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25 May 2017

Ms Hayley Pratt
Adviser
Listing Compliance (Perth)
Australian Securities Exchange
Level 40
Central Park
152-158 St Georges Terrace
PERTH WA

Dear Ms Pratt

Grandbridge Limited (ASX: GBA) – Response to ASX Query

In response to the questions in your letter of 19 May 2017, Grandbridge Limited (Grandbridge, GBA, the Company) provides this response.

General Background

Grandbridge is an investment operating company with 3 key investments, held directly or through investments in BPH Energy (ASX:BPH) and MEC Resources (ASX:MMR):

- Cortical Dynamics – currently commercialising its Brain Anesthesia Monitor
- Molecular Discovery Systems – research into gene impacts on liver cancer
- Advent Energy – On and offshore natural gas exploration

Grandbridge listed on ASX in 2000 as an investment company with a dealer's license in its wholly owned subsidiary. It manages its investments and provides investment advisory services and has continued this business since listing.

Grandbridge recently managed and partially underwrote a successful rights issue for BPH to provide additional funding for ongoing investment into BPH's projects. Grandbridge is also managing a \$2m pre-IPO capital raising for Cortical Dynamics which will ultimately enable Cortical to proceed with a listing on the ASX. Grandbridge has a contractual arrangement where it receives a 5% fee for all capital it raises for Cortical.

The value of Grandbridge's listed investments at 31 December 2016 was \$257,000; with a further \$5.7m of value in unlisted investments. In addition, Grandbridge had \$1.1m of loans receivable from investee companies, after write downs. Grandbridge also holds 6% of the share capital of Cortical which if listed at 20c per share would result in an uplift of \$1.33m in Grandbridge's asset base.

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1. As it is possible to conclude, based on the information in the Appendix 4C, that if GBA were to continue to expend cash at the rate indicated by the Appendix 4C, GBA may not have sufficient cash to continue funding its operations; does GBA expect that it will continue to have negative operating cash flows for the time being and, if not, why not?

GBA expects to have negative operating cash flows for the time being, except for the receipt of amounts due under the termination provisions of its contracts, see 4. below, if these are received. In addition, significant steps have been taken during the last 6 months to reduce expenditure and there are prospects of an increase in revenue (see below)

As set out in the background above, GBA holds equity and debt in a number of investee companies with a view to creating long term gains for its own shareholders. GBA has access to listed investments and debt positions which it can (and has been*) utilising to balance cash flow as and when needed. * see Appendix 4C "cash flows from loans to other entities"

GBA also has loans (at call) of \$703,000 which are currently due and payable from Advent (and its subsidiary) and MEC, which Grandbridge is entitled to call.

2. Has GBA taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

With Grandbridge's purpose being to manage investments over a long time horizon, it is expected that the company will raise funds from time to time to fulfil this objective. GBA is also currently considering a one for one rights issue which could potentially raise \$600,000.

In addition, GBA, on behalf of Cortical, has initiated a \$2m pre IPO funding round, initially through a contract signed on 19 January to initiate a capital raising of \$1m of those funds. A number of additional investor groups are currently performing due diligence processes for a potential investment into Cortical of up to \$2m. In addition, a number of additional parties are in discussions on this funding round. Cortical also expects to raise a further \$5m at IPO. Grandbridge previously wrote down a \$300,000 loan to Cortical which would subsequently be recoverable at such time as Cortical raised significant funds. Furthermore, contractual capital raising fees and ongoing investment management revenue are anticipated from managing the Cortical investment. Cortical has previously made application to list on ASX in 2011 prior to receiving TGA and CE approval and withdrew its listing application because of market conditions. Any future application to list on ASX will be subject to ASX approval in accordance with ASX listing rules.

As a short term measure, GBA has taken the step of requesting and being provided with repayment of some of its loan to BPH Energy to fund operations in the short-term. Please also note that payments from the BPH service contract to Grandbridge were increased in December.

