4DMedical™

2021 Annual Report

A year of rapid transition
and significant expansion

Our vision

We believe in a world where people with lung disease have better outcomes and more hope.

Our mission is to improve global health by providing unique and non-invasive imaging technologies that enable unprecedented insight into pulmonary functioning, critical in the analysis and management of respiratory diseases.

Contents

Chairman's letter

On behalf of the board of directors of 4DMedical Limited, I am pleased to present the 2021 Annual Report of 4DMedical Limited for the year ended 30 June 2021 (FY21).

4DMedical reported a net cash balance of $80.9 million at 30 June 2021, up 860%, with no debt. Total income was recorded as $5.8 million, up 71%, which comprised operating revenue of $0.2 million and other income of $5.6 million. The Company reported a net loss after tax of $21.4 million, down 3% from the previous year. Due to increased headcount and R&D expenditure, operating expenditure was $24.5 million, up 52%.

Against an ambitious strategy, 4DMedical has made significant progress starting with its admission to the official list of the Australian Securities Exchange (ASX) on 7 August 2020. The Company's heavily oversubscribed $55.8 million Initial Public Offering (IPO), which raised $50.0 million of new capital, was a monumental success following years of planning and many months of hard work by the 4DMedical team.

The Board was extremely pleased with the IPO's strong support from both new and existing institutional and retail investors. The proceeds were quickly put to use to enhance the Company's sales and marketing capability in the U.S., establish numerous clinical trials

to drive market penetration, and continue research and development investment into the product portfolio.

The Board was again delighted with investors' support for the Company's $46.0 million institutional placement and Share Purchase Plan announced in March 2021, following the award of $28.9 million in funding over five years to 4DMedical's wholly owned subsidiary, Australian Lung Health Initiative Pty Ltd, by the Australian Federal Government's Medical Research Future Fund (MRFF) Frontier initiative. Given the outstanding investor response to the SPP, which received 1,873 applications totalling approximately $32.0 million of demand, the Board exercised its discretion to double the initial SPP offer to $6.0 million.

The proceeds received from the MRFF grant, and the majority from the associated capital raising, will be used to develop and commercialise the XVD Scanner™ – the world's first dedicated lung scanner integrated with XV Technology™. A portion of the capital raised will also be applied to additional balance sheet flexibility, enabling the Company to pursue potential future growth opportunities.

COVID-19 has undoubtedly had a significant impact on the global business landscape during the year. For 4DMedical, the imposed restrictions temporarily limited access to key decision makers in U.S. hospitals, however I am pleased to report this barrier significantly eased in the second half of the year. With experience gained from implementing remote working practices across two continents, the Company embraced the challenge without any significant detriment to its strategy. Combined with the Company's strong cash position, 4DMedical is well placed to sustain future performance.

During the course of the year, as 4DMedical matured as a listed entity, the Company actively developed existing, and implemented new corporate governance structures to foster a culture of integrity, aligning the interests of shareholders, employees and other stakeholders, through the promotion of accountability and transparency for sustainable value creation.

I would like to take this opportunity to thank my fellow directors, our Managing Director and CEO, and our global 4DMedical team for their resolute effort and dedication during such a unique period. I would also like to extend our gratitude to our shareholders for their investment and continued encouragement throughout the reporting year.

Faithfully,

Mr Bruce Rathie
Non-Executive Director and Chairman

Managing Director & Chief Executive Officer's letter

This reporting period has been a year of rapid transition and significant expansion for 4DMedical: technologically, organisationally, financially and in terms of impact through clinical translation.

I am excited to share with you the details of a year of rapid transition and significant expansion for 4DMedical – technologically, organisationally, financially and in terms of impact through clinical translation.

The establishment of clinical trials and clinical pilots was a key focus over the year, given their role in driving adoption of XV Technology™ by delivering additional evidence of clinical application and benefits for specific indications. At financial year end, the Company had eight clinical trials active at the most prominent medical institutions across the U.S., including Johns Hopkins School of Medicine and Vanderbilt University Medical Center.

Led by Professor Naresh Punjabi, our Functional Lung Imaging Research Program in partnership with the University of Miami, has been highly influential in securing clinical trials at other key opinion leading institutions. We anticipate the results of our clinical trials will become available in medical journals and key medical conferences.

Following 4DMedical's IPO and listing on ASX, the Company was pleased to receive TGA Class 1 approval[1] for our XV Lung Ventilation Analysis Software (XV LVAS™), earlier than anticipated in September 2020.

Having already received FDA-510(k) clearance in May 2020, the extension of TGA approval enabled the Company to commence commercialisation activities at home, in Australia.

Subsequent to the financial year, we announced the completion of our Phase One clinical pilot with I-MED Radiology Network, Australia's largest out-patient medical imaging provider. Having so far received an overwhelmingly positive response from radiologists, Phase Two will be conducted over the remainder of the calendar year and has the potential to lead to a significant commercial contract if successful.

We have continued to invest heavily into our future product pipeline. The first clinical trial for our VQ offering has recently commenced patient imaging, and has the potential to become a faster, safer and more convenient alternative to nuclear medicine scans. With a vote of confidence from the Australian Government and international scientific review panels via the MRFF grant, we have hired several staff that will be involved in developing XVD Scanners at our new advanced manufacturing facility located in Port Melbourne, Australia. We anticipate that major milestones for both our VQ offering and XVD Scanner will be delivered during calendar year 2022.

Over the next 12 months, 4DMedical's focus will be on converting clinical pilots and securing commercial contracts with hospitals. The sales team has identified and progressed customer conversations with numerous hospitals, including U.S. Department of Veterans Affairs (VA) healthcare facilities. The VA is the United States' largest integrated healthcare provider operating 1,255 healthcare facilities. The Company recently secured a commercial contract with Novartis for XV LVAS, representing a key milestone for pharmaceutical application, and demonstrating the breadth of the excitement in XV.

