PainChek
Intelligent Pain Assessment

# PainChek Limited

**ABN 21 146 035 127**

# Annual Financial Report for the year ended 30 June 2019

# Corporate directory

**Board of Directors**

| | |
|---|---|
| Mr John Murray | Non-Executive Chairman |
| Mr Philip Daffas | Managing Director |
| Mr Adam Davey | Non-Executive Director |
| Mr Ross Harricks | Non-Executive Director |

**Company Secretary**
Mr Ian Hobson

**Registered Office**
Suite 5, 95 Hay Street
Subiaco, Western Australia 6008
Tel: +61 8 9388 8290
Fax: +61 8 9388 8256

**Principal Place of Business**
Suite 401, 35 Lime Street
Sydney NSW 2000

**Postal Address**
PO Box 226
Subiaco, Western Australia 6904

**Website**
Website: www.PainChek.com

**Auditor**
BDO Audit Pty Ltd

**Share Registry**
Boardroom Pty Ltd
Grosvenor Place
Level 12, 225 George Street
Sydney, NSW 2000
Tel: +61 2 9290 9600
Fax: +61 2 9290 9655

**Stock Exchange**
Australian Securities Exchange
20 Bridge Street
Sydney, NSW 2000

**ASX Code**
PCK

# Annual Financial Report for the year ended 30 June 2019

## Contents

# Directors' report

The directors of PainChek Limited ("PainChek" or "the Company") submit herewith the financial report of the Company and its subsidiary ("Group" or "Consolidated Entity") for the year ended 30 June 2019. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

## Names of Directors

The names of the directors of the Company during or since the end of the year are noted below. Directors were in office for the entire period unless otherwise stated:

**Mr John Murray** (appointed 30 September 2016) **LLB (Hons), CA, MAICD –** Non-executive Chairman

Mr Murray has 25 years' experience in private equity and venture capital and was a co-founder and Managing Partner of Technology Venture Partners; one of the original and leading venture capital firms in Australia. Mr Murray is a past chairman of the Australian Venture Capital Association. Mr Murray has considerable experience as an investor and a non-executive director of high growth, technology-based companies. He possesses a broad understanding of global trends in technology and its impact on a variety of industries. He was until recently Chairman of a private, residential aged care business in Australia. Mr Murray also brings 12 years' experience in executive roles in corporate banking, accounting and IT services industries.

Mr Murray has been on the Board of a number of successful technology rollouts and exits including online travel play Viator, which was acquired by TripAdvisor for approximately US$200 million in 2014. He is a chartered accountant with an Honour degree in Law and is a member of the Australian Institute of Company Directors. Mr Murray is a director of ASX listed company Flamingo AI Limited, but otherwise has not been a director of an ASX listed company in the past 3 years.

**Mr Philip Daffas** (appointed 30 September 2016) **BSc, Dip EENG, MBA, GAICD –** Managing Director

Philip is a highly accomplished global business leader and people manager with an international career spanning more than 25 years with leading blue-chip healthcare corporates and novel technology start-up companies.

Philip has held senior global business leader positions in Europe, US and Australia. He has been instrumental in building businesses, growing market share and developing extensive high-level customer and industry relationships in each sector on a global basis.

Philip's earlier experience was gained in Europe with market leaders such as IVAC infusion systems and Shiley cardiopulmonary products. He subsequently joined Boehringer Mannheim, initially in the UK managing their diagnostics business and subsequently was promoted to a Global Marketing role in the Diabetes Care business cased in Mannheim, Germany.

In 1997 Philip joined Cochlear in the UK as the European Sales and Marketing Manager and subsequently was promoted in 2000 to the VP Global Marketing role based in Sydney, Australia

Other roles in Australia have included General Manager with Roche Diagnostics, Managing Director at Bio-Rad Laboratories and CEO of Applied Physiology, an Australian software start up company in the intensive care monitoring sector.

Graduated in the UK with a BSc and Diploma in Electronic Engineering, Philip also has an MBA and is a Graduate of the Australian Institute of Company Directors (GAICD). Mr Daffas has not been a director of an ASX listed company in the past 3 years.

**Mr Ross Harricks** (appointed 30 September 2016) **BE, MBA** – Non-executive Director

Mr Harricks' experience in the commercialisation of medical products spans over forty years and over three continents. His experience includes the marketing and commercialising of the computed technology scanner (CT or CAT scanner) in Australia, where he headed up the EMI Electronics Group as General Manager. His remit included developing EMI's medical business in this region.

In 1983, Mr Harricks joined the Nucleus Group and became President the Nucleus Group subsidiaries in United States in marketing medical equipment and scientific and engineering computing products.

In 1989, Mr Harricks was the CEO of a venture capital-backed start-up company developing specialist scientific and medical lasers.

Mr Harricks has been a director of ResMed Limited and cofounder of AtCor Medical where he completed an Australian initial public offering in 2005 leading the company until 2007. Otherwise, Mr Harricks has not been a director of an ASX listed company in the past 3 years.

Mr Harricks works with Australian medical and technology companies assisting in commercialisation of their products into the US and EU markets. His unique expertise and experience includes strategic advising on the best path to early international market endorsement and adoption, and on providing hands-on help with implementation in the American and European markets.

**Mr Adam Davey** (appointed 30 September 2014) – Non-executive Director

Mr Davey's expertise spans over 25 years and includes capital raising (both private and public), mergers and acquisition, ASX listings, asset sales and purchases, transaction due diligence and director duties. Mr Davey is a Director of Wealth Management at Patersons Securities. Mr Davey has been involved in significantly growing businesses in both the industrial and mining sector. This has been achieved through holding various roles within different organisations, including chairman, managing director, non-executive director, major shareholder and corporate adviser to the board.

Mr Davey is a non-executive director of Ensurance Limited and Ausnet Financial Services Ltd. Otherwise, Mr Davey has not been a director of an ASX listed company in the past 3 years.

**Company Secretary** (appointed 30 September 2016) B.BUS FCA ACIS MAICD

Mr Ian Hobson was appointed to the positions of Company Secretary and Chief Financial Officer on 30 September 2016.

A Fellow Chartered Accountant and Chartered Secretary, Mr Hobson has more than 30 years' experience in the areas of corporate finance, governance, corporate accounting, company secretarial and restructuring advice. Mr Hobson was a director of PricewaterhouseCoopers and Ferrier Hodgson Chartered Accountants before specializing in providing company secretarial and corporate accounting services to listed entities.

## OPERATIONS REPORT

### Principal Activities

The principal activity of the Company is the development and commercialisation of mobile medical device applications, that automate intelligent pain assessment of individuals who are unable to communicate their pain with carers.

### Financial and operational review

The loss of the Group for the year ended 30 June 2019, after accounting for income tax benefit, amounted to $3,262,418 (2018: $4,810,532). The year ended 30 June 2019 operating results are attributed to the following:

- Research & Development expense of $1,894,536 (30 June 2018: $1,699,292);
- Share based payments in respect of options issued to Directors and employees of $112,911 (non-cash) (30 June 2018: $345,172 (non-cash));
- Corporate and administration expenses of $1,486,446 (30 June 2018: $1,198,311); and
- Expensing license acquisition and fees of $Nil (30 June 2018: $1,709,510 (non-cash $1,312,500)).

In addition, the statement of financial position as at 30 June 2019 was impacted by:

- A share placement of 21,724,138 shares to raise $3,150,000; and
- Proceeds from the exercise of 47,300,000 options which raised $1,059,500.

**Review of operations**

The PainChek® technology uses cameras in smartphones and tablets to capture a brief video of the person, which is analysed in real time using facial recognition software to detect the presence of facial micro-expressions that are indicative of the presence of pain. The PainChek® technology has been TGA and CE Mark cleared for use as a class 1 medical device to assess pain in people who are unable to verbalise, such people with dementia.

The PainChek® Adult App has been clinically proven and regulatory cleared, and in April 2019 the Federal Government announced it would invest $5M to facilitate the implementation of the PainChek® app in Australian residential aged care centers (RAC's). More than 40,000 pain assessments have been conducted in Australian aged care, with an increasing number of case study reports confirming the clinical and cost benefit.

There are now more than 10,500 beds in 140 RAC facilities that have been contracted with annual subscription agreements in Australia and annual recurring revenue (ARR) exceeding $0.5 million when implemented. These numbers are projected to accelerate with the government funding initiative and international expansion.

Revenue recognized in the Company's financial statements is based on contracted beds that have been implemented and are active using the PainChek App. At 30 June 2019 there were 3,564 active licensed beds in RACs with an ARR of $234k, up from 338 beds at 30 June 2018. There was a backlog of over 7,000 contracted beds at 30 June 2019 planned to be implemented after the year end. The PainChek monthly Revenue per Licensed Bed (RLB) across the RAC customers based on the agreements signed to date is in the range of $5 per month, and the Revenue per Active Resident (RAR) is in the range of $10 per month based on actual resident usage.