3. Does GBA expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Yes, GBA expects to be able to continue its operations and meet its business objectives, on the basis of co-operation between itself, BPH and Cortical. For example:

- On-going administration revenues are expected to increase from services rendered supporting the ongoing success of Cortical Dynamics. Within the last few weeks GBA has assisted Cortical in raising a significant proportion of its initial \$1m of funds, which will be used to fund Cortical's ongoing operations, including the cost of administrative functions provided by GBA to Cortical.
- Outgoings have been reduced, for example, quarterly staff costs reduced from \$74,000 per quarter to \$31,000 per quarter
- GBA has access to additional cash from its debt and equity investments as set out above.

In addition, the value of Grandbridge's listed investments at 31 December 2016 were \$257,000; with a further \$5.7m of value in unlisted investments. In addition, Grandbridge had \$1.1m of loans receivable from investee companies, after write downs. Grandbridge also holds 6% of the share capital of Cortical which if listed at 20c per share would result in an uplift of \$1.33m in Grandbridge's asset base.

4. Having regard to the information provided in response to the paragraphs above, please state whether GBA is able to pay all its debts as and when they become due and payable.

GBA is currently able to pay all its debts as and when they fall due.

GBA continues to hold a loan of circa \$500k due from BPH Energy Ltd, a connected entity, which has sufficient cash to provide funds to GBA as and when required.

As advised to ASX on 28 December 2016 and on 19 January 2017, Advent Energy and MEC Resources terminated their consulting services agreement with Grandbridge on 23 November 2016. As a result, the termination clauses in the contracts were triggered and a total amount of some \$340,000 was recognised by Grandbridge as termination fee revenue in the period to 31 December 2016. However, cash has not been received due to ongoing disputes with the entities concerned, and a doubtful debt provision of 100% of this receivable amount has been included in Grandbridge's financials for the same period.

Grandbridge Limited has sent two letters of demand to MEC and Advent Energy. These letters request:

- The sum of \$212,052 payable to Grandbridge by MEC
- The sum of \$128,640 payable to Grandbridge by Advent Energy

These letters were sent on 7 December 2016, requiring payment within 21 days. All amounts are still outstanding. These claims total \$340,692 against MMR and Advent.

GBA also has loans (at call) of \$703,000 which are currently due and payable from Advent (and its subsidiary) and MEC, which Grandbridge is entitled to call.

5. How much of the BPH rights issue was underwritten by GBA? If no portion of the BPH rights issue was underwritten by GBA please explain why.

Grandbridge Securities (a wholly owned subsidiary of Grandbridge) underwrote 35 million shares to the value of \$175,000 (9.7%) of the rights issue.

6. Please provide details (including the amount) of any loans owing by BPH to GBA which were offset subsequent to the BPH rights issue.

As part of the rights issue, Grandbridge/Grandbridge Securities offset the amount owed on taking up their rights and underwriting (see 5. above). A total amount of \$191,945 was offset from the intercompany current account (loan).

There have been no other offsetting transactions on the loan account between BPH and GBA.

7. Please provide a breakdown of the administrative expenses over the preceding two quarters, in particular expenses related to:

- 7.1. the requisitioned meetings;**
- 7.2. the Takeovers Panel Application; and**
- 7.3. the Statutory Demand.**

Administrative expenses year to date total \$205k, with \$177k having been expended in the last two quarters. An approximate breakdown is composed:

	<u>\$000</u>
• Bookkeeping, tax, audit and contract accounting services	75
• Legal fees	41
• ASX, share registry and ASIC fees	16
• Computer, phone and internet	16
• Annual report printing and distribution	10
• Other, including rates, postage, cleaning	<u>19</u>
TOTAL	177

Expenses for legal fees (excluding GST) relating to these matters outlined in 7.1, 7.2 and 7.3 for the period ending 31 March 2017 are:

- Requisitioned meetings - \$14,250
- Takeovers panel application - \$1,650
- Statutory demand \$nil

The balance of the legal fees relate to preparation of substantial holder notices, preparation of a notice of meeting, review of various ASX matters, review of various ASIC matters and miscellaneous advices.