As previously mentioned, we are continuing to assess opportunities for our technology to improve current practices related to COVID-19. Given the limited radiation, low cost and completeness of report outputs, our technology is particularly suitable for assessment, treatment and management pathways for patients post-diagnosis.

Having more than doubled the size of our workforce to 95 employees during the year, combined with our current cash position, 4DMedical is well placed to disrupt the global lung diagnostics market. I am extremely proud of our team's achievements over FY21 and have never been more excited by the future prospects of 4DMedical's technology and its impact on improving the health and happiness of so many people.

Faithfully,

Dr Andreas Fouras
Managing Director and Chief Executive Officer

[1] Approval for inclusion in the Australian Register of Therapeutic Goods (ARTG).

Highlights

FY21

Cash reserves

▲ 860% vs PY

$80.88m

Total Income

▲ 71% vs PY

$5.77m

Includes:

$4.07m
R&D tax credits

$1.26m
Total grant income

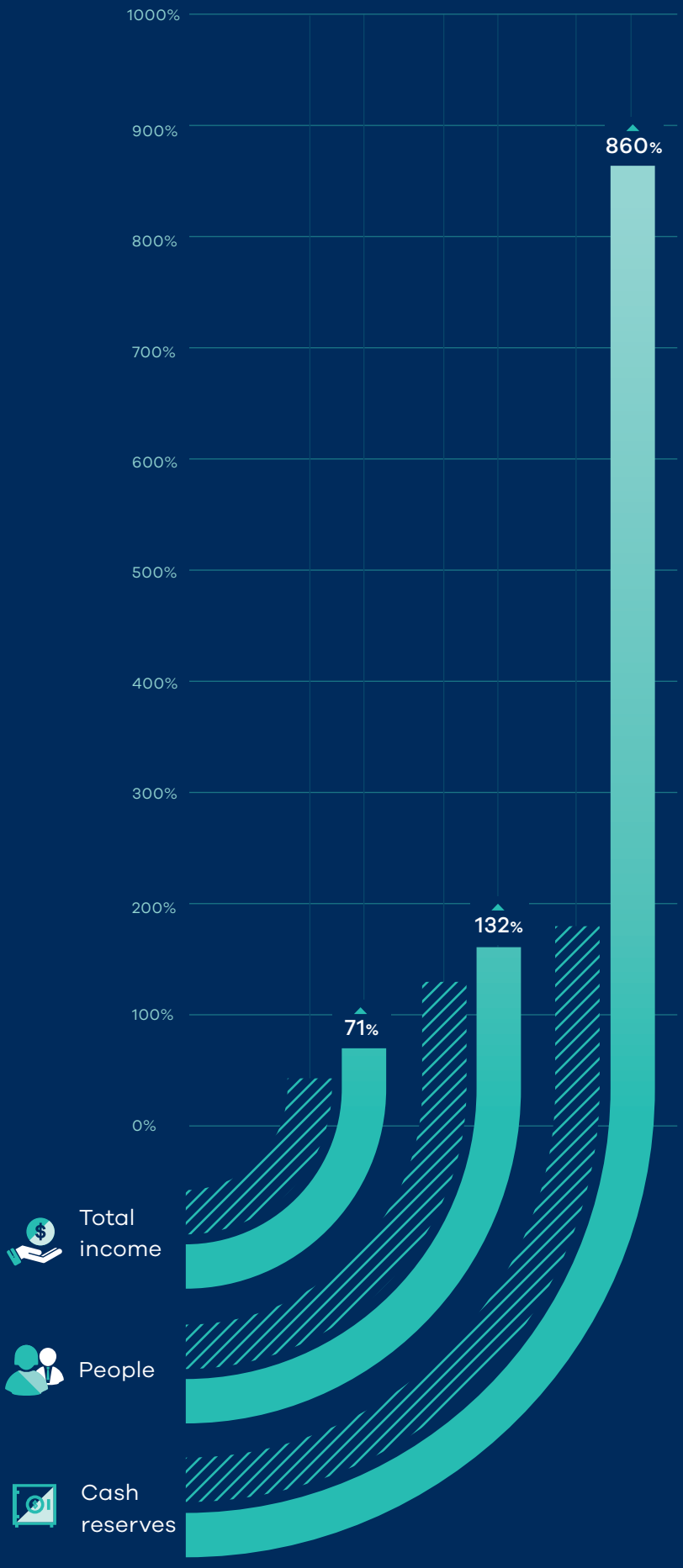
$0.22m
Other income

Our people

▲ 132% vs PY

95

54 additional staff in FY21



PY = Prior Year

Listed on Australian Securities Exchange Aug 2020

TGA approved Sep 2020

Sales revenue

$0.22m

▼ 82% vs PY

Operating costs

$24.46m

▲ 52% vs PY

Loss after taxes

$21.42m

▼ 3% vs PY

$28.9m MRFF grant over 5 years and $46.0m Placement and Share Purchase Plan to support development of

World's first dedicated lung scanner (XVD)

IPO & year in review

Our successful Initial Public Offering (IPO) and official admission to the Australian Securities Exchange (ASX) on 7 August 2020 marked one of the Company's most significant milestones since launching in 2013.

Capital raising highlights

August

$55.8m

IPO and successful listing on ASX
($50m of new capital)

March

$40.0m

Raised via Placement

April

$6.0m

Raised via Share Purchase Plan

Year in review

May
Received FDA clearance for XV LVAS for all respiratory indications

August
Successful IPO and listing on the ASX, raising $50 million of new capital

September
Received TGA approval for XV LVAS for all respiratory indications

October
AusIndustry approved Finding to receive tax credits for up to 43.5% of eligible overseas R&D expenditure

November
Secured research partnership with University of Miami in the U.S.