We have entered international markets through a distribution partnership in the UK with PCS UK and through finalizing other international agreements to address the large market opportunities and the 50 million people living with dementia globally.

We have commenced the Children's App clinical trial with the Murdoch Children's Research Institute, one of the top three leading children's research centres globally. The Children's App serves an even larger market, where globally there are more than 400 million children between the aged of 0-2 years.

These achievements are a reflection of the transformational impact PainChek App has on pain management and the provision of better medication treatment for residents living with dementia and other communication difficulties.

**Likely Developments and Overview of Group Strategy**

The Company will continue with the commercialisation of the PainChek® technology in Australia and globally. We are receiving overseas interest including UK, Germany and US and Asia, which will support our international market expansion strategy.

We are currently finalizing the agreed additional clinical validation work required for de novo review with FDA. This work is budgeted, and we continue to project FDA clearance for the PainChek® Adult App during 2020.

The market segments being pursued by the Company include RAC Operators, Health Care Professionals, Home Care Operators and Direct to Home Carers. In parallel, development of the next phase of the Painchek App remains on track. This will be commercialised initially through a "shared care" model that allows healthcare professionals to provide access to PainChek® for home dementia patient carers to use.

Good progress continues with the Kidds App . The *PainFaces* clinical study completion is dependent on the recruitment of the 100 children and is currently projected to be completed in Q3 FY 2020. The Results and learnings from the research will support applications for regulatory approval of PainChek® Infant's App with the Therapeutics Goods Administration (TGA), CE Mark, Europe, and the Food and Drug Administration (FDA) in the USA.

**Subsequent events**

The 2nd tranche of $1,000,000 of the placement totalling $4,150,000 announced to ASX on June 2019 settled on 29 July 2019 with issue of 6,896,552 ordinary shares and 3,448,276 options exercisable at $0.25 per share, expiring 30 June 2022.

Otherwise, no matters or circumstances have arisen since the end of the year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

**REMUNERATION REPORT (AUDITED)**

**Remuneration Policy**

The remuneration policy of ***the Group*** has been designed to align director objectives with shareholder and business objectives by providing a fixed remuneration component which is assessed on an annual basis in line with market rates. The Board of ***the Company*** believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best Directors to run and manage the Company, as well as create goal congruence between Directors and shareholders.

The Board's policy for determining the nature and amount of remuneration for board members is as follows:

- The remuneration policy, setting the terms and conditions for the executive Directors and other senior staff members, was developed and approved by the Board.
- In determining competitive remuneration rates, the Board considers local and international trends among comparative companies and the industry generally so that executive remuneration is in line with market practice and is reasonable in the context of Australian executive reward practices.
- All executives receive a base salary (which is based on factors such as length of service and experience), superannuation and fringe benefits.

**Performance Based Remuneration**

The Company is a technology development entity and therefore speculative in terms of performance. Consistent with attracting and retaining talented executives, Directors and senior executives are paid market rates associated with individuals in similar positions within the same industry. Options, equity-based performance incentives and cash bonus' have been and may be further issued to provide a performance-linked incentive component in the remuneration package for the Directors and for the future performance by the Directors and key management personnel in managing the operations and strategic direction of the Company. All remuneration paid to Directors is valued at the cost to the Company and expensed. Options are valued using an appropriate valuation methodology. For details of Directors' and executives' interests in options and performance rights at year end, refer to section (d) of this remuneration report.

**Short term incentive**

Generally paid in cash and structured, with a focus on delivery of specific short-term objectives aligned with the company's strategies and goals and the Executives role in meeting these targets.

**Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration**

The remuneration policy has been tailored to align the strategic goals of the Company to create value for shareholders, Directors and executives. The Company believes the policy has been effective in in aligning the interests of the Company's key management personnel with the interests of its shareholders. For details of Directors' and executives' interests in equity securities at year end, refer to section (c) of this remuneration report.

| | 2016 (formerly MinQuest Limited) | 2017 (formerly ePAT Technologies Limited) | 2018 | 2019 |
|---|---|---|---|---|
| **Share price at 30 June** | $0.01 | $0.025 | $0.056 | $0.20 |
| **Loss for the year (continuing and discontinued operations)** | ($5,047,449) | ($8,473,802) | ($4,810,532) | ($3,262,418) |
| **Loss for the year (continuing operations)** | ($1,680,796) | ($8,473,802) | ($4,810,532) | ($3,262,418) |
| **EPS for the year (continuing and discontinued operations)** | (2.1) cents | (1.63) cents | (0.6) cents | (0.4) cents |
| **EPS for the year (continuing operations)** | (0.7) cents | (1.63) cents | (0.6) cents | (0.4) cents |

**Performance Income as a Proportion of total compensation**

A short term incentive performance bonus of $40,000 including superannuation was paid to Mr Daffas for the 9 months ended 30 June 2018. A further short term performance bonus of $112,500 including superannuation was agreed to be paid to Mr Daffas for the year ended 30 June 2019 based on Mr Dafas achieving certain internal KPI's.

**Remuneration Policy of Key Management Personnel**

The objective of the Company's executive reward framework is set to attract and retain the most qualified and experienced Directors and senior executives. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- Competitiveness
- Acceptability to shareholders
- Performance linkage
- Capital management

**Non-executive Directors**

The Board's policy is to remunerate non-executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the non-executive Directors and reviews their remuneration annually based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders at the Annual General Meeting and is currently set at $250,000. Fees for non-executive Directors are not linked to the performance of the Company.

As at 30 June 2019, Non-Executive Directors fees were payable as follows:

- Non-Executive Chairman receives a fee of $80,000 per annum including superannuation.
- Non-Executive Directors receive a fee of $40,000 per annum including superannuation.

**Directors' Fees**
A Director may be paid fees or other amounts as the Directors determine where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director. A Director may also be reimbursed for reasonable out of pocket expenses incurred as a result of their Directorship or any special duties.

**Service Agreements**

**Philip Daffas, Managing Director (appointed 30 September 2016)**
The Company entered into an Executive Services Agreement ("Agreement") with Mr Philip Daffas pursuant to which Mr Daffas was appointed as Managing Director of the Company as at 30 September 2016. The key terms of the Agreement are:

- A salary of $225,000 per annum inclusive of superannuation plus any bonus at the boards discretion;
- Options equivalent to 5% of the Company's fully diluted securities on issue at the time of the acquisition of Electronic Pain Assessment Technologies (EPAT) Pty Ltd.

The Agreement may be terminated by either party at any time on the giving of not less than three (3) months' notice in writing.

**Ian Hobson, Company Secretary and Chief Financial Officer (appointed 30 September 2016)**
The Company entered into a Consultancy Agreement ("Agreement") with Churchill Services Pty Ltd pursuant to which Mr Hobson was engaged to provide Company Secretarial and Chief Financial Officer services to the Company effective from 30 September 2016. Churchill Services Pty Ltd is to receive $200 per hour, exclusive of GST, for services provided by Mr Hobson. The agreement may be terminated by either party at any time with no notice period.

**Retirement Benefits**
Other retirement benefits may be provided directly by the Company if approved by shareholders. However, no retirement benefits other than statutory superannuation are currently paid.

**DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS**

**(a) Details of Key Management Personnel**

*Directors*

| | |
|---|---|
| Mr John Murray | Non-Executive Chairman |
| Mr Philip Daffas | Managing Director |
| Mr Adam Davey | Non-Executive Director |
| Mr Ross Harricks | Non-Executive Director |

*Other Key Management Personnel*

| | |
|---|---|
| Ian Hobson | Chief Financial Officer and Company Secretary |

Except as detailed in Notes (b) – (d) to the Remuneration Report, no key management personnel have received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the Company or a related body corporate with key management personnel, a firm of which a member of key management personnel is a member or an entity in which a member of key management has a substantial financial interest.

## (b) Compensation of Key Management Personnel

*Remuneration Policy*

The Board of Directors, comprising a majority of Non-Executive Directors, is responsible for determining and reviewing compensation arrangements for the key management personnel. The Board will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high-quality Board and executive team. Remuneration of Directors is set out below.