8. Please confirm that GBA is in compliance with Listing Rule 3.1 and that there is no information that should be given to ASX about its financial condition in accordance with that Rule that has not already been released to the market.

GBA confirms it is in compliance with Listing Rule 3.1 and that there is no information that should be given to ASX about its financial condition that has not already been released to the market.

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

GBA confirms that this response has been authorized and approved by David Breeze who has authority to do so from the board.

Please note that this letter contains forward looking statements including statements regarding Grandbridge's intent, belief and current expectations with respect to Grandbridge's investments and operations, market conditions, expected results, and valuations. Readers are cautioned not to place undue reliance on these forward looking statements. Grandbridge does not undertake any obligation to publicly release the result of any revisions to these forward looking statements to reflect events or circumstances after the date hereof to reflect the occurrence of unanticipated events. While due care has been used in the preparation of forecast information, actual results may vary in a materially positive or negative manner. Forecasts are subject to uncertainty and contingencies outside of Grandbridge's control.

Yours sincerely,



David Breeze

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Chairman

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19 May 2017

Mr David Breeze
Director and Company Secretary
Grandbridge Limited
14 View Street
NORTH PERTH WA 6006

By email: David@grandbridge.com.au

Dear Mr Breeze

Grandbridge Limited (“GBA”)

ASX Limited (“ASX”) refers to the following:

- A. The announcement by BPH Energy Limited (“BPH”) entitled “Non-Renounceable Issue” lodged with ASX Market Announcements Platform (“MAP”) on 11 January 2017 which disclosed that GBA had partially underwritten BPH’s rights issue up to \$175,000. The announcement also disclosed that the amount of funds raised under the rights issue would be reduced due to offsets against loans granted by BPH to the underwriters, including GBA, and that in the event of a shortfall, BPH had agreed to offset the underwriter’s commitments.
- B. GBA’s announcement entitled “MEC Resources Ltd (ASX MMR) Notice of General Meeting” lodged on MAP on 2 February 2017 which disclosed that GBA, Trandcorp Pty Ltd and Mr David Breeze had requisitioned a meeting of MEC Resources Limited’s (“MMR”) shareholders to appoint three nominees as new directors of MMR.
- C. The announcement entitled “Response to ASX Query” lodged on MAP on 22 February 2017 in which GBA responded to a number of ASX’s queries regarding GBA’s revenue, liabilities and current activities and which disclosed GBA’s current cash balance as at 21 February 2017 of \$17,371.
- D. GBA’s announcement entitled “Withdrawal of S 249D requisition, convening new S 249F mtng” lodged on MAP on 7 March 2017 which disclosed that GBA, Trandcorp Pty Ltd and Mr David Breeze had withdrawn its request to MMR under section 249D of the Corporations Act to convene a general meeting of shareholders to consider the removal of the current directors from the board of MMR. The announcement also disclosed that GBA intended to convene a meeting under section 249F of the Corporations Act to appoint three nominees as new directors of the board of MMR and remove the four current directors from the board of MMR.
- E. GBA’s announcement entitled “Statutory demand” lodged on MAP on 5 April 2017 which disclosed that GBA had received a statutory demand from Kevin Hollingsworth for an amount of \$248,309.32 (“Statutory Demand”). The announcement also disclosed that GBA intended to have the statutory demand set aside.
- F. The announcement entitled “MEC Resources Limited Panel Receives Application” lodged on MAP on 10 April 2017 which disclosed that the Takeovers Panel had received an application from GBA,

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Trandcorp Pty Ltd and Mr David Breeze in relation to the affairs of MMR (“Takeovers Panel Application”).