December
First commercial use of XV LVAS to a patient based in Victoria, Australia

Despite uncertainty due to the global pandemic, the IPO was successfully completed, with the Company's shares opening for trade at more than double the prospectus Offer Price and raising $50m of new capital.

4DMedical joined approximately 2,200 ASX-listed companies in Australia via a virtual bell-ringing ceremony, and moved to expand efforts in sales and marketing, operations, research and development and other key business areas.

A further capital raising event took place in March 2021 by way of a $46.0m Placement and Share Purchase Plan (SPP), the proceeds of which will primarily be used to finance the Company's contribution to support ALHI's MRFF Frontier initiative (more page 20), and flexibility to pursue growth opportunities.

For information regarding the Company's corporate governance statement, please refer to page 87.

21 Dec 2020

Added to S&P/ASX All Technology Index

22 Mar 2021

Added to All Ordinaries Index

January
Secured first clinical pilot for XV LVAS at St. Joseph Hospital in the U.S.

February
ALHI awarded $28.9m of funding under MRFF Frontier initiative

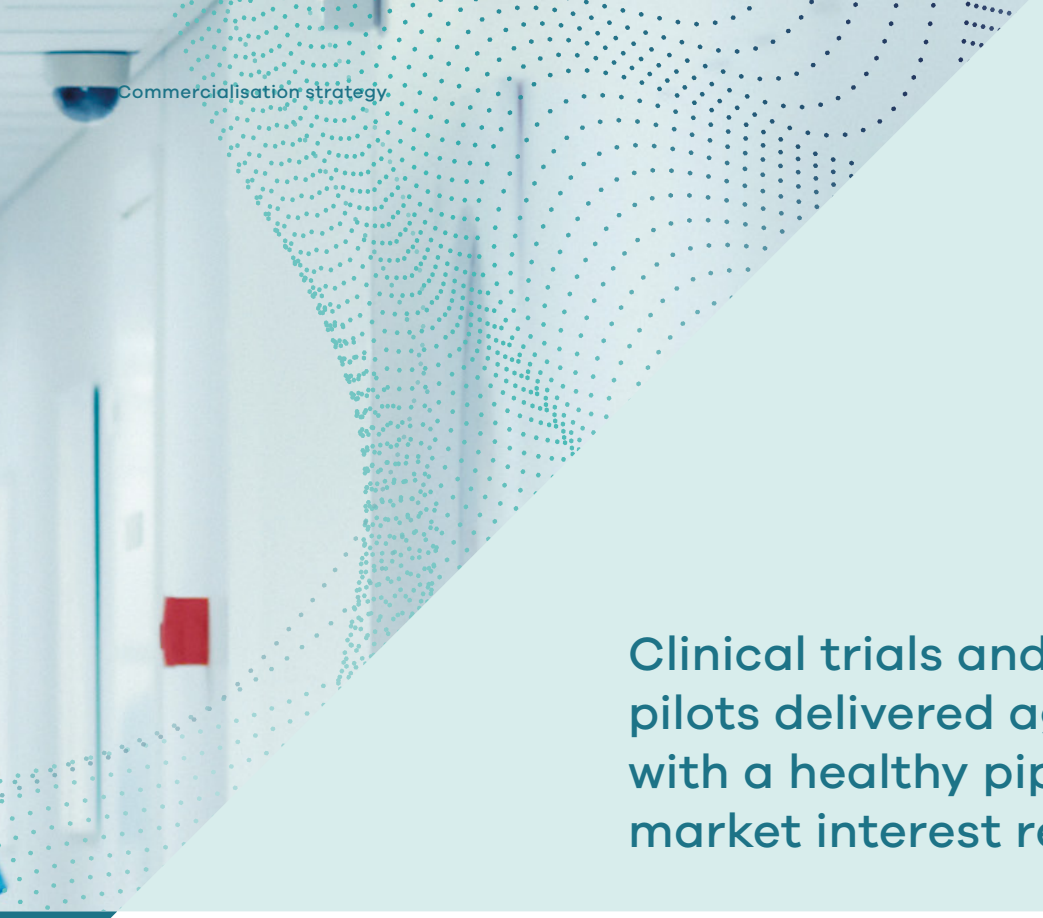
March
Streamlined access to U.S. Department of Defense & Veterans Affairs contracts

May
Commenced first clinical trial for contrast-free Ventilation Perfusion (VQ) product

June
Commenced XV LVAS clinical trial at Johns Hopkins, bringing the total number of active trials to eight

Commercialisation strategy

Our go-to-market bid was launched with regulatory approval in hand, and our focus set on our two key success pillars



Clinical trials and commercial pilots delivered against strategy, with a healthy pipeline of market interest resulting.

