fair value through other comprehensive income - equity instrument (FVOCI - equity)

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets.

##### *Amortised cost*

Assets measured at amortised cost are financial assets where:

- the business model is to hold assets to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows are solely payments of principal and interest on the principal amount outstanding.

The Group's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest rate method less provision for impairment.

Interest income, foreign exchange gains or losses and impairment are recognised in profit or loss. Gain or loss on derecognition is recognised in profit or loss.

##### *Fair value through other comprehensive income*

##### **Equity instruments**

The Group has a number of strategic investments in listed and unlisted entities over which they do not have significant influence nor control. The Group has made an irrevocable election to classify these equity investments as fair value through other comprehensive income as they are not held for trading purposes.

These investments are carried at fair value with changes in fair value recognised in other comprehensive income (financial asset reserve). On disposal any balance in the financial asset reserve is transferred to retained earnings and is not reclassified to profit or loss.

Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI.

##### *Impairment of financial assets*

Impairment of financial assets is recognised on an expected credit loss (ECL) basis for the following assets:

- financial assets measured at amortised cost; and
- contract assets.



## **1. Summary of significant accounting policies (continued)**

### **(I) Financial instruments (continued)**

When determining whether the credit risk of a financial assets has increased significant since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment and including forward looking information.

The Group uses the presumption that an asset which is more than 30 days past due has seen a significant increase in credit risk.

The Group uses the presumption that a financial asset is in default when:

- the other party is unlikely to pay its credit obligations to the Group in full, without recourse to the Group to actions such as realising security (if any is held); or
- the financial assets is more than 90 days past due.

Credit losses are measured as the present value of the difference between the cash flows due to the Group in accordance with the contract and the cash flows expected to be received. This is applied using a probability weighted approach.

#### *Trade receivables and contract assets*

Impairment of trade receivables and contract assets have been determined using the simplified approach in AASB 9 which uses an estimation of lifetime expected credit losses. The Group has determined the probability of non-payment of the receivable and contract asset and multiplied this by the amount of the expected loss arising from default.

The amount of the impairment is recorded in a separate allowance account with the loss being recognised in finance expense. Once the receivable is determined to be uncollectable then the gross carrying amount is written off against the associated allowance.

Where the Group renegotiates the terms of trade receivables due from certain customers, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in profit or loss.

#### *Other financial assets measured at amortised cost*

Impairment of other financial assets measured at amortised cost are determined using the expected credit loss model in AASB 9. On initial recognition of the asset, an estimate of the expected credit losses for the next 12 months is recognised. Where the asset has experienced significant increase in credit risk then the lifetime losses are estimated and recognised.

### **Financial liabilities**

The Group measures all financial liabilities initially at fair value less transaction costs, subsequently financial liabilities are measured at amortised cost using the effective interest rate method.

The financial liabilities of the Group comprise trade payables, bank and other loans and finance lease liabilities.

### **Impairment of non-financial assets**

At the end of each reporting period the Group determines whether there is an evidence of an impairment indicator for non-financial assets.

Where an indicator exists and regardless for goodwill, the recoverable amount of the asset is estimated. Where assets do not operate independently of other assets, the recoverable amount of the relevant cash generating unit (CGU) is estimated.

The recoverable amount of an asset or CGU is the higher of the fair value less costs of disposal and the value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash generating unit.

## **1. Summary of significant accounting policies (continued)**

### **Impairment of non-financial assets (continued)**

Where the recoverable amount is less than the carrying amount, an impairment loss is recognised in profit or loss. Reversal indicators are considered in subsequent periods for all assets which have suffered an impairment loss, except for goodwill.

#### **(m) Property, plant and equipment**

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost or re-valued amounts, net of their residual values, over their estimated useful lives. The expected useful lives for all categories of property, plant and equipment are between 3 and 6 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

#### **(n) Intangible assets**

##### *Research and development*

Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in the statement of comprehensive income as an expense when it is incurred. Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically and commercially feasible and adequate resources are available to complete development.

The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which is dependent on the specific activity capitalised. Historically, this has been 7 years. In relation to the MEG, given its longer life cycle, the useful life is considered 10 years.

##### *Licence fee*

The Group has capitalised an upfront licence fee of USD1.0m paid to the Korean Research Institute of Standards and Science as part of the Licence Agreement signed in April 2016. These fees will be amortised against future sales of the MEG device. The period of amortisation will be the remaining life of the Licence Agreement at the completion of the first MEG sale. The Licence Agreement has a 20 year life from April 2016.

#### **(o) Trade and other payables**

Trade and other payables are carried at amortised cost and due to their short-term nature, they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

## **1. Summary of significant accounting policies (continued)**

### **(p) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit and loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

### **(q) Borrowing costs**

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

Borrowing costs include:

- Interest on bank overdrafts, other short-term funding facilities and short-term and long-term borrowings,
- Finance lease charges, and
- Bank charges on borrowing facilities.

### **(r) Provisions**

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

### **(s) Employee benefits**

#### **(i) Wages and salaries and annual leave**

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

#### **(ii) Long service leave**

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

## **1. Summary of significant accounting policies (continued)**

### **(s) Employee benefits (continued)**

#### *(iii) Share-based payments*

Share-based compensation benefits, if applicable, are provided to employees via the Compumedics Employee Option Plan. Information relating to these schemes is set out in note 29.

The fair value of options granted under the Compumedics Employee Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market-vesting conditions but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period considers the most recent estimate. The impact of the revision to original estimates, if any, is recognised in profit or loss with a corresponding adjustment to equity.

#### *(iv) Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

### **(t) Contributed equity**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### **(u) Dividends**

Provision is made for any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at reporting date.

### **(v) Earnings per share**

#### *(i) Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

#### *(ii) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

**1. Summary of significant accounting policies (continued)**

**(w) Rounding of amounts**

Compumedics Limited is a type of Company referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest \$1,000, or in certain cases, to the nearest dollar.

**(x) Reclassifications**

Certain reclassifications have been made in the financial statements to ensure that prior year comparisons conform to the current year presentations.

**(y) New accounting standards and interpretations**

A number of new standards, amendments to standards and interpretations issued by the AASB which are not yet mandatorily applicable to the Group have not been applied in preparing these financial statements. The Board expects no impact on the financial statements of the Group.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2020

**2. Financial risk management**

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance and financial position of the Group.

Risk management is carried out by the senior managers of the Group.

**(a) Market risk****(i) Foreign currency risk**

Foreign exchange risk arises when recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates internationally and is exposed to foreign exchange risk primarily arising from currency exposures to the US dollar and the Euro.

The Group does not generally use derivative financial instruments as the Group seeks to offset its revenues and receivables denominated in US dollars and Euros with expenses and payables in the same currency where it is appropriate to do so. The Group will look to cover specific foreign currency exposures where it is appropriate to do so.

The Group's and parent entity's exposure to foreign currency risk at the reporting date was as follows:

|                              | 30 June 2020 |              | 30 June 2019 |              |
|------------------------------|--------------|--------------|--------------|--------------|
|                              | USD          | EUR          | USD          | EUR          |
|                              | \$'000       | \$'000       | \$'000       | \$'000       |
| <b>Financial assets</b>      |              |              |              |              |
| Cash and cash equivalents    | 3,278        | 795          | 2,327        | 610          |
| Trade receivables            | 7,833        | 891          | 8,144        | 1,769        |
| <b>Financial liabilities</b> |              |              |              |              |
| Bank Loans                   | (637)        | (7)          | (71)         | 0            |
| Trade payables               | (1,130)      | (293)        | (951)        | (439)        |
| <b>Net exposure</b>          | <b>9,344</b> | <b>1,386</b> | <b>9,449</b> | <b>1,940</b> |

**Sensitivity analysis**

Based on the financial instruments held at 30 June 2020, had the Australian dollar weakened/strengthened by five percent against the US dollar with all other variables held constant, the Group's post-tax profit for the year would have been \$0.691m higher / \$0.763m lower (2019: \$0.646m higher / \$0.715m lower), as a result of foreign exchange gains/losses on translation of US dollar denominated financial instruments as detailed in the above table. Based on the financial instruments held at 30 June 2020, had the Australian dollar weakened/strengthened by five percent against the EURO with all other variables held constant, the Group's post-tax profit for the year would have been \$0.109m higher / \$0.120m lower (2019: \$0.150m higher / \$0.166m lower), as a result of foreign exchange gains/losses on translation of EURO dollar denominated financial instruments as detailed in the above table. The Group and parent entity's exposure to other foreign exchange movements is not material. The Group considers a five percent movement in either the US dollar or the Euro appropriate for the purposes of this sensitivity analysis as historically the Australian dollar has moved in a plus or minus five percent band against the US dollar and the Euro in any given recent financial year.

**Notes to the Financial Statements (continued)**

For the year ended 30 June 2020

**2. Financial risk management (continued)****(a) Market risk (continued)**

The parent entity has a current intercompany account receivable with the US business, all of which is considered a net investment in the US legal entity. As such, any exchange gain or loss resulting from the translation into Australian Dollars of the net investment of the intercompany account is taken to a foreign currency translation reserve. There is no profit or loss impact from movements in exchange rates relating to this net investment.

The parent entity likewise considers its intercompany account with the German and French businesses as part of its net investment and again there is no profit or loss impact from movements in exchange rates related to these net investments.

**(ii) Interest rate risk**

As at the reporting date, the Group had the following variable rate borrowings outstanding:

|  | 30 June 2020                           |                   | 30 June 2019                           |                   |
|--|--|-------------------|--|-------------------|
|  | Weighted<br>average<br>interest rate % | Balance<br>\$'000 | Weighted<br>average<br>interest rate % | Balance<br>\$'000 |
| <b>Consolidated</b>                                      |  |                   |  |                   |
| Cash and cash equivalents                                | 0.00%                                  | 6,412             | 0.00%                                  | 4,599             |
| Bank overdrafts and loans and invoice financing facility | 5.5%                                   | 3,062             | 16.1%                                  | 1,593             |

**Sensitivity analysis**

The Group's overall sensitivity to interest rate movements is, in part, dependent on the underlying profitability of the Group. If the Group delivers profits at the level achieved in the year ended 30 June 2020 then based on 30 June 2020 year end borrowing of \$3.1m a plus or minus 2% movement in interest rates (+/- \$62,000) would not cause a material change in underlying profitability of the Group.