The value of remuneration received, or receivable, by key management personnel for the financial year to 30 June 2019 is as follows:

| 2019 | Primary | | Equity Compensation | | Post-employment | | Performance related % |
|---|---|---|---|---|---|---|---|
| Directors | Base Salary and Fees $ | Cash Bonus $ | Value of Options (d) $ | Shares (d) $ | Superannuation Contributions $ | Total $ | |
| John Murray [1] | 73,059 | - | - | - | 6,941 | 80,000 | - |
| Philip Daffas[2] | 205,479 | 149,030* | - | - | 22,991 | 377,500 | 39% |
| Ross Harricks[4] | 36,530 | - | - | - | 3,470 | 40,000 | - |
| Adam Davey[3] | 40,000 | - | - | - | - | 40,000 | - |
| **Total Directors** | **355,068** | **149,030** | **-** | **-** | **33,402** | **537,500** | 28% |
| Ian Hobson [5] | 122,825 | - | - | - | - | 122,825 | - |
| **Total** | **477,893** | **149,030** | **-** | **-** | **33,402** | **660,325** | 23% |

*A short term incentive performance bonus of $40,000 including superannuation was paid to Mr Daffas for the 9 months ended 30 June 2018. A further short term performance bonus of $112,500 including superannuation was agreed to be paid to Mr Daffas for the year ended 30 June 2019 based on Mr Dafas achieving certain internal KPI's.

| 2018 | Primary | | Equity Compensation | | Post-employment | | Performance related % |
|---|---|---|---|---|---|---|---|
| Directors | Base Salary and Fees $ | Bonus $ | Value of Options (d) $ | Shares (d) $ | Superannuation Contributions $ | Total $ | |
| John Murray [1] | 73,059 | - | 65,695 | - | 6,941 | 145,695 | 45% |
| Philip Daffas[2] | 205,479 | 61,530 | 109,492 | - | 25,366 | 401,867 | 43% |
| Ross Harricks[4] | 36,530 | - | 32,848 | - | 3,470 | 72,848 | 45% |
| Adam Davey[3] | 40,000 | - | 32,848 | - | - | 72,848 | 45% |
| **Total Directors** | **355,068** | **61,530** | **240,883** | **-** | **35,777** | **693,258** | 44% |
| Ian Hobson [5] | 122,006 | - | - | - | - | 122,006 | 0% |
| **Total** | **477,074** | **61,530** | **240,883** | **-** | **35,777** | **815,264** | 37% |

*Notes:*

1) Appointed Non-Executive Chairman on 30 September 2016.
2) Appointed Managing Director on 30 September 2016.
3) Appointed Non-Executive Director 30 September 2014.
4) Appointed Non-Executive Director 30 September 2016.
5) Appointed Company Secretary and Chief Financial Officer 30 September 2016.

## c) Shares Held by Key Management Personnel

| 2019 | Balance at 1 July 2018 | Bought & (Sold) | Share Consolidation | Shares issued in lieu of cash* | Other+ | Balance at 30 June 2019 |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| John Murray | - | - | - | - | - | - |
| Philip Daffas | - | - | - | - | - | - |
| Ross Harricks | - | - | - | - | - | - |
| Adam Davey | 3,540,764 | - | - | - | - | 3,540,764 |
| | **3,540,764** | | | | | **3,540,764** |
| **Other key management personnel** | | | | | | |
| Ian Hobson | - | - | - | - | - | - |
| | **3,540,764** | **-** | **-** | **-** | **-** | **3,540,764** |

| 2018 | Balance at 1 July 2017 | Bought & (Sold) | Share Consolidation | Shares issued in lieu of cash* | Other+ | Balance at 30 June 2018 |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| John Murray | - | - | - | - | - | - |
| Philip Daffas | - | - | - | - | - | - |
| Ross Harricks | - | - | - | - | - | - |
| Adam Davey | 3,540,764 | - | - | - | - | 3,540,764 |
| | **3,540,764** | | | | | **3,540,764** |
| **Other key management personnel** | | | | | | |
| Ian Hobson | - | - | - | - | - | - |
| | **3,540,764** | **-** | **-** | **-** | **-** | **3,540,764** |

## d) Options Held by Key Management Personnel

| 2019 | Balance at 1 July 2018 | Received as Remuneration | Exercise of Options | Other + | Balance at 30 June 2019 | Total Vested | Total Exercisable |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| John Murray | 24,599,497 | - | - | - | 24,599,497 | 16,399,665 | 16,399,665 |
| Philip Daffas | 40,999,162 | - | - | - | 40,999,162 | 27,332,775 | 27,332,775 |
| Ross Harricks | 12,299,748 | - | - | - | 12,299,748 | 8,199,832 | 8,199,832 |
| Adam Davey | 12,299,748 | - | - | - | 12,299,748 | 8,199,832 | 8,199,832 |
| | **90,198,155** | **-** | **-** | **-** | **90,198,155** | **60,132,104** | **60,132,104** |
| **Other key management personnel** | | | | | | | |
| Ian Hobson | - | - | - | - | - | - | - |
| | **90,198,155** | **-** | **-** | **-** | | | |

| 2018 | Balance at 1 July 2017 | Received as Remuneration | Exercise of Options | Other + | Balance at 30 June 2018 | Total Vested | Total Exercisable |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| John Murray | 24,599,497 | - | - | - | 24,599,497 | 16,399,665 | 16,399,665 |
| Philip Daffas | 40,999,162 | - | - | - | 40,999,162 | 27,332,775 | 27,332,775 |
| Ross Harricks | 12,299,748 | - | - | - | 12,299,748 | 8,199,832 | 8,199,832 |
| Adam Davey | 12,299,748 | - | - | - | 12,299,748 | 8,199,832 | 8,199,832 |
| | **90,198,155** | **-** | **-** | **-** | **90,198,155** | **60,132,104** | **60,132,104** |
| **Other key management personnel** | | | | | | | |
| Ian Hobson | - | - | - | - | - | - | - |
| | **90,198,155** | **-** | **-** | **-** | **90,198,155** | **60,132,104** | **60,132,104** |

*Share and Option Holdings*

All equity dealings with Directors have been entered into with terms and conditions no more favourable than those that the entity would have adopted if dealing at arm's length.

### (e) Compensation Options

During and since the financial year ended 30 June 2019, Nil options were granted by the Company to Directors or Key Management Personnel (2018: Nil) and Nil options (2018: Nil) were exercised by Directors or Key Management Personnell.

### (f) Short term employee benefits

These amounts include director and consulting fees paid to non-executive directors as well as salary and paid leave benefits awarded to executive directors.

### (g) Post-employment benefits

These amounts are superannuation contributions made during the year.

On 30 September 2016, the following personnel were appointed directors of the Company (excluding Mr Davey who remained a director) and entered into letters of appointment on the following key terms:

| Name | Position | Cash Remuneration inclusive of superannuation | Notice period / termination provisions | Options equivalent to % of fully diluted shares on issue |
|---|---|---|---|---|
| Mr John Murray | Non- Executive Chairman | $80,000 | Nil | 3% |
| Mr Adam Davey | Non-Executive Director | $40,000 | Nil | 1.5% |
| Mr Ross Harricks | Non-Executive Director | $40,000 | Nil | 1.5% |
| Mr Philip Daffas | Managing Director | $225,000 | 3 months | 5% |

At the annual general meeting held on 23 November 2016, shareholders approved the issue of the following options exercisable at 2 cents per share and expiring on 24 November 2019 and vesting on certain conditions:

| Name | Position | Unlisted options allotted 19 December 2016 |
|---|---|---|
| Mr John Murray | Non- Executive Chairman | 24,599,497 |
| Mr Adam Davey | Non-Executive Director | 12,299,748 |
| Mr Ross Harricks | Non-Executive Director | 12,299,748 |
| Mr Philip Daffas | Managing Director | 40,999,162 |
| | **Total** | **90,198,155** |

The options issued to directors are to vest as follows:

i. One third after one year of service (as approved at the 2016 Annual General Meeting, no performance condition is attached to this tranche of options).

ii. One third after the Company makes an announcement that Regulatory Approval to enable commercial use of the PainChek App in Australia, the United States or Europe is received, or the Company has announced the execution of a binding licence agreement to licence the PainChek App to:
   a. one or more residential aged care facilities facility owners managing in total in excess of 150 beds; or
   b. one or more medical clinics which service in total in excess of 2,000 patients per year; or
   c. a metropolitan hospital with in excess of 200 beds;
   (each an "End User");
   d. or a global distribution partner with multiple End Users as existing customers.

iii. One third upon the Company generating cumulative revenue of $1,000,000.