Our success pillars

Pillar 1 – Clinical trials
Pillar 2 – Commercial pilots

Commercialisation roadmap

Clinical trials		Commercial pilots
Eminent researchers & institutes	1 **Build relationships**	Respiratory specialists & physicians
Commence clinical trials	2 **Active scanning**	Commence commercial pilots
Peer reviewed medical manuscripts	3 **Publish results**	Post-pilot reports
Present at medical conferences	4 **Stakeholder engagement**	Commercial services agreement
Grow market confidence	5 **Uptake & growth**	Commence service at clinics

Clinical trial milestones

Site/Indication	Product	1 Agreement executed	2 Study design approved	3 Budget approved	4 IRB approved	5 Patient recruitment	6 First imaging	7 Final imaging	8 Study complete
Cleveland Clinic Pulmonary Hypertension	VQ	●	●	●	●	5			
Duke University Lung Transplant	XV LVAS	●	●	●	●	●	6		
Vanderbilt University Constrictive Bronchiolitis	XV LVAS	●	●	●	●	●	6		
Johns Hopkins COPD	XV LVAS	●	●	●	●	●	6		
OHSU COPD	XV LVAS	●	●	●	●	●	6		
University of Miami COPD	VQ	●	●	●	●	●	6		
University of Miami COPD	XV LVAS	●	●	●	●	●	6		
Johns Hopkins Paediatric Cystic Fibrosis	XV LVAS	●	●	●	●	5			

Abbreviations: OHSU: Oregon Health & Science University, COPD: Chronic Obstructive Pulmonary Disease, VQ: Ventilation Perfusion Scan, XV LVAS: X-ray Velocimetry Lung Ventilation Analysis Software.
As at 30 June 2021.

More detail on clinical trials progress

Clinical trials gain momentum despite COVID-19 challenges

Our clinical trials program had major wins despite the ongoing COVID-19 challenge – with investigations into a range of use cases growing the body of scientific evidence to help drive market uptake. Three top U.S. hospitals were among the growing list of research collaborators who progressed work under our clinical trials program.

Globally recognised as thought leaders in pulmonary medicine validating important pathogenic mechanisms and therapeutic pathways, Johns Hopkins, Cleveland Clinic and Mayo Clinic have joined us in clinical research collaboration, among others who use our XV LVAS software.

Preclinical research progress

4DMedical Centre of Excellence in preclinical models was launched at the Cleveland Clinic, Ohio.

Preclinical program expanded to include new U.S. National Institutes of Health funded 4DMedical scanner acquisition in tertiary institutions.

Partnerships

Major partnership with University of Miami

The Functional Lung Imaging Research Program at University of Miami Health System and the Leonard M. Miller School of Medicine formed a collaboration between 4DMedical and the Division of Pulmonary, Critical Care, and Sleep Medicine in the Department of Medicine.

Led by Professor Naresh M. Punjabi, the research partnership moved ahead with two clinical trials during FY21, resulting in our XV LVAS and Ventilation Perfusion (VQ) trials both advancing to active patient scanning.

A multi-disciplinary Centre of Excellence in Functional Lung Imaging was launched, which will include work into the verification and validation of 4DMedical's VQ technology. Our Permetium Duo scanner will be utilised in preclinical studies, combined with clinical studies to identify ventilatory abnormalities in various respiratory conditions.

Work with the group also provided for medical education on functional lung imaging in translational medicine and clinical applications to be presented at major conferences.

Medical education

Medical education and conference attendance supported the growth of our commercial pipeline of opportunity.

9
Key events attended

15k+
Conference attendees

Conferences Attended:

American Thoracic Society (ATS), Sep 20, May 21

European Respiratory Society (ERS), Sep 20

California ATS, Sep 20

American College of Chest Physicians (CHEST), Oct 20

Association of Military Surgeons of the United States, Dec 20

Resus-X, Oct 20

Radiological Society of North America (RSNA), Dec 20

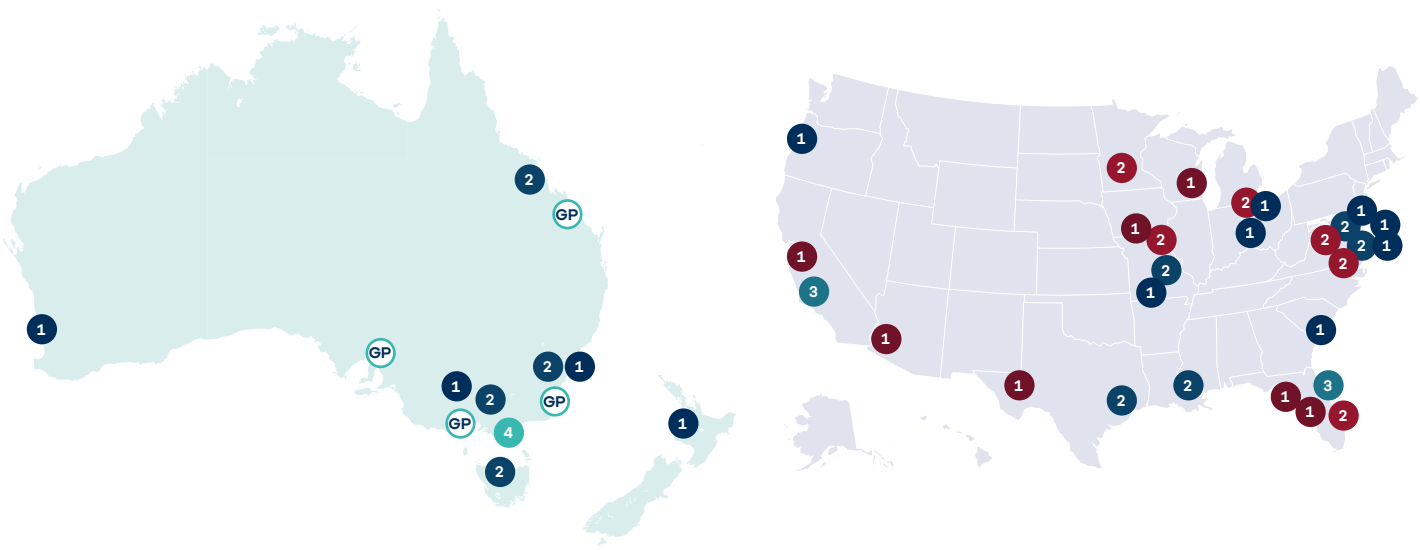
Thoracic Society of Australia and New Zealand (TSANZ), May 21