The Group has adopted a policy of predominantly borrowing in Australian dollars with Australian banks and/or other financial institutions as it builds its offshore businesses. The Group does have an overdraft in its 100% subsidiary Compumedics Germany GmbH. The facility limit is EUR350k. The Group also has a USD637k payroll protection loan in its Compumedics USA subsidiary as a result of government assistance for the COVID-19 pandemic. If the USA subsidiary meets certain requirements as at December 31, 2020, this loan will be forgiven. As appropriate, the Group will continue to evolve its borrowing profile such that borrowings are spread across territories in relation to the business undertaken in those territories.

**(b) Credit risk**

The Group currently sells goods and services primarily to four major geographic regions being:

- Australia and New Zealand (A & NZ)
- United States of America (USA)
- Europe, the Middle East and Africa (EMEA)
- Asia

The sale of goods and services into Australia and New Zealand, the USA, France and Germany are made directly to the end user customer.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2020

## 2. Financial risk management (continued)

## (b) Credit risk (continued)

The sale of goods and services to Europe, the Middle East, Africa and Asia are typically made via distributors based in specific countries in Europe (excluding France and Germany), the Middle East, Africa and Asia. The distributor then on sells the goods to the end user customer in the specific country in Europe, the Middle East, Africa and Asia. The collectability of receivables within agreed terms is typically better where the goods and services are sold to a direct customer rather than to a distributor.

The Group does not hold any credit derivatives to offset its credit exposure. The Company previously had an invoice financing facility for Australia provided by the Bank of Melbourne. This facility has now been converted to an overdraft facility, details of which are at Note 15. The Company also has an overdraft facility in its 100% owned Germany based subsidiary, Compumedics Germany GmbH. Details of which can be found at Note 15. These financing activities do not affect this analysis of credit risk summarised here.

The Group trades only with recognised, creditworthy third parties.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the Board. These risk limits are regularly monitored.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's experience of bad debts has not been significant, despite receivable balances remaining payable beyond terms. The following tables identify accounts receivable at 30 June 2020 and 30 June 2019 identified by debt owed into major region and currency. The aging analysis is presented based on due date of invoice.

| Region                           | Not Due<br>\$'000 | 1 to 29 Days<br>\$'000 | 30 Days<br>\$'000 | 60 Days<br>\$'000 | 90+ Days<br>\$'000 | Total<br>\$'000 |
|----------------------------------|-------------------|------------------------|-------------------|-------------------|--------------------|-----------------|
| <b>2020</b>                      |                   |                        |                   |                   |                    |                 |
| Australia and Asia Pacific (AUD) | 328               | 324                    | 1                 | (1)               | 1                  | <b>653</b>      |
| Australia and Asia Pacific (USD) | 1,441             | 345                    | 3                 | 21                | 5,016              | <b>6,826</b>    |
| Australia and Asia Pacific (EUR) | 58                | -                      | -                 | 17                | 114                | <b>189</b>      |
| USA Entities (USD)               | 894               | 274                    | 195               | 319               | 1,640              | <b>3,322</b>    |
| European Entities (EUR)          | 844               | 74                     | 25                | (15)              | 1,044              | <b>1,972</b>    |
|                                  | <b>3,565</b>      | <b>1,017</b>           | <b>224</b>        | <b>341</b>        | <b>7,815</b>       | <b>12,962</b>   |
| Provision                        |                   | -                      | -                 | -                 | (366)              | (366)           |
| <b>2019</b>                      |                   |                        |                   |                   |                    |                 |
| Australia and Asia Pacific (AUD) | 383               | 116                    | 92                | 2                 | 33                 | 626             |
| Australia and Asia Pacific (USD) | 7,241             | 371                    | 120               | 5                 | 414                | 8,151           |
| Australia and Asia Pacific (EUR) | 225               | (76)                   | 1                 | -                 | 58                 | 208             |
| USA Entities (USD)               | 2,848             | 652                    | 49                | 99                | 1,360              | 5,008           |
| European Entities (EUR)          | 1,571             | 110                    | 86                | 318               | 166                | 2,251           |
|                                  | <b>12,268</b>     | <b>1,173</b>           | <b>348</b>        | <b>424</b>        | <b>2,031</b>       | <b>16,244</b>   |
| Provision                        |                   | -                      | -                 | -                 | (264)              | (264)           |

The table highlights that:

The collection of cash from the sale of goods and services to direct end user customers as identified by USA (USD) and Australia and Asia Pacific (AUD) accounts receivable usually occurs at or not long after agreed payment terms. Debtors in the 90-day column are 12.7% (2019: 27.2%) and 39.6% (2019: 5.3%) of the total debtors owing in the respective territories. Variations in the 90 day column year-on-year are usually not significant in absolute dollar terms, but in the current year reflect an outstanding debt in the US, which the Group views as recoverable, as such the balances do not reflect any deterioration in amounts owing but rather reflect timing issues related to installation and training and the subsequent collection of cash.



**Notes to the Financial Statements (continued)****For the year ended 30 June 2020****2. Financial risk management (continued)****(b) Credit risk (continued)**

- The collection of cash from the sale of goods and services to distributors in Europe, the Middle East, Africa and Asia as represented by Australia and Asia Pacific (USD) accounts receivable usually occur well after agreed payment terms.
- Debtors in the 90-day column are approximately 60.3% (2019: 5.1%) of the total debtors outstanding in the current year. The Company does not consider these accounts receivable to be at risk of non-payment but they have aged considerably as a result of the effects of the COVID-19 pandemic, particularly in China.
- The collection of cash from the sale of goods and services in the Europe-based business, which is primarily via distributors into Europe and Asia typically occurs after agreed payment terms. Debtors in the 90-day column for European Entities represent 8.1% (2019: 7.4%) of all debtors owed to this business, again reflecting delays in payment as a result of COVID-19. The Group sees this as a timing issue and expects full recoverability of the amounts owing.

Information on the Group's maximum exposure to credit risk and financial assets that are either past due or impaired can be found at Note 10.

**(c) Liquidity risk**

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and committed available credit lines.

The Group does not have a specific policy as to the ratio of long term to short term debt and has instead focused on minimising total Group debt.

The Group manages its liquidity risk by monitoring the total cash inflows and outflows expected on a monthly basis across its worldwide business units that reflect expectations of management of the expected settlement of financial assets and liabilities.

However, where the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay. When the Group is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the Group is required to pay. For financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows of non-derivative financial instruments. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in the Group's ongoing operations such as property, plant, equipment and investments in working capital (e.g. inventories and trade receivables).

Liquid non-derivative assets comprising cash and receivables are considered in the Group's overall liquidity risk. The Group ensures that sufficient liquid assets are available to meet all the required short-term cash payments.

The Company increased bank debt from \$1.6m to \$3.1m during the financial year, whilst also increasing the cash balance to \$6.4m at 30 June 2020 from \$4.6m at 30 June 2019. The increase in bank debt results primarily from the funds advanced as part of the payroll protection program in the US being \$0.9m. The balance is from timing of loan repayments and working capital flows. The Group anticipates it will meet the conditions for the loan advanced under the payroll protection program in the US to be forgiven at 31<sup>st</sup> December 2020.

**Notes to the Financial Statements (continued)**

For the year ended 30 June 2020

**2. Financial risk management (continued)****(c) Liquidity risk (continued)**

Details of the Group's financing arrangements can be found at Note 15.

Liquid Financial Assets and Liquid Financial Liabilities

| <b>Consolidated</b>                   | <b>6 months<br/>\$000</b> | <b>6-12 months<br/>\$000</b> | <b>1-5 years<br/>\$000</b> | <b>&gt; 5 years<br/>\$000</b> | <b>Total<br/>\$000</b> |
|---------------------------------------|---------------------------|------------------------------|----------------------------|-------------------------------|------------------------|
| <b>Year ended 30 June 2020</b>        |                           |                              |                            |                               |                        |
| <b>Liquid financial assets</b>        |                           |                              |                            |                               |                        |
| Cash and cash equivalents             | 6,412                     | -                            | -                          | -                             | 6,412                  |
| Trade and other receivables           | 13,643                    | -                            | -                          | -                             | 13,643                 |
|                                       | <b>20,055</b>             | -                            | -                          | -                             | <b>20,055</b>          |
| <b>Financial liabilities</b>          |                           |                              |                            |                               |                        |
| Trade and other payables              | 3,832                     | -                            | -                          | -                             | 3,832                  |
| Interest bearing loans and borrowings | 3,051                     | -                            | 11                         | -                             | 3,062                  |
|                                       | <b>6,883</b>              | -                            | <b>11</b>                  | -                             | <b>6,894</b>           |
| <b>Net inflow / (outflow)</b>         | <b>13,172</b>             | -                            | <b>(11)</b>                | -                             | <b>13,161</b>          |
| <b>Year ended 30 June 2019</b>        |                           |                              |                            |                               |                        |
| <b>Liquid financial assets</b>        |                           |                              |                            |                               |                        |
| Cash and cash equivalents             | 4,599                     | -                            | -                          | -                             | 4,599                  |
| Trade and other receivables           | 17,817                    | -                            | -                          | -                             | 17,817                 |
|                                       | <b>22,416</b>             | -                            | -                          | -                             | <b>22,416</b>          |
| <b>Financial liabilities</b>          |                           |                              |                            |                               |                        |
| Trade and other payables              | 4,386                     | -                            | -                          | -                             | 4,386                  |
| Interest bearing loans and borrowings | 1,570                     | -                            | 23                         | -                             | 1,593                  |
|                                       | <b>5,956</b>              | -                            | <b>23</b>                  | -                             | <b>5,979</b>           |
| <b>Net inflow / (outflow)</b>         | <b>16,460</b>             | -                            | <b>(23)</b>                | -                             | <b>16,437</b>          |

## Notes to the Financial Statements (continued)

For the year ended 30 June 2020

### 3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

#### Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### (i) *Deferred revenues*

In calculating the Group's deferred revenues at any point in time the Group makes a judgement regarding the revenues to be deferred to future periods in respect of future installations and training obligations.

The Group reviews its installation and training obligations charged specifically against invoices raised with customers and defers this amount. This amount is deferred until such time as the future installation and training obligations have been extinguished.