The options issued to directors were expensed as follows:

| | Number of options | Value per option at grant date | % Vested | Vesting Date | Value $ | Expensed 30 June 2017 | Expensed 30 June 2018 | Expensed 30 June 2019 |
|---|---|---|---|---|---|---|---|---|
| Tranche 1 | 30,066,052 | $0.037 | 100% | 30 Sept 2017 | 814,286 | 573,404 | 240,882 | - |
| Trance 2 | 30,066,052 | $0.037 | 100% | 19 July 2017 | 814,286 | 814,286 | - | - |
| Tranche 3 | 30,066,052 | $0.037 | 0% | Performance based | 814,286 | 814,286 | - | - |
| **Total** | **90,198,155** | | | | **2,442,857** | **2,201,975** | **240,882** | **-** |

**Transactions with Directors and Director related entities**
There were no transactions with Directors or Director related entities during the year.

**Loans to Key Management Personnel**
There was no loans to KMP during the year.

**End of Remuneration Report**

## ENVIRONMENTAL REGULATIONS AND PROCEEDINGS

The Group's operations are not subject to any significant environmental regulations where it operates.

## MEETINGS OF DIRECTORS

The number of Directors' meetings held during the financial year each director held office and the number of meetings attended by each director are:

| | Directors Meetings | |
|---|---|---|
| Director | Meetings Attended | Number Eligible to Attend |
| John Murray | 12 | 12 |
| Philip Daffas | 12 | 12 |
| Ross Harricks | 12 | 12 |
| Adam Davey | 12 | 12 |

The full Board currently fulfils the duties of the Remuneration Committee and the Audit Committee.

## OPTIONS

At the date of this report, the following options over new ordinary shares in the Company were on issue.

| Type | Date of Expiry | Exercise Price | Number under Option |
|---|---|---|---|
| Unlisted Options | 7 October 2019 | $0.025 | 20,700,000 |
| Unlisted Options | 7 October 2019 | $0.02 | 10,400,000 |
| Unlisted Options | 24 November 2019 | $0.02 | 90,198,155 |
| Unlisted Options | 3 October 2021 | $0.36 | 5,000,000 |
| Unlisted Options | 22 July 2022 | $0.726 | 3,000,000 |
| Unlisted Options | 9 November 2023 | $0.032 | 4,000,000 |
| Unlisted Options | 30 June 2022 | $0.25 | 14,310,345 |

47,300,000 ordinary shares were issued as a result of the exercise of options during or since the financial year ended 30 June 2019.

## EQUITY HOLDINGS

The relevant interests of each director in the Company's share capital, options and performance rights at the date of this report are as follows:

| Directors | Number of Shares | Number of Options |
|---|---|---|
| John Murray | - | 24,599,497 |
| Adam Davey | 3,540,764 | 12,299,748 |
| Philip Daffas | - | 40,999,162 |
| Ross Harricks | - | 12,299,748 |
| **Total** | **3,540,764** | **90,198,155** |

## INSURANCE OF OFFICERS

To the extent permitted by law, the Company has indemnified (fully insured) each director and the secretary of the Company. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings (that may be brought) against the officers in their capacity as officers of the Company or a related body, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities. The company has not insured against or indemnified its auditor.

**PROCEEDINGS ON BEHALF OF THE GROUP**

The Group is not aware that any person has applied to the court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings in which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Group 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 and/or the Group are important.

The Board of Directors has considered the position and 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 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.*

Details of the amounts paid or payable to the auditor, BDO Audit Pty Ltd for audit services provided during the year are set out in note 20 to the financial report.

| **Non-audit services** | **2019** **$** | 2018 $ |
|---|---|---|
| ***BDO Audit Pty Ltd*** | | |
| Tax advice services | **-** | - |
| Tax compliance services | **-** | - |
| Investigating Accountant Report for Prospectus | **-** | - |
| **Total remuneration for non-audit services** | **-** | - |

## Auditor's independence declaration

The auditor's independence declaration is included on page 18 of this report.

Signed in accordance with a resolution of directors.

**John Murray**
**Chairman**
28 August 2019, Sydney, NSW

# Auditor's independence declaration

Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
www.bdo.com.au

Level 10, 12 Creek St
Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
Australia

**DECLARATION OF INDEPENDENCE BY C R JENKINS TO THE DIRECTORS OF PAINCHEK LIMITED**

As lead auditor of PainChek Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of PainChek Limited and the entities it controlled during the period.

**C R Jenkins**
Director

**BDO Audit Pty Ltd**

Brisbane, 28 August 2019

# Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2019

| | Note | Consolidated 30 June 2019 $ | Consolidated 30 June 2018 $ |
|---|---|---|---|
| Revenue | 3 | 215,464 | 50,647 |
| Other income | 4 | 745,258 | 410,014 |
| Research and development expenses | | (1,894,536) | (1,699,292) |
| Marketing and business development expenses | | (729,247) | (318,907) |
| Corporate administration expenses | 5 | (1,486,446) | (1,198,311) |
| License expenses | 5 | - | (1,709,510) |
| Share based payment expenses | 14 | (112,911) | (345,172) |
| **Loss before income tax** | | **(3,262,418)** | **(4,810,532)** |
| Income tax benefit | 6 | - | - |
| **Loss for the period attributable to Owners of PainChek Limited** | | **(3,262,418)** | **(4,810,532)** |
| **Other comprehensive income, net of income tax** | | | |
| Items that will not be reclassified subsequently to profit or loss | | - | - |
| Items that may be reclassified subsequently to profit or loss | | - | - |
| **Other comprehensive income for the period, net of income tax** | | **-** | **-** |
| **Total comprehensive loss for the period** | | **(3,262,418)** | **(4,810,532)** |
| **Loss and total comprehensive loss attributable to:** | | | |
| Owners of PainChek Limited | | **(3,262,418)** | **(4,810,532)** |
| **Loss per share:** | | | |
| Basic and diluted (cents per share) | 7 | (0.4) | (0.6) |

Notes to the financial statements are included on pages 19 to 41.

# Consolidated statement of financial position as at 30 June 2019

| | Note | Consolidated 30 June 2019 $ | Consolidated 30 June 2018 $ |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 18 | 4,562,476 | 3,606,115 |
| Trade and other receivables | 8 | 171,169 | 62,098 |
| **Total current assets** | | **4,733,645** | **3,668,213** |
| | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | 15,716 | 4,384 |
| **Total non-current assets** | | **15,716** | **4,384** |
| **Total assets** | | **4,749,361** | **3,672,597** |
| | | | |
| **Current liabilities** | | | |
| Trade and other payables | 10 | 565,192 | 415,914 |
| Provisions | 11 | 63,247 | 31,980 |
| **Total current liabilities** | | **628,439** | **447,894** |
| **Total liabilities** | | **628,439** | **447,894** |
| **Net assets** | | **4,120,922** | **3,224,703** |
| | | | |
| **Equity** | | | |
| Issued capital | 13 | 17,755,759 | 13,710,033 |
| Reserves | 14 | 3,200,925 | 3,088,014 |
| Accumulated losses | | (16,835,762) | (13,573,344) |
| **Total equity** | | **4,120,922** | **3,224,703** |

Notes to the financial statements are included on pages 19 to 41.

# Consolidated statement of changes in equity for the year ended 30 June 2019

| *Company* | Note | Issued capital $ | Reserves $ | Accumulated losses $ | Total $ |
|---|---|---|---|---|---|
| *Consolidated* | | | | | |
| **Balance at 1 July 2017** | | **8,502,533** | **2,742,842** | **(8,762,812)** | **2,482,563** |
| Loss for the year | | - | - | (4,810,532) | (4,810,532) |
| Other comprehensive income | | - | - | - | - |
| **Total comprehensive loss for the period** | | | | **(4,810,532)** | **(4,810,532)** |
| Issue of ordinary shares (*refer to note 13*) | 13 | 3,750,000 | - | - | 3,750,000 |
| Issue of ordinary shares on conversion of options (*refer to note 13*) | 13 | 370,000 | - | - | 370,000 |
| Share issue costs (*refer to note 13*) | 13 | (225,000) | - | - | (225,000) |
| Recognition of share based payments (*refer to note 13*) | 13 | 1,312,500 | 345,172 | - | 1,657,672 |
| **Balance at 30 June 2018** | | **13,710,033** | **3,088,014** | **(13,573,344)** | **3,224,703** |
| | | | | | |
| *Consolidated* | | | | | |
| **Balance at 1 July 2018** | | **13,710,033** | **3,088,014** | **(13,573,344)** | **3,224,703** |
| Loss for the year | | - | - | (3,262,418) | (3,262,418) |
| Other comprehensive income | | - | - | - | - |
| **Total comprehensive loss for the period** | | - | - | (3,262,418) | (3,262,418) |
| Issue of ordinary shares (*refer to note 13*) | 13 | **3,150,000** | - | - | **3,150,000** |
| Issue of ordinary shares on conversion of options (*refer to note 13*) | 13 | 1,064,500 | - | - | 1,064,500 |
| Share issue costs (*refer to note 13*) | 13 | (168,774) | - | - | (168,774) |
| Recognition of share based payments (*refer to note 14*) | 13 | - | 112,911 | - | 112,911 |
| **Balance at 30 June 2019** | | **17,755,759** | **3,200,925** | **(16,835,762)** | **4,120,922** |

Notes to the financial statements are included on pages 19 to 41.