Events	Topic presented
Physician-Patient Alliance for Health & Safety white paper	Delays during COVID-19 in respiratory diagnosis highlighting the need for safer pulmonary lung function testing
Virtual Crittenden Medical Insurance Conference (2020)	Risks and liabilities of delayed diagnosis during COVID-19: Survey finds lung function testing has decreased during COVID-19
American College of Chest Physicians (CHEST) annual conference (Oct 2020)	Detecting regional changes in lung function following radiation therapy using X-ray velocimetry
American Thoracic Society (ATS) webinar (Feb 2021)	Functional Lung Imaging: Translational Medicine and Clinical Applications
Thoracic Society of Australia and New Zealand (TSANZ) (May 2021)	First-in-human X-ray velocimetry (XV) for quantification of regional lung function demonstrates superior sensitivity over spirometry and computed tomography

Clinical pilot pipeline

Hospital network

Veterans Affairs Hospital Network



Overview

Clinical pilot opportunities grew along with the expansion of our sales and marketing team and the activation of our commercialisation strategy.

The U.S. team had early wins, with the first commercial pilot agreement signed with St Joseph Hospital in January 2021, and the developing pipeline of opportunity realised through attendance at numerous key industry events including the American Thoracic Society 2021 International Conference, and ongoing sales activity.

Our ANZ Sales and Marketing team came on-board in March 2021 and delivered a successful TSANZ event in May 2021. This engaged numerous key opinion leaders and prospects – and led to the development of several pilot opportunities across Australia and New Zealand, to provide physicians with practical exposure to 4DMedical technology.

With early pilot observations showing high levels of clinical correlation and clinical utility informing the management and care pathway of patients, the market continued to provide positive signs of demand.

Pilot stages

1 1
Pilot in development

2 2
Pre-pilot agreement

3 3
Pilot agreement executed/active

4 4
Post pilot reporting

GP
Primary care project

Veterans Affairs opportunity

Largest U.S. integrated health care system

170+ medical centres

9m veterans

Veterans Health Administration

We established key relationships with the U.S. Veterans Health Administration network on a range of political advocacy, research, and service provision outcomes, to drive commercial progress.

In March 2021, XV LVAS was included in a Veterans Affairs (VA) and U.S. Department of Defense (DoD) NASA Solution for Enterprise-Wide Procurement (SEWP) contract. This provided a pre-determined sliding scale for scan pricing without the need for separate reimbursement, and covered all VA hospitals and DoD medical facilities.

On the back of the agreement, commercial pilot sites were verified to ensure suitable imaging hardware was in place across a range of VA administrative regions in the U.S., with promising progress to secure potential pilot partners.

The Veterans Integrated Services Networks requested 4DMedical acquire national approval for all VA hospitals to connect to our SaaS workflow platform enabling use of our XV Technology.

Successful clinical pilots will see the technology commercially adopted on the terms specified in the NASA SEWP contract.

Clinical trial underway

A clinical trial commenced at Vanderbilt VA hospital in Nashville, focusing on burn pit victims: personnel exposed to the toxic open-air burn of a variety of materials.

With patient scanning underway, initial trial results were positive and potential exists for the scope of the trial to be expanded.

Supporting VA burn pit research

On 10 March 2021, a U.S. Senate Committee heard from veterans' lung health expert Dr Anthony Szema, regarding military toxic exposures. Dr Szema referred to 4DMedical as, "the source of expertise" for non-invasive ventilation testing as part of an effective and agile response to the burn pits issue. Work commenced to identify imaging sites to support a clinical pilot.

4DMedical added support to sponsors of the Honouring our Promise to Address Comprehensive Toxics Act introduced to the U.S. House of Representatives on 17 June 2021.

Healthy control sample

Healthy lungs reveal a relatively even pattern of ventilation through each phase point (PP) of the breath, along with relatively low ventilation heterogeneity and defect percentages.

Histograms also reveal a relatively even inhalation and exhalation pattern.

Tidal volume

0.68L

The volume of air inhaled from start inspiration to peak inspiration.

Ventilation heterogeneity (%)