##### (ii) *Inventory*

At any given point the Group has an obligation to carry its inventory at the lower of cost and net realisable value. In determining the Group's compliance with this requirement, the Group reviews its slow-moving inventory at December 31 and June 30 each year. As a consequence of this review the financial provision for slow moving inventory is adjusted with a resulting profit or loss impact.

In determining the appropriateness of the slow-moving inventory provision, the Group makes estimates about its future use of certain product lines and the ultimate recoverability and usefulness of the inventory on hand.

Given the leading-edge technology nature of the Group's activities, this may mean that inventory that was previously considered usable and therefore of value may quickly become redundant, obsolete or simply no longer usable.

##### (iii) *Trade receivables*

Similarly, for trade receivables the Group must make an estimate at any given point in time as to the recoverability of the receivables it has on its ledger and a provision for impairment is created based on this estimate.

The estimate is based on many factors including:

- The Group's knowledge of its customers and the likelihood of there being any issue with payment
- The Group's prior good history in relation to collecting receivables
- The territory where the receivable is owed from; and
- The age of outstanding balances.

Using this information, the Group makes an assessment of the recoverability of its trade receivables.

##### (iv) *Recoverability of capitalised development costs*

The Group did capitalise additional costs of \$3.83m (2019: \$2.97m) related predominantly to the development of the Somfit product and the new MEG product. The recoverability of these costs is dependent on the commercial success of both these products, which form the basis of the net present value calculations, so that it will generate future economic benefits in excess of the costs capitalised and therefore supports the carrying value of the assets. The Company did review the carrying value of the intangible assets of the Group at 30 June 2020 in light of the impacts of the COVID-19 pandemic and as a consequence of that review decided to impair the carrying value of the intangibles assets by \$7.7m at 30 June 2020. The Group continued amortisation of these costs in the 2020 financial year with a \$0.2m (2019: \$0.2m) charge to profit or loss in the current year, solely related to the intangible assets in the DWL business in Germany.

**Notes to the Financial Statements (continued)****For the year ended 30 June 2020****3. Critical accounting estimates and judgements (continued)***(v) Deferred tax asset / liability*

The Group has booked a deferred tax asset related to the future benefit of unused tax credits as well as a net deferred tax asset relating to timing differences, where it is reasonably certain it can recover those losses against future taxable profits. The Group had booked a deferred tax liability in the prior year, given the restoration of profits at that point in time and over the preceding years. With the downturn in the business as a result of the COVID-19 pandemic that deferred tax liability of \$997k at 30 June 2019 has been replaced by a deferred tax asset of \$781k at 30 June 2020.

**4. Operating Segments****(a) Accounting policies and inter-segment transactions**

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 1 to the accounts and in the prior periods except as detailed below:

*Inter-entity sales*

Inter-entity sales are recognised based on an internally set transfer price. The price is set annually and aims to reflect what the business operations could achieve if they sold their output and services to external parties at arm's length.

*Corporate charges*

Corporate charges comprise non-segmental expenses such as head office expenses and interest. Corporate charges are allocated to each operating segment on a proportionate basis linked to segment revenue so as to determine a segmental result.

It is the Group's policy that if term of revenue and expenses are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

**(b) Description of segments****Identification of reportable segments**

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (chief operating decision maker) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the geographical location in which products are sold and services provided, either directly to end-user customers or via distributors. Discrete financial information about each of these operating businesses is reported to the executive management team on at least a monthly basis.

**Notes to the Financial Statements (continued)****For the year ended 30 June 2020****4. Operating Segments (continued)****Geographic locations***America's*

The Group's America's based business includes, the United States, Canada and Latin America. The Group sells all of its product offerings in this region including sleep diagnostic systems, clinical EEG systems, brain monitoring systems, ultra-sonic blood-flow systems, supplies and technical service and support. The US business also includes that sleep diagnostic services business. Sales in the Americas are predominantly direct sales to end-user customers. The US office is based in Charlotte, North Carolina.

*Australia and Asia Pacific*

The Group's head office is based in Melbourne, Australia and the Australia and Asia Pacific territory includes all countries in the Asia Pacific region with major countries for the territory including Japan and China. The Group sells all of its product offerings in this region including sleep diagnostic systems, clinical EEG systems, brain monitoring systems, ultra-sonic blood-flow systems, supplies and technical service and support. The group sells directly to end-user customers in Australia and via a network of distributors into the Asian region.

*Europe and the Middle East*

The Group's Europe-based business has its principal office in Singen, Germany with a second office in Hamburg Germany. The Europe based territory includes all countries in the European region, plus all Middle Eastern countries. The Group sells all of its product offerings in this region including sleep diagnostic systems, clinical EEG systems, brain monitoring systems, ultra-sonic blood-flow systems, supplies and technical service and support. The Group sells its ultra-sonic blood-flow systems directly in Germany and all other products are sold via a network of distributors across the territory.

*Major Customers*

The Group does not have any individual customer that contributes 10% or more to Group revenues in the years ended 30 June 2020 or 30 June 2019.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2020

## 4. Operating Segments (continued)

Segment revenues are allocated based on the country in which the customer is located. Segment assets and capital expenditure are allocated based on where the assets are located.

| 2020  | USA           | Australia<br>and Asia<br>Pacific | Europe        | Group          |
|---|---------------|----------------------------------|---------------|----------------|
|   | \$'000        | \$'000                           | \$'000        | \$'000         |
| Revenue   |               |                                  |               |                |
| Sales to external customers   | 12,582        | 14,972                           | 7,516         | 35,070         |
| Intersegment sales  | 575           | 3,945                            | 976           | 5,496          |
| Other intersegment revenue  | 257           | 8                                | 1,535         | 1,800          |
| <b>Total segment revenue</b>  | <b>13,414</b> | <b>18,925</b>                    | <b>10,027</b> | <b>42,366</b>  |
| Intersegment elimination  | (833)         | (3,953)                          | (2,511)       | (7,297)        |
| <b>Total revenue</b>  | <b>12,581</b> | <b>14,972</b>                    | <b>7,516</b>  | <b>35,069</b>  |
| <b>Segment Result</b>   | 726           | 1,836                            | (320)         | <b>2,242</b>   |
| Other income  |               |                                  |               | -              |
| Depreciation and amortisation   |               |                                  |               | (1,664)        |
| Impairment of Intangible Asset  |               |                                  |               | (7,661)        |
| Net interest expense  |               |                                  |               | (420)          |
| <b>Net profit/(loss) before income tax per<br/>the Statement of Profit or Loss and<br/>Other Comprehensive Income</b> |               |                                  |               | <b>(7,503)</b> |
| Segment Assets  | 9,291         | 59,772                           | 5,222         | 74,285         |
| Intersegment elimination  | -             | (38,758)                         | -             | (38,758)       |
| <b>Total assets per the Statement of<br/>Financial Position</b>   | <b>9,291</b>  | <b>21,014</b>                    | <b>5,222</b>  | <b>35,527</b>  |
| Acquisition of property plant & equipment   | 157           | 54                               | 201           | 412            |

Sales within Australia for 2020 were \$5.1m

## Notes to the Financial Statements (continued)

For the year ended 30 June 2020

## 4. Operating Segments (continued)

|  | USA           | Australia<br>and Asia<br>Pacific | Europe        | Group         |
|--|---------------|----------------------------------|---------------|---------------|
| 2019   | \$'000        | \$'000                           | \$'000        | \$'000        |
| Revenue  |               |                                  |               |               |
| Sales to external customers  | 13,773        | 18,634                           | 9,098         | 41,505        |
| Intersegment sales   | 626           | 3,794                            | 883           | 5,303         |
| Other intersegment revenue   | 675           | -                                | 200           | 875           |
| <b>Total segment revenue</b>   | <b>15,074</b> | <b>22,428</b>                    | <b>10,181</b> | <b>47,683</b> |
| Intersegment elimination   | (1,301)       | (3,795)                          | (1,084)       | (6,180)       |
| <b>Total revenue</b>   | <b>13,773</b> | <b>18,633</b>                    | <b>9,097</b>  | <b>41,503</b> |
| <b>Segment Result</b>  | <b>1,457</b>  | <b>3,883</b>                     | <b>558</b>    | <b>5,898</b>  |
| Other income   |               |                                  |               | -             |
| Depreciation and amortisation  |               |                                  |               | (550)         |
| Net interest expense   |               |                                  |               | (261)         |
| <b>Net profit/(loss) before income tax per the Statement of Profit or Loss and Other Comprehensive Income/(loss)</b> |               |                                  |               | <b>5,087</b>  |
| Segment Assets   | 7,164         | 54,811                           | 6,468         | 68,443        |
| Intersegment elimination   | -             | (29,782)                         | -             | (29,782)      |
| <b>Total assets per the Statement of Financial Position</b>  | <b>7,164</b>  | <b>25,029</b>                    | <b>6,468</b>  | <b>38,661</b> |
| Acquisition of property plant & equipment  | 395           | 736                              | 58            | 1,189         |

Sales within Australia for 2019 were \$4.8m

## 5. Revenue

|                      | Consolidated  |               |
|----------------------|---------------|---------------|
|                      | 2020          | 2019          |
|                      | \$'000        | \$'000        |
| <i>Sales revenue</i> |               |               |
| Sale of goods        | 30,875        | 37,959        |
| Services             | 4,194         | 3,546         |
|                      | <b>35,069</b> | <b>41,505</b> |

## 6. Other income

|                                |              |            |
|--------------------------------|--------------|------------|
| Other income                   | 358          | 381        |
| COVID-19 government assistance | 577          | -          |
| COVID-19 related grant income  | 330          | -          |
| Total                          | <b>1,265</b> | <b>381</b> |

Other income relates primarily to COVID-19 government assistance in the form of JobKeeper \$481k and other assistance in Europe. The COVID-19 government grant relates to preliminary assessment activities to convert existing SPAP devices to non-invasive ventilators for the State Government. This grant has now been completed. In the prior year other income related to sub-lease rental income in Melbourne and other items not directly related to the main operating activities of the Group. The sub lease finished in September 2019 and the space has not currently been re-let.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2020

## 7. Expenses

|   | Consolidated  |               |
|---|---------------|---------------|
|   | 2020          | 2019          |
|   | \$'000        | \$'000        |
| <b>Profit before income tax includes the following specific expenses:</b> |               |               |
| <i>Depreciation</i>   |               |               |
| Plant and equipment   | 595           | 209           |
| Total depreciation  | <b>595</b>    | <b>209</b>    |
| <i>Amortisation</i>   |               |               |
| Intangible assets   | 186           | 219           |
| Right-of-use assets   | 883           | -             |
| <i>Finance costs</i>  |               |               |
| Interest and finance charges paid/payable                                 | 420           | 261           |
| <i>Rental expense relating to operating leases</i>                        |               |               |
| Minimum lease payments  | -             | 1,053         |
| <i>Foreign exchange (gains) and losses (a)</i>                            | (69)          | (413)         |
| <i>Employee benefits</i>  |               |               |
| Payroll expense including leave payments                                  | 17,524        | 15,644        |
| Superannuation entitlements   | 678           | 618           |
|   | <b>18,202</b> | <b>16,262</b> |
| Research and development expenditure                                      | 3,843         | 5,319         |
| Current receivables – movement in impairment provision                    | 102           | (85)          |
| Inventory – write down / (recovery):                                      | 259           | (348)         |

(a) Foreign exchange gains and losses

Net foreign exchange gains/(losses) of \$0.069m (2019: \$0.413m) were primarily related to trading transactions.