# Consolidated statement of cash flows for the year ended 30 June 2019

| | Note | Consolidated | Consolidated |
|---|---|---|---|
| | | Year ended | |
| | | 30 June 2019 | 30 June 2018 |
| | | $ | $ |
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 98,546 | 32,842 |
| Payments to suppliers and employees | | (4,005,322) | (3,382,079) |
| Interest received | | 86,622 | 26,191 |
| Rebates and grants received | | 745,258 | 410,014 |
| Net cash used in operating activities | 18.1 | **(3,074,896)** | **(2,913,032)** |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | (14,501) | (5,872) |
| Net cash used in investing activities | | **(14,501)** | **(5,872)** |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | 4,214,500 | 4,120,000 |
| (Payment) of share issue costs | | (168,774) | (225,000) |
| Net cash (used in)/provided by financing activities | | **4,045,726** | **4,114,543** |
| **Net increase / (decrease) in cash and cash equivalents** | | **956,327** | **976,096** |
| Cash and cash equivalents at the beginning of the period | | 3,606,115 | 2,630,019 |
| **Cash and cash equivalents at the end of the period** | 18 | **4,562,442** | **3,606,115** |

Notes to the financial statements are included on pages 19 to 41.

# Notes to the financial statements for the year ended 30 June 2019

## 1. Significant accounting policies

**Basis of preparation**
PainChek Ltd (the "Group") is a listed public company, incorporated and domiciled in Australia. The group's principal activities are development and commercialization of mobile medical device applications that provide pain assessment for individuals that are unable to communicate with their carers.

The financial report is presented in Australian dollars.

The financial report is a general purpose financial report, which has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial information has been prepared on the accruals basis and is based on historical costs and does not take into account changing money values. Cost is based on the fair values of the consideration given in exchange for assets.

*Statement of Compliance*
The financial report was authorised for issue on 18 August 2019.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ("IFRS").

*Standards and Interpretations on issue not yet adopted*
Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

| **Title of standard** | **AASB 16 *Leases*** |
|---|---|
| Nature of change | AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.<br><br>The accounting for lessors will not significantly change. |
| Impact | The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has no non-cancellable operating lease commitments. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward. |

| Title of standard | AASB 16 *Leases* |
|---|---|
| Mandatory application date/Date of adoption by Group | Mandatory for financial years commencing on or after 1 July 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will likely not restate comparative amounts for the year prior to first adoption. |

**Going concern basis**
The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

As disclosed in the financial statements, the consolidated entity has net operating cash outflows for the year of $3,074,896 ( 2018: $2,913,032) and as at 30 June 2019 has cash and cash equivalents of $4,562,476 (30 June 2018: $3,606,115). The consolidated entity also generated a loss after tax of $3,262,418 (2018: $4,810,532).

The ability of the consolidated entity to continue as a going concern is principally dependent upon one or more of the following conditions:

- receipt of research and development grants;
- the ability of the consolidated entity to raise sufficient capital and when necessary; and
- the successful commercialisation of its intellectual property in a manner that generates sufficient operating cash inflows.

These conditions give rise to material uncertainty which may cast significant doubt over the consolidated entity's ability to continue as a going concern. The directors believe that the going concern basis of preparation is appropriate due to its recent history of raising capital and the significant progress made on exploiting its intellectual property.

Should the consolidated entity be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial report. This financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the consolidated entity be unable to continue as a going concern.

*Adoption of New and Revised Standards*
A number of new or amended standards became applicable for the current reporting period and the group had to change its accounting policies as a result of adopting AASB 15 *Revenue* AASB 9 *Financial Instruments*. The impact of the adoption of this standard and the new accounting policies are disclosed below. The other standards did not have any impact on the group's accounting policies and did not require retrospective adjustments.

**Significant accounting policies of the Company**
Set out below are the significant accounting policies that have been applied in the preparation of the consolidated financial statements:

**AABS 15 Contracts with Customers**

The Company has adopted AASB 15 Revenue from Contracts with Customers from 1 July 2018 which resulted in changes in accounting policies. In accordance with the transition provisions in AASB 15, the Company has adopted the new rules retrospectively however there was no material impact on the amounts disclosed previously and as a result there has been no restatement required as a result of reclassification or remeasurement. The Company's updated accounting policies are shown below.

*i) Software subscriptions*

Revenue from the sale of term (subscription) licences is recognised on a straight line basis over the subscription term.

*ii) Training*

Revenue from the provision of training services is recognised typically at a point in time when the Company has provided training and has an enforceable right to payment for its performance completed to date.

*iii) Software support (maintenance)*

Revenue for software support is recognised on a straight line basis over the service period as performance obligations require the company to respond to requests made by customers to provide technical product support and unspecified updates, upgrades and enhancements on a when-available and if-available basis.

*iv) Incremental Costs of obtaining Customer Contracts*

Commissions on software subscriptions are capitalised and amortised over the term, where the term is greater than 12 months.

*v) Contract Assets (Trade Receivables and Work in progress)*

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Company holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Work in progress represents costs incurred and profit recognised for services that are in progress at balance date and the Company has an enforceable right to payment for its performance completed to date.

*vi) Unsatisfied performance obligations*

The Company continues to recognise its contract liabilities under AASB 15 in respect of any unsatisfied performance obligations, which are disclosed as *Unearned revenue* in the Statement of Financial Performance.

*vii) Financing components*

The Company does not recognise adjustments to transition prices or Contract balances where the period between the transfer of promised goods or services to the customer and payment by customer does not exceed one year.

The Company reviewed its prior year contracts and did not identify material adjustments in timing and amounts recognised as revenue in prior years.

**Revenue recognition – AASB118**
Revenue is recognised when it is probable that the economic benefit will flow to the company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Sale of goods revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer and there is a valid sales contract. Amounts disclosed as revenue are net of sales returns and trade discounts.

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Grants and other revenue is recognised when it is received or when the right to receive payment is established.

**AASB 9 *Financial Instruments* – Impact of adoption**

AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of AASB 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies. The new accounting policies are set out in note below. In accordance with the transitional provisions in AASB 9(7.2.15) and (7.2.26), comparative figures have not been restated.

*(i) Classification and Measurement*
On 1 January 2018 (the date of initial application of AASB 9), the Group's management has assessed which business models apply to the financial assets held by the group and has classified its financial instruments into the appropriate AASB 9 categories. There were no changes to the classification and measurement of financial assets.

*(ii) Impairment of financial assets*
The Group has one type of financial asset that is subject to AASB 9's new expected credit loss model, being trade and other receivables.

The group was required to revise its impairment methodology under AASB. There was no material impact of the change in impairment methodology on the group's retained earnings and equity.

While cash and cash equivalents are also subject to the impairment requirements of AASB 9, there was no material impairment loss identified.

**AASB 9 *Financial Instruments* – Accounting policies applied from 1 January 2018**

*(i) Investments and other financial assets*

*Classification*
From 1 January 2018, the group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

*Measurement*

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

*Debt instruments*
Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Impairment
From 1 July 2018, the group assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.
For trade receivables the group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Management has determined that assessment of expected credit loss associated with trade receivables is immaterial.

**Fair Values**

The fair values of Consolidated Entity's financial assets and financial liabilities approximate their carrying values due to short –term in nature. No financial assets or financial liabilities are readily traded on organised markets in standardised form.

**(a) Principles of Consolidation**

The consolidated financial statements comprise the financial statements of all subsidiaries of the Company and the results of all subsidiaries from the date that control was obtained. The Company controls another entity when the Company is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is fully transferred. They are deconsolidated from the date control ceases.

The financial statement of the subsidiary is prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest without a loss of control is accounted for as an equity transaction.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the financial statements. Losses incurred by the consolidated entity are attributed to the non-controlling interests in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary, together with any cumulative translation differences in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gains or losses in profit or loss.

**(b) Income Tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance 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; or
- 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 assets 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; or
- 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 balance date and reduced to the extent that it is no longer probable that sufficient 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 balance 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 balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

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.

**(c) Impairment of non – financial Assets**

The Group assesses at each balance date whether there is an indication that an asset may be impaired.