41.39

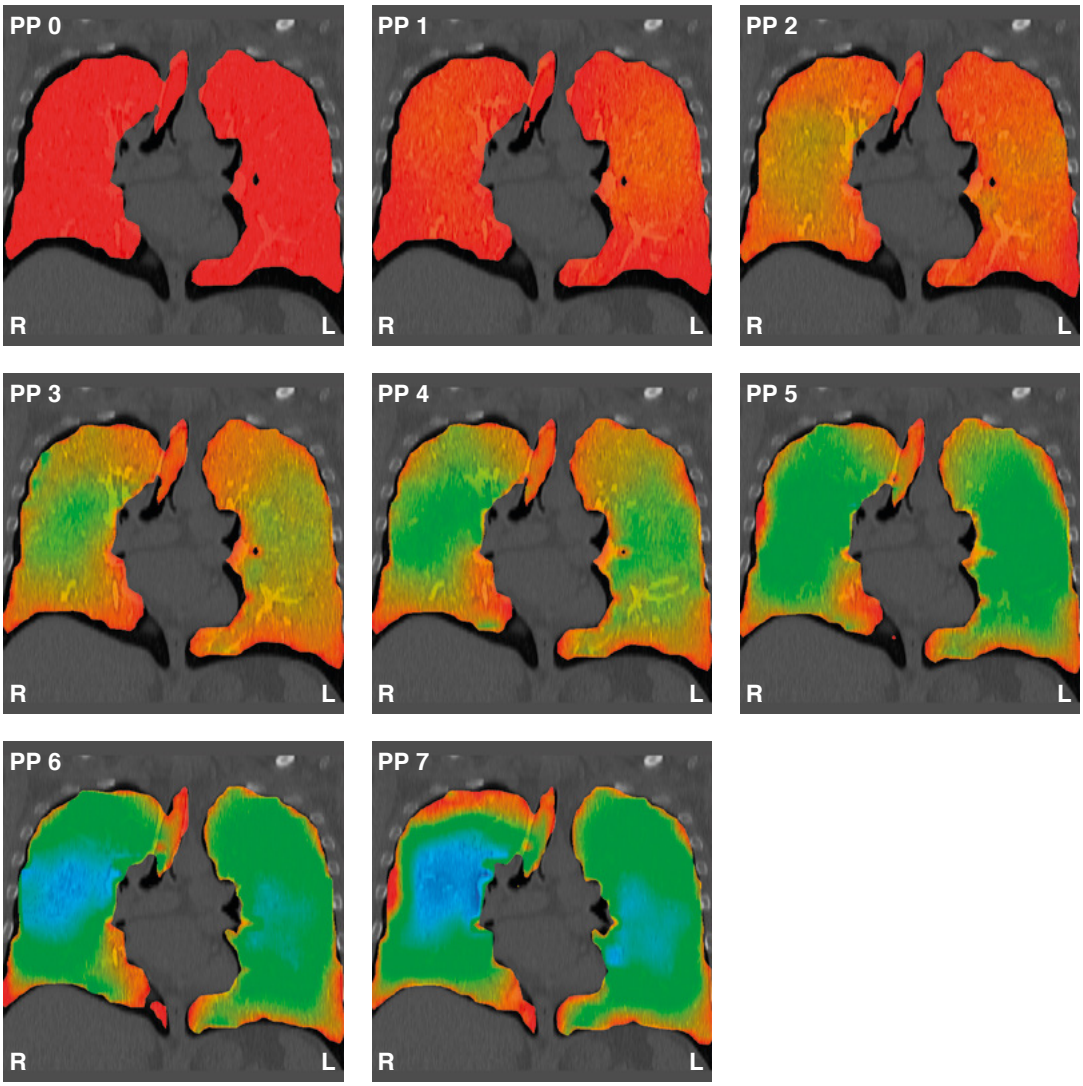
A quantification of the regional variability of the ventilation.

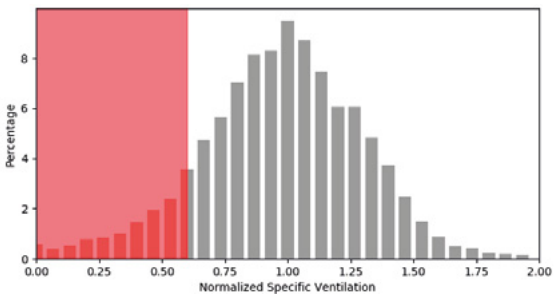
Ventilation defect percentage

10.4%

The frequency distribution of regional specific ventilation measured across the entire lung, at peak inspiration.

Coronal Mid-plane: Regional Ventilation Visualisations Across Phase Points (PP)



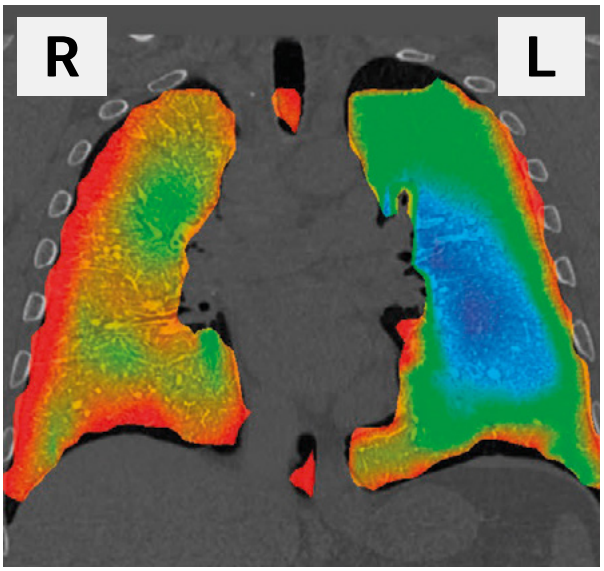


PP 7 represents peak inspiration

Clinical case studies

Our case studies revealed new insights not previously available to clinicians, using our XV LVAS technology.

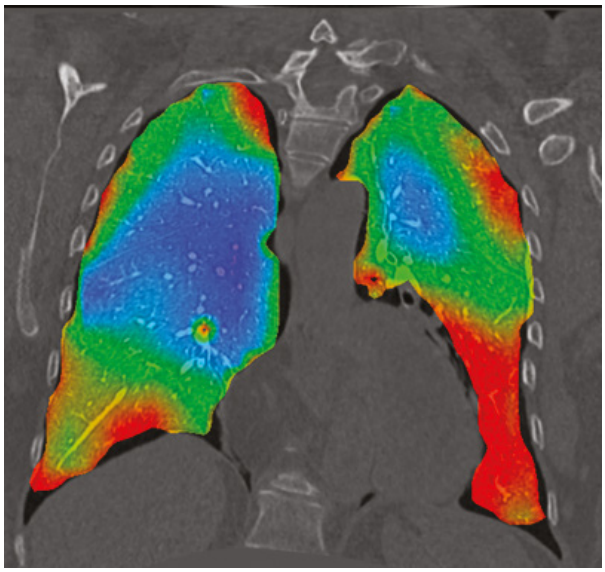
Patient A



With a history of silicosis, an inability to complete spirometry due to breathing difficulties, and persistent pain on the right side, Patient A gained new insights into his lung function. Our XV LVAS technology highlighted a functional difference in ventilation on the right side.