## Notes to the Financial Statements (continued)

For the year ended 30 June 2020

**8. Income tax expense**

|   | <b>Consolidated</b> |               |
|---|---------------------|---------------|
|   | <b>2020</b>         | <b>2019</b>   |
|   | <b>\$'000</b>       | <b>\$'000</b> |
| <b>(a) Income tax expense/(benefit)</b>   |                     |               |
| Current income tax charge   | 113                 | 74            |
| Deferred income tax / (asset)   | (1,778)             | 997           |
| Income tax reported in the statement of profit or loss and other comprehensive income                                   | <b>(1,665)</b>      | <b>1,071</b>  |
| <b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>                                    |                     |               |
| Profit / (Loss) before income tax expense as reported in the statement of profit or loss and other comprehensive income | (7,503)             | 5,087         |
| Tax (benefit) at the Australian tax rate of 27.5% (2019 - 30%)  | (2,063)             | 1,526         |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income:                                 |                     |               |
| Non-deductible expenses   | 1                   | 6             |
| Research and development  | (249)               | (317)         |
| Deferred tax liabilities brought to account   | 646                 | (144)         |
| Income tax expense (benefit) reported in the statement of profit or loss and other comprehensive income                 | <b>(1,665)</b>      | <b>1,071</b>  |
| <b>(c) Provision for income tax – current</b>   |                     |               |
| Estimated income tax payable  | 106                 | 12            |

The benefit of tax losses will be obtained if:

- (i) the Group derives future assessable income of a nature and an amount enough to enable the benefit from the deductions for the loss to be realised,
- (ii) the Group continues to comply with the conditions for deductibility imposed by tax legislation, and
- (iii) no change in tax legislation adversely affects the Group in realising the benefit from the deductions for the loss.

**(d) Tax consolidation legislation**

Compumedics Limited and its wholly owned Australian controlled entities have elected not to implement the tax consolidation legislation.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2020

## 9. Current assets – Cash and cash equivalents

|                          | Consolidated |        |
|--------------------------|--------------|--------|
|                          | 2020         | 2019   |
|                          | \$'000       | \$'000 |
| Cash at bank and in hand | 6,412        | 4,599  |

Included in cash on hand is restricted cash amounting to \$0.2m. This relates to security for the rental bond on the offices the Company occupies in Melbourne and for security regarding the corporate credit cards used in the US.

**Reconciliation to Statement of Cash Flows**

For the purposes of the statement of cash flow, cash and cash equivalents comprise the following at 30 June

|  |              |              |
|--|--------------|--------------|
| Cash at bank and in hand                               | 6,412        | 4,599        |
| Bank overdrafts / invoice financing facility (note 15) | (397)        | (228)        |
| Balances per Statement of Cash Flows                   | <b>6,015</b> | <b>4,371</b> |

## 10. Current assets – Trade and other receivables

|                                   | Consolidated  |               |
|-----------------------------------|---------------|---------------|
|                                   | 2020          | 2019          |
|                                   | \$'000        | \$'000        |
| Trade receivables                 | 12,962        | 16,244        |
| Allowance for impairment loss (a) | (366)         | (264)         |
|                                   | <b>12,596</b> | <b>15,980</b> |
| Other receivables/prepayments     | 1,047         | 1,837         |
| Related party receivables:        |               |               |
| Loans to key management personnel | -             | -             |
|                                   | <b>13,643</b> | <b>17,817</b> |

(a) Movements in the provision for impairment loss were as follows:

|  |            |            |
|--|------------|------------|
| At 1 July  | 264        | 349        |
| Provision for impairment recognised during the year      | 104        | (97)       |
| Receivables written off during the year as uncollectible | (2)        | 12         |
|  | <b>366</b> | <b>264</b> |

The creation and release of the provision for impaired receivables has been included in 'sales and marketing' expenses in profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

**Notes to the Financial Statements (continued)****For the year ended 30 June 2020****10. Current assets – Trade and other receivables (continued)****Past due but not impaired**

As of 30 June 2020, trade receivables of \$6,609,276 (2019 - \$3.710m) were past due but not impaired. These relate primarily to three long-term China-based distributors. The Company has no history of bad debts with these distributors and there is no recent history of default. The delay in payment is related primarily to the impact of the COVID-19 pandemic and one distributor being subject to a customs audit in China, which is now complete. The ageing analysis of these trade receivables is as follows:

|                | <b>Consolidated</b> |               |
|----------------|---------------------|---------------|
|                | <b>2020</b>         | <b>2019</b>   |
|                | <b>\$'000</b>       | <b>\$'000</b> |
| Up to 3 months | 1,582               | 1,943         |
| 3 to 6 months  | 1,841               | 576           |
| Over 6 months  | 3,187               | 1,191         |
|                | <b>6,609</b>        | <b>3,710</b>  |

**Fair value and credit risk**

Due to the short-term nature of these non-interest bearing receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 2 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

Due to the industry in which the Group operates, the Group trades with a number of Australian and overseas distributors who are historically slow payers. The ageing profile of trade receivables is closely monitored and significantly aged balances and doubtful accounts are provided against.

**11. Current assets - Inventories**

The provision for stock obsolescence was increased during the year ended 30 June 2020 by \$0.259m as a result of the Group recognising provision against specific inventory items. These activities have led the Group to adjust the provision for stock obsolescence to reflect the recoverable value of the inventory on hand at 30 June 2020.

|  | <b>Consolidated</b> |               |
|--|---------------------|---------------|
|  | <b>2020</b>         | <b>2019</b>   |
|  | <b>\$'000</b>       | <b>\$'000</b> |
| Raw materials and stores (at cost)                                     | 5,602               | 4,625         |
| Work in progress (at cost)   | 816                 | 584           |
| Finished goods (at net realisable value)                               | 4,008               | 3,925         |
| Provision for obsolescence   | (1,595)             | (1,336)       |
| <b>Total inventories at the lower of cost and net realisable value</b> | <b>8,831</b>        | <b>7,798</b>  |

**(a) Inventory expense**

Inventories recognised as an expense during the year ended 30 June 2020 amounted to \$14,300,344 (2019: \$16,438,621).

## Notes to the Financial Statements (continued)

For the year ended 30 June 2020

## 12. Non-current assets - Property, plant and equipment

| Consolidated                         | Plant and<br>Equipment<br>At Cost<br>\$'000 | Office<br>Equipment<br>At Cost<br>\$'000 | Motor<br>Vehicle<br>\$'000 | Leasehold<br>Improvements<br>\$'000 | Plant and<br>Equipment<br>Leased<br>\$'000 | Office<br>Equipment<br>Leased<br>\$'000 | Total<br>\$'000 |
|--------------------------------------|---|--|----------------------------|-------------------------------------|--|---|-----------------|
| <b>Year ended 30 June 2019</b>       |   |  |                            |                                     |  |   |                 |
| Opening net book amount              | 424   | 239                                      | -                          | -                                   | -  | 3                                       | 666             |
| Additions                            | 527   | 645                                      | -                          | 17                                  | -  | -                                       | 1,189           |
| Exchange differences                 | 13  | 3  | -                          | -                                   | -  | -                                       | 16              |
| Disposals                            | (10)  | -  | -                          | -                                   | -  | -                                       | (10)            |
| Depreciation/amortisation<br>expense | (119)                                       | (86)                                     | -                          | (1)                                 | -  | (3)                                     | (209)           |
| <b>At 30 June 2019</b>               | <b>835</b>                                  | <b>801</b>                               | <b>-</b>                   | <b>16</b>                           | <b>-</b>                                   | <b>-</b>                                | <b>1,652</b>    |
| <b>At 30 June 2019</b>               |   |  |                            |                                     |  |   |                 |
| Cost or fair value                   | 2,348                                       | 5,319                                    | 228                        | 602                                 | 430  | 592                                     | 9,519           |
| Accumulated depreciation             | (1,513)                                     | (4,518)                                  | (228)                      | (586)                               | (430)                                      | (592)                                   | (7,867)         |
| <b>Net carrying amount</b>           | <b>835</b>                                  | <b>801</b>                               | <b>-</b>                   | <b>16</b>                           | <b>-</b>                                   | <b>-</b>                                | <b>1,652</b>    |
| <b>Year ended 30 June 2020</b>       |   |  |                            |                                     |  |   |                 |
| Opening net book amount              | 835   | 801                                      | -                          | 16                                  | -  | -                                       | 1,652           |
| Additions                            | 218   | 187                                      | -                          | 7                                   | -  | -                                       | 412             |
| Exchange differences                 | 6   | 7  | -                          | -                                   | -  | -                                       | 13              |
| Disposals                            | (17)  | -  | -                          | -                                   | -  | -                                       | (54)            |
| Depreciation/amortisation<br>expense | (221)                                       | (367)                                    | -                          | (7)                                 | -  | -                                       | (595)           |
| <b>At 30 June 2020</b>               | <b>821</b>                                  | <b>628</b>                               | <b>-</b>                   | <b>16</b>                           | <b>-</b>                                   | <b>-</b>                                | <b>1,465</b>    |
| <b>At 30 June 2020</b>               |   |  |                            |                                     |  |   |                 |
| Cost or fair value                   | 2,549                                       | 5,506                                    | 228                        | 609                                 | 430  | 592                                     | 9,877           |
| Accumulated depreciation             | (1,728)                                     | (4,878)                                  | (228)                      | (593)                               | (430)                                      | (592)                                   | (8,411)         |
| <b>Net carrying amount</b>           | <b>821</b>                                  | <b>628</b>                               | <b>-</b>                   | <b>16</b>                           | <b>-</b>                                   | <b>-</b>                                | <b>1,465</b>    |
| <b>Useful life (years)</b>           | <b>6</b>                                    | <b>3</b>                                 | <b>3</b>                   | <b>-</b>                            | <b>6</b>                                   | <b>3</b>                                |                 |