If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each balance date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

**(d) Share-based Payment Transactions**

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a suitable option pricing model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant recipient of the equity becomes fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Company's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

**(e) Cash and cash equivalents**

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

For the purpose of the Statement of Cash Flows, cash includes on hand and other funds held at call net of bank overdrafts.

### (f) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the company 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 (more than 60 days overdue) are considered indicators that the trade receivable may be 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.

### (g) Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of plant and equipment over their expected useful lives as follows:

| | |
|---|---|
| Plant and equipment | Less than 5 years |

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of plant and equipment is derecognised upon disposal or when there is no future economic benefit to theGroup. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

### (h) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

### (i) Employee benefits

*Short-term employee benefits*
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities 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.

*Other long-term employee benefits*
The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.. Consideration is given to expect 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 corporatebonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*Defined contribution superannuation expense*
Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

**(j) Issued capital**

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.

**(k) Earnings per share**

Basic earnings per share is calculated as net profit attributable to members of the Group, adjusted to exclude any costs of servicing equity, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the Group, adjusted for:
- costs of servicing equity;
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

**(l)** Comparative **Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.
Where the Group retrospectively applies an accounting policy, makes a retrospective restatement or reclassifies items in its financial statements, an additional (third) statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

**(m) Significant accounting judgements and key estimates**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing these statements, the key estimates made by management in applying the Company's accounting policies have been applied to the valuation of share-based payments, refer to note 14.

In preparing these financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty have been applied to the reverse acquisition, refer to note 19.

## 2. Segment information

Operating segments are presented using the 'management approach', where information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers (CODM). The CODM is responsible for the allocation of resources to operating segments and assessing their performance. The Group operates predominantly in one segment, being the sale of its pain assessment solutions. The primary financial statements reflects this segment.

## 3. Revenue

| | Consolidated | Consolidated |
|---|---|---|
| | 2019 | 2018 |
| | $ | $ |
| Subscription revenue – recognised over time | 135,017 | 24,420 |
| Interest income | 80,444 | 26,227 |
| **Total Revenue** | **215,461** | **50,647** |

## 4. Other income

| | Consolidated | Consolidated |
|---|---|---|
| | 2019 | 2019 |
| | $ | $ |
| Research & Development Rebates | 745,258 | 410,014 |
| Total Other Income | **745,258** | **410,014** |

## 5. Loss for the year

| | Consolidated | Consolidated |
|---|---|---|
| ***Loss for the year has been arrived at after charging the following items of expenses:*** | 2019 | 2018 |
| | $ | $ |
| *Corporate administration expenses* | | |
| Company secretary fees | 122,825 | 122,006 |
| Directors remuneration | 425,000 | 411,757 |
| Legal and professional fees | 79,832 | 81,247 |
| Share registry fees | 23,990 | 27,897 |
| Insurance expenses | 38,775 | 30,555 |
| Occupancy costs | 32,162 | 14,017 |
| Computer expenses | 12,365 | 59,430 |
| Other administration expenses | 751,497 | 451,402 |
| | **1,486,446** | **1,198,311** |

## 6. Income taxes relating to continuing operations

| | Consolidated | Consolidated |
|---|---|---|
| ***6.1 Income tax recognised in profit or loss*** | 2019 | 2018 |
| | $ | $ |
| Current tax expense/(income) | (1,067,948) | (1,336,159) |
| Deferred tax expense/(income) | 40,523 | 478,110 |
| Tax losses not recognised | 1,027,425 | 858,049 |
| **Total Tax expense/(income)** | - | - |

The income tax expense for the year can be reconciled to the accounting loss as follows:

| | Consolidated 2019 $ | Consolidated 2018 $ |
|---|---|---|
| Loss before tax from continuing operations | (3,262,418) | (4,810,532) |
| Income tax expense/(revenue) calculated at 27.5% (2018: 27.5%) | (897,165) | (1,322,896) |
| Effect of items that are not assessable/deductible in determining taxable loss: | | |
| Non-deductible expenses | 74,686 | 577,601 |
| Non-assessable income | (204,946) | (112,754) |
| Effect of unused tax losses not recognised as deferred tax assets | 1,027,425 | 858,049 |
| | - | - |

The tax rate used for the 2019 was 27.5% and 2018 was 27.5% to calculate the reconciliations above being the corporate tax rate payable by Australian corporate entities on taxable profits under Australian tax law in those years.

The Company has no franking credits available for recovery in future years.

### *6.2 Income tax recognised directly in equity*

| | Consolidated 2019 $ | Consolidated 2018 $ |
|---|---|---|
| ***Current tax*** | | |
| Share issue costs | (168,774) | (225,000) |
| ***Deferred tax*** | | |
| Share issue costs deductible over 5 years | - | - |
| | **(168,774)** | **(225,000)** |

### *6.3 Unrecognised deferred tax assets*

| | Consolidated 2019 $ | Consolidated 2018 $ |
|---|---|---|
| Unused tax losses (revenue) for which no deferred tax assets have been recognised | 2,963,360 | 2,410,949 |
| Temporary differences | 191,662 | 104,569 |

All unused tax losses were incurred by Australian entities.

This benefit for tax losses will only be obtained if the specific entity carrying forward the tax losses derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, and the Group complies with continuity of business / same business test and the conditions for deductibility imposed by tax legislation.

## 7. Loss per share

| | Consolidated 2019 $ | Consolidated 2018 $ |
|---|---|---|
| **Basic and diluted loss per share (cents per share)** | **(0.4)** | **(0.6)** |

The loss and weighted average number of ordinary shares used in the calculation of basic loss per share are as follows:

| | Consolidated 2019 $ | Consolidated 2018 $ |
|---|---|---|
| **Loss for the year attributable to the owners of the Company** | **(3,262,418)** | **(4,810,532)** |

| | Consolidated 2019 No. | Consolidated 2018 No. |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic and diluted loss per share | **838,403,530** | **800,935,009** |

Options on issue are considered to be anti-dilutive while the entity is making losses.

## 8. Trade and other receivables

| | Consolidated 2019 $ | Consolidated 2018 $ |
|---|---|---|
| Other receivables | 161,337 | 56,086 |
| Prepayments | 9,832 | 6,012 |
| | **171,169** | **62,098** |

At the reporting date, none of the receivables are past due.

## 9. Property, plant and equipment

| | Consolidated 2019 $ | Consolidated 2018 $ |
|---|---|---|
| ***Carrying amounts of*** | | |
| Computer Equipment – at cost | **15,716** | **4,384** |

| ***Cost*** | Consolidated 2019 $ | Consolidated 2018 $ |
|---|---|---|
| Balance at 1 July 2018 | 5,974 | 2,694 |
| Additions | 14,501 | 3,280 |
| Disposals | - | - |
| Balance at 30 June 2019 | **20,475** | **5,974** |

| ***Accumulated depreciation*** | Consolidated 2019 $ | Consolidated 2018 $ |
|---|---|---|
| Balance at 1 July 2018 | 1,590 | 150 |
| Depreciation expense | 3,169 | 1,440 |
| Disposals | - | - |
| Balance at 30 June 2019 | 4,759 | 1,590 |
| | | |
| **Net book value** | **15,716** | **4,384** |

## 10. Trade and other payables

| | Consolidated 2019 $ | Consolidated 2018 $ |
|---|---|---|
| Trade creditors | 202,054 | 286,969 |
| Contract liability | 20,000 | 7,410 |
| Accruals and other payables | 343,138 | 121,535 |
| | **565,192** | **415,914** |

Trade creditor payment terms are 30 days from end of month.

## 11. Provisions

| | Consolidated 2019 $ | Company 2018 $ |
|---|---|---|
| Provision for employee entitlements | 63,247 | 31,980 |

## 12. Subsidiaries

The consolidated financial statements include the financial statements of PainChek Limited and its subsidiary company Electronic Pain Assessment Technologies (EPAT) Pty Ltd.

## 13. Issued capital

| | Consolidated 2019 $ | Consolidated 2018 $ |
|---|---|---|
| Fully paid Ordinary shares | **17,755,759** | **13,710,033** |

| | Consolidated 2019 | | Consolidated 2018 | |
|---|---|---|---|---|
| | **No.** | **$** | **No.** | **$** |
| Balance at beginning of the reporting period | 837,634,587 | 13,710,033 | 674,423,049 | 8,502,533 |
| Issue of PainChek Ltd milestone shares from the acquisition | - | - | 38,461,538 | - |
| Issued pursuant to capital raising | 21,724,138 | 3,150,000 | 75,000,000 | 3,750,000 |
| Issued for part consideration of nViso licence | - | - | 31,250,000 | 1,312,500 |
| Issued on conversion of options | 47,300,000 | 1,059,500 | 18,500,000 | 370,000 |
| Capital raising costs | - | (168,774) | - | (225,000) |
| Balance at end of period | **906,658,727** | **17,750,759** | **837,634,587** | **13,710,033** |

Fully paid ordinary shares carry one vote per share and carry the right to dividends. Ordinary shares participate in the proceeds on winding up of the Company in proportion to the number of shares held.