Details	Results	
45yrs	Tidal volume	0.41L
	Ventilation heterogeneity (%)	63.2 total
	Ventilation defect percentage (%)	20.2%

Patient B



Due to a history of recurrent chest infections, Patient B had a CT and XV LVAS scan, revealing a large hiatus hernia that was compressing adjacent areas of her lung. The XV LVAS helped quantify a greater impact on ventilation, particularly in the left lower zone, compared to CT.

Details	Results	
69yrs	Tidal volume	0.38L
	Ventilation heterogeneity (%)	91.9 total
	Ventilation defect percentage (%)	26.9%

Product development

Our focus was to drive uptake of our XV LVAS product, while advancing our secondary and tertiary offerings.

XV LVAS Progress

TGA approval received ahead of schedule

Our XV Lung Ventilation Analysis Software (XV LVAS) hit a major milestone when it received Therapeutic Goods Administration (TGA) approval for inclusion in the Australian Register of Therapeutic Goods (ARTG), ahead of schedule in September 2020, as a Class 1 Device. Together with the FDA 510(k) clearance in May 2020, it positioned us for commercial realisation in two core markets, the U.S. and Australia.

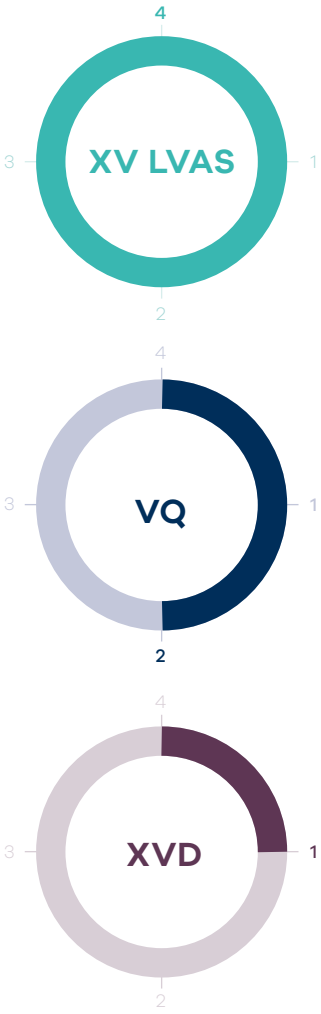
It launched our go-to-market bid and enabled us to expand our clinical trial and commercial pilot programs into both regions.

Early success was achieved with the first commercial use of XV LVAS completed in Victoria in December 2020. The agreement for the first U.S. clinical pilot followed in January 2021 at St Joseph Hospital in Orange County, California.

Market potential was further expanded through the development of a secondary imaging protocol, which increased the number of existing hospital X-ray systems that were compatible with 4DMedical's technology.

TGA approved Sep 2020

Towards commercialisation



1. Engineering
2. Pre/Clinical trials
3. Regulatory approval
4. Commercialisation

VQ Progress

VQ begins trials ahead of schedule

Our VQ product began clinical trials four months ahead of schedule during FY21, with the first cohort of participants recruited, and imagining underway at University of Miami.

4DMedical VQ provides the ability to obtain accurate ventilation and pulmonary data without the use of any nuclear radiopharmaceuticals, currently required for nuclear VQ procedures. The technology is also much easier to administer and faster than comparable current technology.

Engineering effort is ongoing and regulatory approval activities are planned to progress down the path to commercialisation.

XVD Scanner

World's first dedicated lung scanner underway

We began development of the world's first dedicated lung scanner during FY21, which seeks to provide low dose, safe, easy, and rapid lung analysis of both adults and children.

It followed the successful completion of the Australian Government MRFF's Frontier initiative (Stage One), awarded in 2019. This provided proof of concept and a research and development plan – and ultimately led to successfully winning Frontier initiative Stage Two for a total grant amount of $28.9m.

As part of the grant bid, 4DMedical committed to provide new capital for the development of the Generation One and Generation Two XVD Scanners.

This was met via a successful $46m share Placement and Share Purchase Plan – the majority of which will support the project.

The five-year project is progressing well, with the establishment of the Advanced Manufacturing Facility in Port Melbourne to house the development and prototyping of the XVD Scanners, and the hiring of specialist team members, including 11 new staff, and more hires planned for FY22.

The first Generation One unit is expected to be deployed in an Australian hospital for clinical trial in the first quarter of calendar year 2022. The XVD team will also continue research activities for the Generation Two scanner, such as compatibility with our emerging VQ product.

$46.0m

Placement and Share Purchase Plan to support XVD scanner project

$28.9m

from the Australian Government Medical Research Future Fund

Australian Lung Health Initiative

ALHI was established in 2019 as a collaborative partnership between industry and academia to plan and deliver a groundbreaking research project supported by funding from the Australian Government Medical Research Future Fund's Frontier Health and Medical Research initiative.

Grant funding success for the project provides for 4DMedical to deliver new scanner technology, which is being developed and manufactured in Australia. XVD scanners are the world's first ever clinical scanner dedicated to XV technology, integrating respiratory scanning software into a stand-alone hardware platform.

During FY21 the project reached a significant milestone through establishment of an Advanced Manufacturing Facility in Port Melbourne, enabling the development and manufacture of XVD Scanners by 4DMedical.

XVD Scanner

Advanced Manufacturing Facility breaks ground

Since signing a long-term lease in February, the occupation and fit-out of 4DMedical's Advanced Manufacturing Facility has rapidly progressed.