## (a) Property, plant and equipment pledged as security for liabilities

Refer to note 15 for information on non-current assets pledged as security.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2020

## 13. Non-current assets - Intangible assets

| Consolidated                              | Development costs<br>\$'000 | Total<br>\$'000 |
|---|-----------------------------|-----------------|
| <b>Year ended 30 June 2019</b>            |                             |                 |
| At 1 July 2018                            | 4,042                       | 4,042           |
| Additions                                 | 2,972                       | 2,972           |
| Impairment charge                         | -                           | -               |
| Amortisation charge                       | (219)                       | (219)           |
| <b>At 30 June 2019</b>                    | <b>6,795</b>                | <b>6,795</b>    |
| <b>At 30 June 2019</b>                    |                             |                 |
| Cost*                                     | 14,479                      | 14,479          |
| Accumulated amortisation** and impairment | (7,684)                     | (7,684)         |
| <b>Net carrying amount</b>                | <b>6,795</b>                | <b>6,795</b>    |
| <b>Year ended 30 June 2020</b>            |                             |                 |
| At 1 July 2019                            | 6,795                       | 6,795           |
| Additions                                 | 3,829                       | 3,829           |
| Impairment charge                         | (7,661)                     | (7,661)         |
| Amortisation charge                       | (186)                       | (186)           |
| <b>At 30 June 2020</b>                    | <b>2,777</b>                | <b>2,777</b>    |
| <b>At 30 June 2020</b>                    |                             |                 |
| Cost*                                     | 18,308                      | 18,308          |
| Accumulated amortisation** and impairment | (15,531)                    | (15,531)        |
| <b>Net carrying amount</b>                | <b>2,777</b>                | <b>2,777</b>    |

\* Relates to capitalised development costs being an internally generated intangible asset

\*\* Amortisation of \$185,941 (2019 - \$218,953) is included in depreciation and amortisation expense in profit or loss. Further, an impairment charge of \$7,661,313 was taken to the profit or loss for the year ended 30 June 2020. The remaining balance of the intangible asset relates to MEG to be amortised over approximately 10 years, the Somfit product to be amortised over 10 years from first sale.

## 14. Current liabilities - Trade and other payables

|                | Consolidated<br>2020<br>\$'000 | 2019<br>\$'000 |
|----------------|--------------------------------|----------------|
| Trade payables | 2,926                          | 3,095          |
| Other payables | 906                            | 1,291          |
|                | <b>3,832</b>                   | <b>4,386</b>   |

## (a) Foreign currency risk

For an analysis of the sensitivity of trade and other payables to foreign currency risk refer to note 2.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2020

## 15. Current Liabilities - Borrowings

|  | Consolidated   |                |
|--|----------------|----------------|
|  | 2020<br>\$'000 | 2019<br>\$'000 |
| <b>Secured</b>                             |                |                |
| Invoice financing facility                 | -              | 227            |
| Bank Overdraft                             | 397            | -              |
| Bank Bill / Working capital facility (MEG) | 1,600          | 1,104          |
| Fixed term loan                            | 116            | 227            |
| Lease liabilities (note 28)                | 12             | 12             |
| <b>Unsecured</b>                           |                |                |
| Other loans                                | 926            | -              |
| <b>Total Current Borrowings</b>            | <b>3,051</b>   | <b>1,570</b>   |

**Bank and Other Funding Facilities**

The Company previously utilised an invoice finance facility provided by Bank of Melbourne (BOM) for Australian based customers. The invoice facility had a limit of \$1.0m and was dependent on the volume and type of invoices presented on an on-going basis in order to fully utilise the facility limit. The Company closed this facility during the year and instead now has an overdraft facility, with an on-going limit of \$1.0m. This limit, in response to the COVID-19 pandemic, has been temporarily increased through to the end of January 2021 to \$2.5m. The Company also has a working capital facility with BOM for funding the manufacture of the MEG system. This facility was also changed during the financial year and is now a \$1.6m bank bill due for repayment at the end of June 2021. The Company has transactional banking facilities and credit cards with Bank of Melbourne. Provision of those facilities, including the borrowing facilities, is subject to the Group being compliant with two ratios. The first is a Capital Ratio, which compares Total Tangible Assets less Total Liabilities, to Total Liabilities. At 30 June 2020, the Group was compliant with this test. The second test is an Interest Cover Ratio which compares Earnings before Interest and Tax to Gross Interest Expense. The Company was not compliant with this ratio at 30 June 2020. As a result the Bank of Melbourne issued a breach in relation to this test, but is taking no further action at this time. The Group had in place a USD0.5m invoice financing facility with BIBBY USA but as this was no longer being used the facility was closed during the financial year. The Group was successful in obtaining funds under the USA Government Payroll Protection Plan. This is shown as unsecured other loans of \$0.9m. If certain conditions are met by the US business by 31 December 2020, this loan will be forgiven. The Group currently expects to meet the conditions for forgiveness of the loan. The Group also has a EUR0.35m unsecured overdraft facility with Sparkasse Bank in Germany. In addition, the Group has a EUR0.5m facility provided by the German government in response to the COVID-19 pandemic.

**(a) Risk exposures**

Details of the Group's exposure to fair value interest rate risk arising from current borrowings is set out in note 2.

**(b) Fair value disclosures**

No borrowings are readily traded on organised markets.

The carrying amounts of all borrowings are not materially different to their fair values at reporting date.

**(c) Assets pledged as security and not derecognised in the Statement of Financial Position**

The total secured liabilities are as follows:

|                                  | Consolidated   |                |
|----------------------------------|----------------|----------------|
|                                  | 2020<br>\$'000 | 2019<br>\$'000 |
| Invoice financing facility       | -              | 227            |
| Bank Overdraft                   | 397            | -              |
| Working capital facility (MEG)   | 1,600          | 1,104          |
| Fixed term loan                  | 116            | 227            |
| Lease liabilities – current      | 12             | 12             |
| Lease liabilities – non-current  | 11             | 23             |
| <b>Total secured liabilities</b> | <b>2,136</b>   | <b>1,593</b>   |

## Notes to the Financial Statements (continued)

For the year ended 30 June 2020

**15. Current Liabilities – Borrowings (continued)**

Security is held against the following subsidiaries: Compumedics Telemed Pty Ltd, Compumedics Cardiology Pty Ltd, Compumedics Medical Innovation Pty Ltd, Compumedics USA Inc, Compumedics Germany GmbH and Compumedics Singapore Pte Ltd.

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

The carrying amounts of assets pledged as security for current borrowings are:

|  | Notes | Consolidated   |                |
|--|-------|----------------|----------------|
|  |       | 2020<br>\$'000 | 2019<br>\$'000 |
| <b>Current</b>                               |       |                |                |
| <i>Floating charge</i>                       |       |                |                |
| Cash and cash equivalents                    | 9     | 6,412          | 4,371          |
| Receivables                                  | 10    | 13,643         | 17,817         |
| Inventories                                  | 11    | 8,831          | 7,798          |
| Total current assets pledged as security     |       | <b>28,886</b>  | <b>29,986</b>  |
| <b>Non-current</b>                           |       |                |                |
| <i>Floating charge</i>                       |       |                |                |
| Property, plant and equipment                | 12    | 1,465          | 1,652          |
| Total non-current assets pledged as security |       | <b>1,465</b>   | <b>1,652</b>   |
| Total assets pledged as security             |       | <b>30,351</b>  | <b>31,638</b>  |

**(d) Forward exchange contracts**

As at 30 June 2020 and 30 June 2019 there were no outstanding forward exchange contracts.

**(e) Financing arrangements**

Access was available at reporting date to the following lines of credit:

|   | Consolidated   |                |
|---|----------------|----------------|
|   | 2020<br>\$'000 | 2019<br>\$'000 |
| <b>Credit standby arrangements</b>                    |                |                |
| <b>Total facility</b>                                 |                |                |
| Invoice financing and post export shipment facilities | -              | 1,713          |
| Bank Overdraft (reducing to \$1.0m at 31 Jan 2021)    | 2,500          | -              |
| Bank Bill /Working capital facility (MEG)             | 1,600          | 1,300          |
| Fixed term loan                                       | 350            | 350            |
| Overdraft – DWL                                       | 574            | 567            |
| Payroll Protection (USA)                              | 929            | -              |
|   | <b>5,953</b>   | <b>3,930</b>   |
| <b>Used at reporting date</b>                         |                |                |
| Invoice financing facility                            | -              | 227            |
| Bank Overdraft  | 394            | -              |
| Bank Bill / Working capital facility (MEG)            | 1,600          | 1,104          |
| Fixed term loan                                       | 116            | 227            |
| Overdraft - DWL                                       | -              | -              |
| Payroll Protection (USA)                              | 929            | -              |
|   | <b>3,039</b>   | <b>1,558</b>   |

**Notes to the Financial Statements (continued)**

For the year ended 30 June 2020

**15. Current Liabilities – Borrowings (continued)**

Unused at reporting date

|                                |              |              |
|--------------------------------|--------------|--------------|
| Invoice financing facility     | -            | 1,486        |
| Bank Overdraft                 | 2,106        | -            |
| Working capital facility (MEG) | -            | 196          |
| Fixed term loan                | 234          | 123          |
| Overdraft - DWL                | 574          | 567          |
| Payroll Protection (USA)       | -            | -            |
|                                | <b>2,914</b> | <b>2,372</b> |

Loan / funding facilities

|                          |              |              |
|--------------------------|--------------|--------------|
| Total facilities         | 5,953        | 3,930        |
| Used at reporting date   | 3,039        | 1,558        |
| Unused at reporting date | <b>2,914</b> | <b>2,372</b> |

The Group had funding facilities totalling \$6.0million at 30 June 2020. Of this amount \$1.5m relates to a temporary increase in the Group's Bank Overdraft facility with the Bank of Melbourne. This was put in place in response to the COVID-19 pandemic. The temporary limit is due to expire on 31<sup>st</sup> January 2021.