- G. The announcement entitled “MEC Resources Ltd Panel Declines to Conduct Proceedings” lodged on MAP on 21 April 2017 which disclosed that the Takeovers Panel had declined to conduct proceedings on the Takeovers Panel Application.
- H. GBA’s announcement entitled “MEC Resources Ltd (ASX MMR) Notice of 249F General Meeting” lodged on MAP on 28 April 2017 which disclosed that a General Meeting of shareholder of MMR had been called by GBA, Trandcorp Pty Ltd and Mr David Breeze under section 249F of the Corporations Act.
- I. The announcement lodged by MMR entitled “Notice Received under Section 249F of the Corps Act” lodged on MAP on 28 April 2017 which disclosed that MMR is aware of a notice issued to its shareholders under section 249F of the Corporations Act by GBA, Trandcorp Pty Ltd and Mr David Breeze. The announcement disclosed that all resolutions in the notice have been put to MMR’s shareholders for consideration at two previous meetings called by the requisitioning parties and were rejected.
- J. GBA’s Appendix 4C quarterly report for the period ended 31 March 2017 lodged on MAP and released on 26 April 2017 (the “Appendix 4C”). ASX notes that GBA has reported:
- negative net operating cash flows for the quarter of \$84,000;
 - administration and corporate costs for the 6 months to date of \$205,000;
 - cash at the end of the quarter of \$28,000; and
 - estimated cash outflows for the next quarter of \$194,000.
- K. GBA’s announcement entitled “MEC Resources Ltd (ASX MMR) Notice of General Meeting” lodged on MAP on 16 May 2017 which disclosed that MMR had raised a number of objections to the form of notice issued to MMR for a general meeting under section 249F of the Corporations Act 2001. The announcement also disclosed that the notice of general meeting was being withdrawn and was intended to be re-submitted once the objections have been considered.

ASX asks GBA to answer separately each of the following questions and provide the following confirmations in a format suitable for release to the market in accordance with Listing Rule 18.7A:

1. As it is possible to conclude, based on the information in the Appendix 4C, that if GBA were to continue to expend cash at the rate indicated by the Appendix 4C, GBA may not have sufficient cash to continue funding its operations; does GBA expect that it will continue to have negative operating cash flows for the time being and, if not, why not?
2. Has GBA taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?
3. Does GBA expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?
4. Having regard to the information provided in response to the paragraphs above, please state whether GBA is able to pay all its debts as and when they become due and payable.
5. How much of the BPH rights issue was underwritten by GBA? If no portion of the BPH rights issue was underwritten by GBA please explain why.

6. Please provide details (including the amount) of any loans owing by BPH to GBA which were offset subsequent to the BPH rights issue.
7. Please provide a breakdown of the administrative expenses over the preceding two quarters, in particular expenses related to:
 - 7.1. the requisitioned meetings;
 - 7.2. the Takeovers Panel Application; and
 - 7.3. the Statutory Demand.
8. Please confirm that GBA is in compliance with Listing Rule 3.1 and that there is no information that should be given to ASX about its financial condition in accordance with that Rule that has not already been released to the market.
9. Please confirm that GBA's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of GBA with delegated authority from the board to respond to ASX on disclosure matters.

Please also provide any other information that GBA considers may be relevant to ASX forming an opinion on whether GBA is in compliance with Listing Rule 12.2 (a listed entity's financial condition must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing).

When and where to send your response

This request is made under, and in accordance with Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by not later than **12:00 pm AWST on Wednesday 24 May 2017**. If we do not have your response by then, ASX will have no choice but to consider suspending trading in GBA's securities under Listing Rule 17.3.

You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, GBA's obligation is to disclose the information "immediately". This may require the information to be disclosed before the deadline set out in the previous paragraph.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

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

Listing Rule 3.1

Listing Rule 3.1 requires a listed entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. Exceptions to this requirement are set out in Listing Rule 3.1A.

In responding to this letter, you should have regard to GBA's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*.

It should be noted that GBA's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in GBA's securities under Listing Rule 17.1.

If you wish a trading halt, you must tell us:

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

We may require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted.

You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

If you have any queries or concerns about any of the above, please contact me immediately.

Yours sincerely,

[Sent electronically without signature]

Hayley Pratt
Adviser, Listings Compliance Perth