## 14. Reserves

| Option reserve: | Consolidated 2019 $ | Consolidated 2018 $ |
|---|---|---|
| Balance at beginning of the reporting period | 3,088,014 | 2,742,842 |
| Issue of 45,000,000 Underwriter options | - | - |
| Issue of 90,198,155 Director options | - | 240,882 |
| Issue of 5,000,000 Employee options | 30,466 | 71,658 |
| Issue of 3,000,000 Employee options | 59,478 | 32,632 |
| Issue of 4,000,000 Employee options | 22,967 | - |
| **Total reserves at end of period** | **3,200,925** | **3,088,014** |

The purpose of this reserve is to recognise share-based payments.

Options issued during the period:

| **Options** | **Consolidated 2019** | | **Consolidated 2018** | |
|---|---|---|---|---|
| | **No.** | **$** | **No.** | **$** |
| Balance at beginning of the reporting period | 178,167,730 | 3,088,014 | 197,096,302 | 2,742,842 |
| Issue of director options | - | - | - | 240,882 |
| Issue of options to employees | 4,000,000 | 112,911 | 3,000,000 | 104,290 |
| Exercise of options | (47,300,000) | - | (18,500,000) | - |
| Balance at end of period | 134,867,730 | 3,200,925 | **178,167,730** | **3,088,014** |

### *14.1 Share-based payments*

**Options on Issue**

At the date of this report, the following options over new ordinary shares in the Company were on issue.

| Option series | Type | Date of Expiry | Exercise Price | Number under Option |
|---|---|---|---|---|
| 1 | Unlisted Options | 7 October 2019 | $0.025 | 20,700,000 |
| 2 | Unlisted Options | 7 October 2019 | $0.02 | 10,400,000 |
| 3 | Unlisted Options | 24 November 2019 | $0.02 | 90,198,155 |
| 4 | Unlisted Options | 3 October 2021 | $0.36 | 5,000,000 |
| 5 | Unlisted Options | 22 July 2022 | $0.726 | 3,000,000 |
| 6 | Unlisted Options | 9 November 2023 | $0.032 | 4,000,000 |
| 7 | Unlisted Options | 30 June 2023 | $0.25 | 14,310,345 |

The following share-based payment arrangements were in existence during and prior reporting periods:

| Option series | Number | Grant date | Total Value at Grant Date | Recognised as expense to 30 June 2018 | Exercise Price | Expiry date | Vesting date |
|---|---|---|---|---|---|---|---|
| | | | $ | $ | $ | | |
| 1 | 45,000,000 | 7 October 2016 | 522,000 | - | 0.025 | 7 October 2019 | 7 October 2016 |
| 2 | 90,198,155 | 23 November 2016 | 2,442,857 | 240,882 | 0.02 | 24 November 2019 | Various |
| 3 | 5,000,000 | 5 April 2017 | 138,925 | 71,658 | 0.036 | 3 October 2021 | Various |
| 4 | 3,000,000 | 22 January 2018 | 130,361 | 32,632 | 0.0726 | 22 July 2022 | Various |
| 5 | 4,000,000 | 9 May 2019 | 225,712 | | 0.032 | 9 November 2023 | Various |

There has been no alteration of the terms and conditions of the above share-based payment arrangements since the grant date.

### 1) Underwriter options

45,000,000 options were granted to the Underwriter pursuant to the Prospectus dated 25 August 2016. The fair value of the options at grant date are determined using a Black Scholes pricing method that takes into account the exercise price, the term of the option, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The following table lists the inputs to the model used for valuation of the unlisted options:

| Item | Inputs |
|---|---|
| Volatility (%) | 100% |
| Risk free interest rate (%) | 1.54% |
| Expected life of option (years) | 3.03 |
| Expected dividend yield | nil |
| Exercise price per terms and conditions | $0.025 |
| Underlying security price at grant date | $0.020 |
| Expiry date | 7 October 2019 |
| Value per option | $0.0116 |

### 2) Director options

90,198,155 options were granted to the Directors as approved by shareholders at the annual general meeting on 23 November 2016. The fair value of the options at grant date are determined using a Black Scholes pricing method that takes into account the exercise price, the term of the option, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The following table lists the inputs to the model used for valuation of the unlisted options:

| Item | Inputs |
|---|---|
| Volatility (%) | 100% |
| Risk free interest rate (%) | 1.54% |
| Expected life of option (years) | 3.003 |
| Expected dividend yield | Nil |
| Exercise price per terms and conditions | $0.020 |
| Underlying security price at grant date | $0.037 |
| Expiry date | 24 November 2019 |
| Value per option | $0.0271 |

The options issued to directors are to vest as follows:

1. One third after one year of service.
2. One third after the Company makes an announcement that Regulatory Approval to enable commercial use of the PainChek App in Australia, the United States or Europe is received, or the Company has announced the execution of a binding licence agreement to licence the PainChek App to:
   a. one or more residential aged care facilities facility owners managing in total in excess of 150 beds; or
   b. one or more medical clinics which service in total in excess of 2,000 patients per year; or
   c. a metropolitan hospital with in excess of 200 beds;
   (each an “End User”);
   d. or a global distribution partner with multiple End Users as existing customers.
3. One third upon the Company generating cumulative revenue of $1,000,000.

**3) Employee options**

5,000,000 options were granted to an employee on 5 April 2017. The fair value of the options at grant date are determined using a Black Scholes pricing method that takes into account the exercise price, the term of the option, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The following table lists the inputs to the model used for valuation of the unlisted options:

| Item | Inputs |
|---|---|
| Volatility (%) | 100% |
| Risk free interest rate (%) | 1.95% |
| Expected life of option (years) | 4.5 |
| Expected dividend yield | Nil |
| Exercise price per terms and conditions | $0.036 |
| Underlying security price at grant date | $0.038 |
| Expiry date | 3 October 2021 |
| Value per option | $0.0278 |

**4) Employee options**

3,000,000 options were granted to an employee on 22 January 2018. The fair value of the options at grant date are determined using a Black Scholes pricing method that takes into account the exercise price, the term of the option, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The following table lists the inputs to the model used for valuation of the unlisted options:

| Item | Inputs |
| --- | --- |
| Volatility (%) | 100% |
| Risk free interest rate (%) | 1.95% |
| Expected life of option (years) | 4.5 |
| Expected dividend yield | Nil |
| Exercise price per terms and conditions | $0.0726 |
| Underlying security price at grant date | $0.062 |
| Expiry date | 22 July 2022 |
| Value per option | $0.0434 |

25 % of the options issued to the employees vest after 12 months employment and balance in quarterly instalments over the next 3 years, subject to continued full time employment (i.e. Fully vested after 4.5 years employment).

**5) Employee options**

4,000,000 options were granted to employees on 9 May 2019. The fair value of the options at grant date are determined using a Black Scholes pricing method that takes into account the exercise price, the term of the option, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The following table lists the inputs to the model used for valuation of the unlisted options:

| Item | Inputs |
| --- | --- |
| Volatility (%) | 100% |
| Risk free interest rate (%) | 1.48% |
| Expected life of option (years) | 4.5 |
| Expected dividend yield | Nil |
| Exercise price per terms and conditions | $0.032 |
| Underlying security price at grant date | $0.069 |
| Expiry date | 9 November 2023 |
| Value per option | $0.0564 |

25 % of the options issued to the employees vest after 12 months employment and balance in quarterly instalments over the next 3 years, subject to continued full time employment (i.e. Fully vested after 4.5 years employment).

### *14.2 Movements in share options during the year*

The following reconciles the share options outstanding at the beginning and end of the year:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| | No. | $ | No. | $ |
| Balance at beginning of the year | 178,167,730 | 0.0225 | 197,096,302 | 0.022 |
| Existing PainChek Limited shares on acquisition | | | | |
| Granted during the year | 14,862,069 | 0.1913 | 3,000,000 | 0.0726 |
| Forfeited during the year | - | - | - | - |
| Exercised during the year | (47,300,000) | 0.225 | (18,500,000) | 0.020 |
| Expired during the year | (969,575) | 0.175 | (3,428,572) | 0.07875 |
| Balance at end of year | **144,760,224** | **0.04** | **178,167,730** | **0.0225** |
| Exercisable at end of year | **106,131,672** | **0.0454** | **141,351,678** | **0.0217** |

**Share options exercised during the year**

47,300,000 share options were exercised during the year (2018: 18,5000,000).