**(f) Derivative instruments**

Compumedics Limited and certain of its controlled entities may be party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates. At reporting date there were no outstanding derivative financial instruments in place.

**16. Current liabilities - Provisions**

|                                 | <b>2020</b>   | <b>2019</b>   |
|---------------------------------|---------------|---------------|
|                                 | <b>\$'000</b> | <b>\$'000</b> |
| Employee benefits               | 2,419         | 2,395         |
| Service warranties (note 16(a)) | 409           | 454           |
|                                 | <b>2,828</b>  | <b>2,849</b>  |

**(a) Service warranties**

Provision is made for the estimated warranty claims in respect of products sold which are still under warranty at reporting date. These claims are expected to be settled in the next financial year but this may be extended into the following year if claims are made late in the warranty period and are subject to confirmation by suppliers that component parts are defective.

Management estimates the provision based on historical warranty claim information and any recent trends that may suggest future claims could differ from historical amounts.

**(b) Movements in provisions**

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

|                                       | <b>Service warranties</b> |
|---------------------------------------|---------------------------|
|                                       | <b>\$'000</b>             |
| <b>Current</b>                        |                           |
| Carrying amount at start of year      | 454                       |
| Charged/(credited) to profit or loss  |                           |
| - additional provisions recognised    | -                         |
| - unused amounts reversed             | 45                        |
| <b>Carrying amount at end of year</b> | <b>409</b>                |



**Notes to the Financial Statements (continued)**

For the year ended 30 June 2020

**17. Current liabilities - Deferred income**

|                 | <b>Consolidated</b> |               |
|-----------------|---------------------|---------------|
|                 | <b>2020</b>         | <b>2019</b>   |
|                 | <b>\$'000</b>       | <b>\$'000</b> |
| <b>Current</b>  |                     |               |
| Deferred income | 1,717               | 1,376         |

Deferred income relates to service contracts yet to be performed and post-sale installation and training obligations yet to be completed pursuant to the Group's accounting policies as detailed in Note 1 Summary of significant accounting policies, (e) Revenue recognition and Note 3 Critical accounting estimates and judgements, (i) Deferred Revenues.

**18. Non-current liabilities - Borrowings**

|                             | <b>Consolidated</b> |               |
|-----------------------------|---------------------|---------------|
|                             | <b>2020</b>         | <b>2019</b>   |
|                             | <b>\$'000</b>       | <b>\$'000</b> |
| <b>Secured</b>              |                     |               |
| Lease liabilities (note 28) | 11                  | 23            |
|                             | <b>11</b>           | <b>23</b>     |

**(a) Foreign currency and interest rate risk**

Information about the Group's exposure to interest rate and foreign currency risk is provided in note 2 and note 15.

**19. Non-current liabilities – Provisions**

|                   | <b>Consolidated</b> |               |
|-------------------|---------------------|---------------|
|                   | <b>2020</b>         | <b>2019</b>   |
|                   | <b>\$'000</b>       | <b>\$'000</b> |
| Employee benefits | 31                  | 14            |

**20. Non-current liabilities - Deferred income**

|                 | <b>Consolidated</b> |               |
|-----------------|---------------------|---------------|
|                 | <b>2020</b>         | <b>2019</b>   |
|                 | <b>\$'000</b>       | <b>\$'000</b> |
| Deferred income | 420                 | 116           |

Deferred income relates to service contracts yet to be performed and post-sale installation and training obligations yet to be completed pursuant to the Group's accounting policies as detailed in Note 1 Summary of significant accounting policies, (e) Revenue recognition and Note 3 Critical accounting estimates and judgements, (i) Deferred Revenues.

**Notes to the Financial Statements (continued)**

For the year ended 30 June 2020

**21. Contributed equity**

|                          | Consolidated |             | Consolidated |        |
|--------------------------|--------------|-------------|--------------|--------|
|                          | 2020         | 2019        | 2020         | 2019   |
|                          | Shares       | Shares      | \$'000       | \$'000 |
| <b>(a) Share capital</b> |              |             |              |        |
| Ordinary shares          |              |             |              |        |
| Fully paid               | 177,162,948  | 177,162,948 | 35,654       | 35,654 |

**(b) Movements in ordinary share capital:**

| Date         | Details       | Number of shares | Issue price | \$'000 |
|--------------|---------------|------------------|-------------|--------|
| 30 June 2018 | Balance       | 177,162,948      |             | 35,654 |
|              | No new issues | -                | -           | -      |
| 30 June 2019 | Balance       | 177,162,948      |             | 35,654 |
|              | No new issues | -                | -           | -      |
| 30 June 2020 | Balance       | 177,162,948      |             | 35,654 |

**(c) Ordinary shares**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

The ordinary shares have no par value.

**(d) Other equity securities**

There are no other equity securities issued at this time.

**(e) Capital management**

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity. Management will periodically adjust the capital structure of the Group to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may pay a dividend to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Management currently has no plans to pay a dividend and has not done so in the prior year. This policy will be reviewed at least annually against known and anticipated operational outcomes.

Management may consider the issue of further shares on the market in the foreseeable future.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2020

**21. Contributed equity (continued)****(e) Capital management (continued)**

|                                | <b>Consolidated</b> |                |
|--------------------------------|---------------------|----------------|
|                                | <b>2020</b>         | <b>2019</b>    |
|                                | <b>\$'000</b>       | <b>\$'000</b>  |
| <b>Total borrowings</b>        | <b>3,063</b>        | <b>1,593</b>   |
| Less cash and cash equivalents | 6,412               | 4,371          |
| Net (cash) / debt              | (3,349)             | (2,778)        |
| <b>Total equity</b>            | <b>21,794</b>       | <b>27,317</b>  |
| <b>Total funding</b>           | <b>18,445</b>       | <b>24,539</b>  |
| <b>Gearing ratio</b>           | <b>(15.4)%</b>      | <b>(10.2)%</b> |

**22. Reserves and accumulated losses**

|                                      | <b>Consolidated</b> |               |
|--------------------------------------|---------------------|---------------|
|                                      | <b>2020</b>         | <b>2019</b>   |
|                                      | <b>\$'000</b>       | <b>\$'000</b> |
| <b>(a) Reserves</b>                  |                     |               |
| Foreign currency translation reserve | 164                 | (273)         |
|                                      | <b>164</b>          | <b>(273)</b>  |

**(b) Accumulated losses**

Movements in accumulated losses were as follows:

|  |                 |                |
|--|-----------------|----------------|
| Balance 1 July                         | (8,064)         | (12,080)       |
| Restatement for the adoption of AASB16 | (122)           | -              |
| Net profit / (loss) for the year       | (5,838)         | 4,016          |
| Balance 30 June                        | <b>(14,024)</b> | <b>(8,064)</b> |

**(c) Other Reserves**

|   | <b>Consolidated<br/>Foreign<br/>currency<br/>translations<br/>\$'000</b> |
|---|--|
| Balance as at 30 June 2018                              | <b>(414)</b>   |
| Exchange difference on translation of foreign operation | 141  |
| Balance as at 30 June 2019                              | <b>(273)</b>   |
| Exchange difference on translation of foreign operation | 437  |
| Balance as at 30 June 2020                              | <b>164</b>   |

**Foreign currency translation reserve**

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit or loss when the net investment is disposed of.

**Notes to the Financial Statements (continued)**

For the year ended 30 June 2020

**23. Dividends****Ordinary shares**

The directors have not declared a dividend in the current financial year (2019: Nil).

**24. Key management personnel disclosures****(a) Directors**

The following persons were directors of Compumedics Limited during the financial year:

- (i) *Chairman and Chief Executive Officer*  
Dr David Burton
- (ii) *Executive Director and Chief Financial Officer*  
Mr David Lawson
- (iii) *Non-executive director*  
Mr Tucson Dunn

**(b) Other key management personnel**

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

| <b>Name</b>                  | <b>Position</b>          | <b>Employer</b>          |
|------------------------------|--------------------------|--------------------------|
| Warwick Freeman <sup>^</sup> | Chief Technology Officer | Compumedics Limited      |
| Christoph Witte <sup>^</sup> | Managing Director, DWL   | Compumedics Germany GmbH |

<sup>^</sup> The above persons were also key management persons during the year ended 30 June 2019

**(c) Key management personnel compensation**

|                              | <b>Consolidated</b> |                  |
|------------------------------|---------------------|------------------|
|                              | <b>2020</b>         | <b>2019</b>      |
|                              | <b>\$</b>           | <b>\$</b>        |
| Short-term employee benefits | 1,077,272           | 1,094,532        |
| Post-employment benefits     | 86,763              | 87,959           |
| Long-term benefits           | 15,407              | 4,278            |
| Share-based payments         | -                   | -                |
|                              | <b>1,179,442</b>    | <b>1,186,769</b> |

**(d) Equity instrument disclosures relating to key management personnel****(i) Option holdings**

There were no options provided as remuneration during the current or prior year. No options over ordinary shares were held by KMP's at 30 June 2020 and 30 June 2019.

**(ii) Share holdings**

The numbers of shares in the Company held during the financial year by each director of Compumedics Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2020

## 24. Key management personnel disclosures (continued)

| Name   | Balance at the start of the year | Received during the year on the exercise of options | Other changes during the year | Balance at the end of the year |
|--|----------------------------------|---|-------------------------------|--------------------------------|
| <b>2019</b>  |                                  |   |                               |                                |
| <b>Directors of Compumedics Limited</b>            |                                  |   |                               |                                |
| <b>Ordinary shares</b>                             |                                  |   |                               |                                |
| David Burton and/or associated entities            | 98,044,319                       | -   | -                             | 98,044,319                     |
| David Lawson                                       | 3,470,724                        | -   | -                             | 3,470,724                      |
| <b>Other key management personnel of the Group</b> |                                  |   |                               |                                |
| <b>Ordinary shares</b>                             |                                  |   |                               |                                |
| Warwick Freeman                                    | 82,000                           | -   | -                             | 82,000                         |
| Christoph Witte                                    | -                                | -   | -                             | -                              |
| <b>2020</b>  |                                  |   |                               |                                |
| <b>Directors of Compumedics Limited</b>            |                                  |   |                               |                                |
| <b>Ordinary shares</b>                             |                                  |   |                               |                                |
| David Burton and/or associated entities            | 98,044,319                       | -   | -                             | 98,044,319                     |
| David Lawson                                       | 3,470,724                        | -   | -                             | 3,470,724                      |
| <b>Other key management personnel of the Group</b> |                                  |   |                               |                                |
| <b>Ordinary shares</b>                             |                                  |   |                               |                                |
| Warwick Freeman                                    | 82,000                           | -   | -                             | 82,000                         |
| Christoph Witte                                    | -                                | -   | -                             | -                              |

## (e) Other transactions with key management personnel

David Burton is a Director and shareholder of Intellirad Solutions Pty Ltd. Where expenses have been paid by Compumedics on behalf of Intellirad Solutions Pty Ltd, these have been reimbursed in full. Compumedics paid for no expenses relating to Intellirad during the year ended 30<sup>th</sup> June 2020 (2019: NIL).

David Burton is a director of D & DJ Burton Holding Pty Ltd.

## 25. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

|   | Consolidated   |                |
|---|----------------|----------------|
|   | 2020           | 2019           |
|   | \$             | \$             |
| <b>(a) Audit services</b>   |                |                |
| Nexia Melbourne Audit Pty Ltd,  |                |                |
| Audit and review of financial reports under the Corporations Act 2001 | 171,976        | 155,000        |
| Total remuneration for audit services                                 | <b>171,976</b> | <b>155,000</b> |
| <b>(b) Non-audit services</b>   |                |                |
| <i>Taxation services</i>  |                |                |
| Tax compliance services   | 42,000         | 40,000         |
| Fringe benefits tax services  | 3,000          | 2,500          |
| Total remuneration for taxation services                              | <b>45,000</b>  | <b>42,500</b>  |
|   | <b>216,976</b> | <b>197,500</b> |

**Notes to the Financial Statements (continued)**

For the year ended 30 June 2020

**26. Contingencies****(a) Contingent liabilities**

The consolidated entity had no contingent liabilities at 30 June 2020 (2019: None).

**(b) Contingent assets**

The consolidated entity had no contingent assets at 30 June 2020 (2019: None).

**27. Leases**

The Group has applied AASB 16 using the modified retrospective (cumulative catch-up) method and therefore the comparative information has not been restated and continues to be reported under AASB 117 and related Interpretations.

The Group as a lessee

The Group has leases over a range of assets including land and buildings, plant and equipment.

The Group has chosen not to apply AASB 16 to leases of intangible assets.

Information relating to the leases in place and associated balances and transactions are provided below.

Terms and conditions of leases

The building leases are for the corporate office and warehouse in Melbourne, Australia and corporate offices in Charlotte NC, USA, Singen, Dresden and Hamburg Germany. The leases are all due to expire within the next 24 months. The Company may seek to extend these leases, where it believes this to be in the best interests of the Company. The rentals are subject to an annual CPI increase.

The equipment leases are for various items of plant and equipment and cars. The leases are all due to expires within the next 24 months and the lease payments are fixed.

**Right-of-Use Assets**

|                                       | <b>Buildings<br/>\$'000</b> | <b>Office<br/>Equipment<br/>\$'000</b> | <b>Cars<br/>\$'000</b> | <b>Total<br/>\$'000</b> |
|---------------------------------------|-----------------------------|--|------------------------|-------------------------|
| 30 June 2020                          |                             |  |                        |                         |
| Balance at the beginning of the year  | 2,239                       | 192                                    | 70                     | 2,501                   |
| Depreciation charge                   | 756                         | 98                                     | 29                     | 883                     |
| <b>Balance at the end of the year</b> | <b>1,483</b>                | <b>94</b>                              | <b>41</b>              | <b>1,618</b>            |

**Lease Liabilities**

|                   | <b>Less than 1<br/>year<br/>\$'000</b> | <b>1 to 5 years<br/>\$'000</b> | <b>More than 5<br/>years<br/>\$'000</b> | <b>Total<br/>undiscounted<br/>lease<br/>liabilities<br/>\$'000</b> | <b>Lease<br/>liabilities<br/>included in<br/>this<br/>Consolidated<br/>Statement of<br/>Financial<br/>Position<br/>\$'000</b> |
|-------------------|--|--------------------------------|---|--|---|
| 30 June 2020      |  |                                |   |  |   |
| Lease liabilities | 944                                    | 928                            | -                                       | 1,812  | 1,737   |

**Notes to the Financial Statements (continued)**

For the year ended 30 June 2020

**27. Leases (continued)****Extension Options**

The Group may include options in the leases to provide flexibility and certainty to the Group operations and reduce costs of moving premises. Currently the Group has no extension options on its building leases.

**Consolidated Statement of Profit and Loss and Other Income**

The amounts recognised in the consolidated statement of profit or loss and other comprehensive income relating to leases where the Group is a lessee are shown below:

|   | <b>2020<br/>\$'000</b> |
|---|------------------------|
| Expenses relating to leases of low value assets | -                      |
| Depreciation of right-to-use assets             | 883                    |
| Lease interest                                  | 135                    |
| <b>Total</b>                                    | <b>1,030</b>           |

**Consolidated Statement of Cash Flows**

|                               |       |
|-------------------------------|-------|
| Total cash outflow for leases | 1,045 |
|-------------------------------|-------|

**The Group as a lessor****Operating leases**

The Group sub-leases out part of its corporate office and warehouse in Melbourne, however the total rental revenue and the asset leased is immaterial to the Group's assets and revenue.

**28. Commitments***(i) Operating leases*

The Group leases its office facilities in Melbourne, Charlotte (US), Hamburg and Singen Germany. These leases have varying terms, escalation clauses and renewal rights. On renewal the terms of the leases are renegotiated.

|  | <b>Consolidated<br/>2020<br/>\$'000</b> | <b>2019<br/>\$'000</b> |
|--|---|------------------------|
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: |   |                        |
| Within one year  | -                                       | 1,067                  |
| Later than one year but not later than five years  | -                                       | 1,569                  |
| Commitments not recognised in the financial statements   | -                                       | <b>2,636</b>           |

*Capital commitments*

The Company has paid USD500k due to KRISS on the sale of the first MEG system to complete the initial licence fee payable on the Licence Agreement signed with KRISS in April 2016. This was paid in late calendar 2019.

|                 |   |     |
|-----------------|---|-----|
| Within one year | - | 713 |
|-----------------|---|-----|

**Notes to the Financial Statements (continued)**

For the year ended 30 June 2020

**28. Commitments (continued)****Finance leases**

|   |           |           |
|---|-----------|-----------|
| Within one year                             | 12        | 12        |
| After one year but not more than five years | 11        | 23        |
| Total minimum lease payments                | <b>23</b> | <b>35</b> |

**29. Share-based payments****Employee Option Plan**

The Group did not have any share-based payments in the full year ended 30 June 2020.

**30. Related party transactions****(a) Parent entity**

The ultimate parent entity in the wholly owned group is Compumedics Limited.

**(b) Subsidiaries**

Interests in subsidiaries are set out in note 32.

**(c) Key management personnel**

Disclosures relating to key management personnel are set out in note 24.

**(d) Transactions with related parties**

Transactions between Compumedics Limited and related entities during the years ended 30 June 2020 and 2019 consisted of:

|  | <b>Consolidated</b> |             |
|--|---------------------|-------------|
|  | <b>2020</b>         | <b>2019</b> |
|  | <b>\$</b>           | <b>\$</b>   |
| Licence fee for a non-exclusive licence for certain intellectual property (the Licenced Rights) to D & DJ Burton Holdings Pty Ltd, an entity related to D Burton | 240,019             | 252,653     |

The License fees are paid to D&DJ Burton Holdings Pty Ltd.

**(e) Loans to/from related parties**

There were no loans outstanding to or from related parties during the year ended 30 June 2020.

**(f) Guarantees**

No guarantees have been given or received from related parties.

**(g) Terms and conditions**

All transactions between related parties were made on normal commercial terms and conditions and at market rates.



**Notes to the Financial Statements (continued)**

For the year ended 30 June 2020

**31. Parent Entity Information**

|  | 2020<br>\$'000 | 2019<br>\$'000 |
|--|----------------|----------------|
| Information relating to Compumedics Limited:           |                |                |
| Current assets   | 17,649         | 18,430         |
| Total assets   | 59,620         | 54,659         |
| Current liabilities                                    | 6,961          | 6,456          |
| Total liabilities                                      | 7,082          | 7,529          |
| Contributed Equity                                     | 35,653         | 35,653         |
| Reserves   | 4,750          | 4,138          |
| Retained earnings/(losses)                             | 12,136         | 7,339          |
| Total shareholders' equity                             | <b>52,538</b>  | <b>47,130</b>  |
| Profit or loss of the parent entity                    | 4,796          | 3,487          |
| Total comprehensive income (loss) of the parent entity | 5,408          | 4,695          |

**Guarantees**

The facilities provided by the Bank of Melbourne are secured by a Corporate Guarantee and Indemnity unlimited as to amount and a Mortgage Debenture secure the working capital facilities over all the assets and undertaking of the parent entity, Compumedics Limited and its subsidiaries. Further details are in Note 15.

**Contingent Liabilities**

The parent entity had no contingent liabilities at 30 June 2020 (2019: None).

**Contractual Commitments**

The parent entity has no contractual commitments at 30 June 2020. The parent entity did have an USD500k payment due to KRISS on the sale of the first MEG system to complete the initial licence fee payable on the Licence Agreement signed with KRISS in April 2016. This was equivalent to AUD\$0.713m. This was paid during the year ended 30<sup>th</sup> June 2020 and has subsequently been booked to intangible assets to be amortised against future MEG sales.