**Share options outstanding at the end of the year**

The share options outstanding at the end of the year had a weighted average exercise price of $0.04 and a weighted average remaining contractual life of 291 days (2018: 523)

## 15. Financial instruments

### *15.1 Capital management*

The Group manages its capital to ensure entities in the Group will be able to continue as going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2018.

The Group is not subject to any externally imposed capital requirements.

Given the nature of the business, the Group monitors capital on the basis of current business operations and cash flow requirements.

### *15.2 Categories of financial instruments*

| | Consolidated 2019 $ | Consolidated 2018 $ |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 4,562,476 | 3,606,115 |
| Trade and other receivables | 163,410 | 56,086 |
| | **4,725,886** | **3,622,201** |
| **Financial liabilities** | | |
| Trade and other payables | 545,1932 | 408,504 |
| | **545,193** | **408,504** |

The fair value of the above financial instruments approximates their carrying values.

### *15.3 Financial risk management objectives*

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of those risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function.

The Group's risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the Group where such impacts may be material. The board receives monthly financial reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The overall objective of the board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

### *15.4 Market risk*

Market risk for the Group arises from the use of interest bearing financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rate (see 15.5 below).

### *15.5 Interest rate risk management*

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end on the reporting period.

*Interest rate sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end on the reporting period.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 30 June 2019 would increase/decrease by $45,00 (2018: $36,000).

### *15.6 Credit risk management*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

### *15.7 Liquidity risk management*

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity by maintaining adequate banking facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

| | | Contractual cash flows | | | | |
|---|---|---|---|---|---|---|
| | **Carrying Amount** | **Less than 1 month** | **1-3 months** | **3-12 months** | **1 year to 5 years** | **Total contractual cash flows** |
| | **$** | **$** | **$** | **$** | **$** | **$** |
| **2019** | | | | | | |
| Trade and other payables | 545,193 | 545,193 | - | - | - | **545,193** |
| **2018** | | | | | | |
| Trade and other payables | 408,504 | 408,504 | - | - | - | **408,504** |

## 16. Key management personnel

The aggregate compensation made to directors and other members of key management personnel of the Company is set out below:

| | **Consolidated** | **Consolidated** |
|---|---|---|
| | **2019** | **2018** |
| | $ | $ |
| Short-term employee benefits | 626,923 | 538,604 |
| Post-employment benefits | 33,402 | 35,777 |
| Share-based payments | - | 240,883 |
| | **660,325** | **815,264** |

## 17. Related party transactions

### *17.1 Entities under the control of the Group*

On 23 September 2016 the Company completed the 100% acquisition of Electronic Pain Assessment Technology (EPAT) Pty Ltd.

| | **Country of Incorporation** | **Perecentage Owned (%)*** | |
|---|---|---|---|
| | | **2019** | **2018** |
| Parent Entity: PainChek Ltd | Australia | | |
| Acquisitions:<br>Electronic Pain Assessment Technology (EPAT) Pty Ltd | Australia | 100% | 100% |

*Percentage of voting power is proportional to ownership

### 17.2 *Key management personnel*

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered key management personnel.

For details of disclosures relating to key management personnel, refer to the remuneration report contained in the directors' report and note 14.

### 17.3 *Other related party transactions*

All transactions between the Group and related parties are on an arms-length basis.

## 18. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

| | Consolidated 2019 $ | Consolidated 2018 $ |
|---|---|---|
| Cash and bank balances | 4,562,476 | 3,606,115 |

### 18.1 *Reconciliation of loss for the year to net cash flows from operating activities*

| | Consolidated 2019 $ | Consolidated 2018 $ |
|---|---|---|
| **Cash flow from operating activities** | | |
| Loss for the year | (3,262,418) | (4,810,532) |
| Adjustments for: | | |
| License – issue of securities | - | 1,312,500 |
| Depreciation | 3,169 | 4,032 |
| Share based payments | 112,911 | 409,094 |
| Corporate restructure expense | - | - |
| Movements in working capital | | |
| (Increase)/decrease in other receivables | (105,251) | (33,126) |
| (Increase)/decrease in prepayments | (3,820) | 6,260 |
| Increase/(decrease) in trade and other payables | 149,280 | 246,411 |
| Increase in provisions | 31,267 | 16,251 |
| **Net cash outflows from operating activities** | **(3,074,863)** | **(2,913,033)** |

## 19. Commitments and contingencies

As per the Research Services Agreement with Curtin University of Technology, dated 7th March 2019, the Company has agreed to Fees, payable in equal monthly instalments in accordance with a payment schedule. The remaining commitment is $90,284 is due in less than 12 months.

## 20. Remuneration of auditors

***Auditor of the parent entity***

| | Consolidated 2019 $ | Consolidated 2018 $ |
|---|---|---|
| Audit and review of the financial statements | 36,870 | 34,275 |
| Other non-audit services | - | - |
| | **36,870** | **34,275** |

The auditors of PainChek Ltd are BDO Audit Pty Ltd.

## 21. Events after the reporting period

The 2nd tranche of $1,000,000 of the placement totalling $4,150,000 announced to ASX on June 2019 settled on 29 July 2019 with issue of 6,896,552 ordinary shares and 3,448,276 options exercisable at $0.25 per share, expiring 30 June 2022.

Otherwise, no matters or circumstances have arisen since the end of the year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

## 22. Parent entity information

The accounting policies of the parent entity, which have been applied in determining the 2019 financial information shown below, are the same as those applied in the financial statements. Refer to note 3 for a summary of significant accounting policies relating to the Group.

***Financial position of PainChek Limited (Legal Parent)***

| | 2019 $ | 2018 $ |
|---|---|---|
| **Assets** | | |
| Current assets | 4,584,663 | 3,615,662 |
| Non-current assets | 15,716 | 4,384 |
| Total assets | **4,600,3779** | **3,620,046** |
| **Liabilities** | | |
| Current liabilities | 352,059 | 206,307 |
| Provisions | 63,247 | 31,980 |
| Non-current liabilities | - | - |
| Total liabilities | 415,306 | 238,287 |
| Net assets | **4,185,073** | **3,381,759** |
| | | |
| **Equity** | | |
| Issued capital | 26,510,464 | 22,464,739 |
| Reserves | 3,239,937 | 3,127,026 |
| Accumulated losses | (25,565,328) | (22,210,006) |
| Total equity | **4,185,073** | **3,381,759** |
| | | |
| ***Financial performance*** | | |
| Loss for the year | **(1,439,092)** | **(4,698,817)** |

## 23. Approval of financial statements

The financial statements were approved by the board of directors and authorised for issue on 28 August 2019.

# DIRECTORS DECLARATION

1. The Directors of the Company declare that:

   a. the accompanying financial statements and notes are 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 2019 and of its performance for the year then ended; and

      ii. complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements.

   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

   c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2019.

This declaration is signed in accordance with a resolution of the Board of Directors.

John Murray
Chairman
28 August 2019

Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
www.bdo.com.au

Level 10, 12 Creek St
Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
Australia



# INDEPENDENT AUDITOR'S REPORT

To the members of PainChek Limited

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of PainChek Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other 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 report, 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 2019 and of its financial performance for the year ended on that date; 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 *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time 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.

### Material uncertainty related to going concern

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

## 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.

### Revenue recognition and measurement

| ***Key audit matter*** | ***How the matter was addressed in our audit*** |
| --- | --- |
| Refer to Note 3 of the financial report and Note 1 for the accounting policy.<br>Revenue recognition was identified as a key audit matter because:<br>• the assessment of revenue recognition and measurement required significant auditor effort; and<br>• the Group changed its accounting policy on revenue recognition for the initial adoption of the new revenue accounting standard AASB 15 *Revenue from Contracts with Customers*. | Our audit procedures included, amongst others:<br>• Assessing the revenue recognition accounting policy for compliance with AASB 15 *Revenue from Contracts with Customers*<br>• For a sample of contracts, reviewing the terms and conditions to ensure the revenue was recognised in accordance with the revenue recognition accounting policy<br>• Agreeing a sample of revenue transactions to supporting documentation such as invoices and receipts<br>• Performing analytical procedures to understand movements and trends in revenue against our expectations<br>• Assessing the adequacy of the Group's disclosures within the financial statements. |

## 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 2019, 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.

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 this other information, we are required to report that fact. We have nothing to report in this regard.

BDO

**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 ability of the group 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 has 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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

## Report on the Remuneration Report

**Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 4 to 11 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of PainChek Limited, for the year ended 30 June 2019, 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.

**BDO Audit Pty Ltd**

BDO

**C R Jenkins**
Director

Brisbane, 28 August 2019