**32. Subsidiaries**

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

|  | Country of<br>incorporation | Class of shares | Equity holding<br>2020<br>% | 2019<br>% |
|--|-----------------------------|-----------------|-----------------------------|-----------|
| Compumedics Telemed Pty Ltd                  | Australia                   | Ordinary        | 100                         | 100       |
| Compumedics Medical Innovation Pty Ltd       | Australia                   | Ordinary        | 92                          | 92        |
| Compumedics Cardiology Pty Ltd               | Australia                   | Ordinary        | 100                         | 100       |
| Compumedics USA Inc.                         | USA                         | Ordinary        | 100                         | 100       |
| Compumedics Singapore Pte Ltd                | Singapore                   | Ordinary        | 100                         | 100       |
| Compumedics USA Ltd (formerly Neuroscan Ltd) | USA                         | Ordinary        | 100                         | 100       |
| Compumedics Germany GmbH                     | Germany                     | Ordinary        | 100                         | 100       |
| Cardio Sleep Services Inc.                   | USA                         | Ordinary        | 100                         | 100       |
| Compumedics France SAS                       | France                      | Ordinary        | 100                         | 100       |
| DWL USA Inc.                                 | USA                         | Ordinary        | 100                         | 100       |
| Compumedics Europe GmbH                      | Germany                     | Ordinary        | 100                         | 100       |
| Compumedics Korea Co. Ltd.                   | South Korea                 | Ordinary        | 100                         | 100       |

**Notes to the Financial Statements (continued)**

For the year ended 30 June 2020

**33. Events occurring after the reporting date**

The Directors are not aware of any matters subsequent to the end of the financial year that would have a material impact on the financial performance of the Group.

**34. Reconciliation of profit after income tax to net cash inflow from operating activities**

|   | <b>Consolidated</b> |              |
|---|---------------------|--------------|
|   | <b>2020</b>         | <b>2019</b>  |
|   | <b>\$</b>           | <b>\$</b>    |
| Profit / (loss) for the year                    | (5,838)             | 4,016        |
| Amortisation                                    | 1,069               | 219          |
| Impairment of intangible asset                  | 7,661               | -            |
| Depreciation                                    | 595                 | 331          |
| Net exchange differences                        | 353                 | (2)          |
| Change in operating assets and liabilities      |                     |              |
| (Increase) decrease in receivables              | 3,384               | 471          |
| (Increase) decrease in inventories              | (1,033)             | (237)        |
| (Increase) decrease in other current assets     | 790                 | 45           |
| (Increase) decrease in deferred tax assets      | (781)               | 144          |
| Increase (decrease) in trade payables           | (554)               | (701)        |
| Increase (decrease) in deferred revenues        | 644                 | (218)        |
| Increase (decrease) in tax provisions           | 95                  | (60)         |
| Increase (decrease) in deferred tax liabilities | (997)               | 997          |
| Increase (decrease) in other provisions         | (5)                 | 131          |
| Net cash inflow from operating activities       | <b>5,383</b>        | <b>5,136</b> |

**35. Profit / (Loss) per share**

|  | <b>Consolidated</b> |              |
|--|---------------------|--------------|
|  | <b>2020</b>         | <b>2019</b>  |
|  | <b>Cents</b>        | <b>Cents</b> |
| <b>(a) Basic profit / (loss) per share –cents per share</b>              |                     |              |
| Profit/(Loss) attributable to the ordinary equity holders of the Company | (3.3)               | 2.27         |
| <b>(b) Diluted profit / (loss) per share</b>                             |                     |              |
| Profit/(Loss) attributable to the ordinary equity holders of the Company | (3.3)               | 2.27         |

## Notes to the Financial Statements (continued)

For the year ended 30 June 2020

**35. Profit / (Loss) per share (continued)****(c) Reconciliations of profit/(loss) used in calculating earnings per share**

|   | <b>Consolidated</b> |               |
|---|---------------------|---------------|
|   | <b>2020</b>         | <b>2019</b>   |
|   | <b>\$'000</b>       | <b>\$'000</b> |
| <i>Basic profit / (loss) per share</i>  |                     |               |
| Profit  | (5,838)             | 4,016         |
| <i>Diluted profit / (loss) per share</i>  |                     |               |
| Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating diluted profit/ (loss) per share | (5,838)             | 4,016         |
| Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating diluted profit/ (loss) per share | (5,838)             | 4,016         |

**(d) Weighted average number of shares used as the denominator**

|  | <b>Consolidated</b> |               |
|--|---------------------|---------------|
|  | <b>2020</b>         | <b>2019</b>   |
|  | <b>Number</b>       | <b>Number</b> |
| <i>Weighted average number of ordinary shares used as the denominator in calculating basic profit/(loss) per share</i>                                 | 177,162,948         | 177,162,948   |
| Adjustments for calculation of diluted profit/(loss) per share:  |                     |               |
| Convertible loan   | -                   | -             |
| <i>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted profit/(loss) per share</i> | 177,162,948         | 177,162,948   |

**(e) Information concerning the classification of securities**

There are no other outstanding options or other instruments convertible into ordinary shares of the Company at the date of this report.

## Directors' Declaration

In the opinion of the directors:

- (a) the financial statements and notes set out on pages 16 to 64 are in accordance with the Corporations Act 2001, including:
  - (i) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2020 and of their performance for the financial year ended on that date; and
  - (iii) complying with the International Financial Reporting Standards as disclosed in note 1, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the directors.



David Burton  
Director

Melbourne  
30 September 2020

## Independent Auditor's Report to the Members of Compumedics Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Compumedics Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, has been given to the directors of the Company, as at the date of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In our opinion, there are no key audit matters to communicate.

#### Other Information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2020 but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

## **Independent Auditor's Report to the Members of Compumedics Limited**

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information we are required to report that fact. The annual report is expected to be made available to us after the date of this independent auditor's report.

### ***Responsibilities of the Directors for the Financial Report***

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

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### ***Auditor's Responsibilities for the Audit of the Financial Report***

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

## Independent Auditor's Report to the Members of Compumedics Limited

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on the Remuneration Report

#### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 6 to 12 of the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Compumedics Limited for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001*.

#### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



**Nexia Melbourne Audit Pty Ltd**  
**Melbourne**



**Andrew S. Wehrens**  
**Director**

Dated this 30<sup>th</sup> day of September 2020

Additional information required by Australian Stock Exchange Listing Rules and not disclosed elsewhere in this Annual Report; the information presented is at 17 September 2020.

## A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

|         |            | Class of equity security |                    |          |             |                              |             |
|---------|------------|--------------------------|--------------------|----------|-------------|------------------------------|-------------|
|         |            | Ordinary shares          | Number held        | Options  | Number held | Redeemable Convertible notes | Number held |
| 1       | to 1000    | 290                      | 181,328            | -        | -           | -                            | -           |
| 1,001   | to 5,000   | 1,061                    | 2,909,303          | -        | -           | -                            | -           |
| 5,001   | to 10,000  | 469                      | 3,724,896          | -        | -           | -                            | -           |
| 10,000  | to 100,000 | 593                      | 18,180,895         | -        | -           | -                            | -           |
| 100,001 | and over   | 83                       | 152,166,526        | -        | -           | -                            | -           |
|         |            | <b>2,496</b>             | <b>177,162,948</b> | <b>-</b> | <b>-</b>    | <b>-</b>                     | <b>-</b>    |

There were 413 holders of less than a marketable parcel of ordinary shares and they hold 322,259 ordinary shares.

## B. Equity security holders

*Twenty largest quoted equity security holders*

The names of the twenty largest holders of quoted equity securities are listed below:

| Name   | Ordinary shares    |                             |
|--|--------------------|-----------------------------|
|  | Number held        | Percentage of issued shares |
| D & DJ Burton Holdings Pty Ltd                                     | 96,002,819         | 54.19                       |
| HSBC Custody Nominees  | 11,254,224         | 6.35                        |
| JP Morgan Nominees Australia Pty Limited                           | 5,682,455          | 3.21                        |
| Beijing Bestmed Tech Ltd   | 4,901,961          | 2.77                        |
| Medigas Italia S.R.L   | 4,333,333          | 2.45                        |
| B & R James Investments Pty Limited                                | 2,500,000          | 1.41                        |
| Lawson Callinan Super A/C  | 2,464,482          | 1.39                        |
| Electro Molecular Pty Ltd  | 2,041,500          | 1.15                        |
| Knowler Property Pty Ltd   | 1,198,000          | 0.68                        |
| Mr David Francis Lawson  | 1,006,242          | 0.57                        |
| Mr Bernard Knowler & Mrs Robynnee Knowler (Knowler Family Account) | 1,000,000          | 0.56                        |
| ZigSuper Pty Ltd   | 900,000            | 0.51                        |
| Canucki Pty Ltd  | 879,469            | 0.50                        |
| BFA Super Pty Ltd  | 832,286            | 0.47                        |
| Mr Nigel Strong  | 770,275            | 0.43                        |
| Go Go Marketing Pty Ltd  | 724,667            | 0.41                        |
| ARMCO Barriers Pty Ltd   | 700,000            | 0.40                        |
| Mr Phillip Steel   | 560,000            | 0.32                        |
| Valui Pty Ltd  | 555,000            | 0.31                        |
| Evans S/F A/C  | 531,000            | 0.30                        |
| <b>Totals</b>  | <b>138,837,713</b> | <b>78.37%</b>               |
| <b>Total Issued Capital</b>  | <b>177,162,948</b> | <b>100.0%</b>               |

### *Unquoted equity securities*

There are no unquoted equity securities on issue

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### **C. Substantial holders**

Substantial holders in the Company are set out below:

|   | <b>Number held</b> | <b>Percentage</b> |
|---|--------------------|-------------------|
| Ordinary shares   |                    |                   |
| D & DJ Burton Holdings Pty Ltd and Electro Molecular Pty Ltd* | 98,044,319         | 55.34             |

\* Electro Molecular Pty Ltd is owned by David Burton, who is also a shareholder of D & DJ Burton Holdings Pty Ltd

### **D. Voting rights**

The voting rights attaching to each class of equity securities are set out below:

- (a) Ordinary shares  
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.
- (b) Convertible redeemable notes  
No voting rights.
- (c) Options  
No voting rights.