Established to realise its MRFF obligation to the Australian Government through ALHI's Stage Two grant, the facility is set to manufacture the world's first dedicated lung scanner – a mock-up of which sits in the office foyer.

Workforce expansion and rapid construction followed the initial provision of approximately $5.0m from the total $28.9m MRFF funding.

At the heart of the research space is the 'Rad Lab' currently under construction, enabling operation of X-ray equipment integral to 4DMedical's hardware in a purpose-built radiation laboratory.

The 1,767m^2 will eventually include technical training facilities and a showroom enabling the entire range of 4DMedical scanning hardware to be displayed in an interactive environment.

1,767m^2
Manufacturing facility

2022
Anticipated opening

Investment in talent

132%

Growth in staff

Operational objectives

The rapid expansion of our team has lined up with major business objectives, with our staff growing 132% by end of FY21

Our growing team

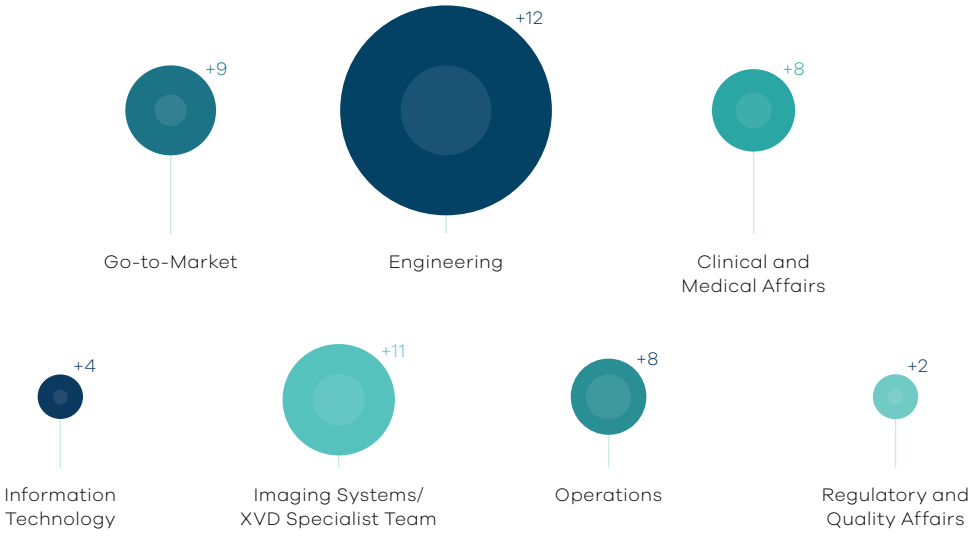
Go-to-Market (GTM) and Engineering teams more than doubled in size, and a new Imaging Systems team was created to meet our business needs.

The GTM team was expanded to drive the commercialisation of our core technology, and Engineering focused on product pipeline developments of our VQ software and XVD Scanner projects.

A new Imaging Systems team was established to support the XVD Scanner project, while Clinical and Medical Affairs also expanded significantly, to support clinical and pilot activities in the U.S. and Australia.

Staff increase by department

Our hiring rates accelerated with a focus on specialist expertise to fulfil our business objectives.



FY21 Staff

95

Total staff count

74

Staff in Australia

27% Female
73% Male

21

Staff in U.S.

Other FY21 news

Quality and Regulatory systems

In addition to securing regulatory approvals for our XV LVAS product, we made significant progress in Quality Assurance activities. This ensured we passed the first external audit of 4DMedical's Quality Management System as a precursor to ISO13485 certification. We also began work on the Medical Device Single Audit Program (MDSAP) – a single audit satisfying requirements of regulatory authorities in the potential expansion markets of Japan, Canada and Brazil.

'4Diversity' funding support for ATS

We partnered with the American Thoracic Society during its annual international conference to raise funds towards diversity initiatives. In a partnership announcement to its more than 16,000+ members, ATS Chair of the Health Equity and Diversity Committee, Dr Neeta Thakur, said the aim was to address root causes of poor health, including those limiting access to care and diagnostic services. She recognised the accessibility of our technology helped to support that aim.

NIH funds US$600k sale of Permetium™ scanner

The US National Institutes of Health (NIH) funded the acquisition of a 4DMedical Permetium preclinical scanner by the Department of Radiology at the University of Michigan School of Medicine. It will be used to assist investigators to assess progression and interventions of many diverse disease indications. The XV Technology™ platform will also provide the ability to evaluate cardiothoracic vascular remodelling associated with interstitial lung disease including asthma and COPD, among others.

Partnering with the Respiratory Compromise Institute

In April 2021, we announced the partnership with Respiratory Compromise Institute (RCI), to implement XV LVAS at eight clinical sites across the US. The pilot program will focus on utilising XV LVAS to evaluate endobronchial valve procedures in treating late-stage COPD. Our technology will be implemented to identify additional sources of respiratory insufficiency and subsequently inform the course of patient treatment.

ATS and 4DMedical research grants

Announced in October 2020, 4DMedical's support to the ATS Research Program provides a total of US$150,000 of grants to fund research into asthma, COPD and idiopathic pulmonary fibrosis (IPF). Three grants of US$50,000 each support one year of research using 4DMedical's XV LVAS technology.

Outlook FY22

During FY21, the Group has made important steps towards commercialisation via its clinical trial and clinical pilot programs.

These programs are integral to driving awareness and adoption of XV Technology at leading hospitals and medical clinics in both the U.S. and Australia.

Over the next 12 months, the Group is focused on delivering revenue by concentrating attention and resources towards the following activities:

1	**Communication of XV Technology clinical trials results through publication in peer-reviewed medical journals and presentations at conferences to drive awareness, education and adoption at key opinion leading hospitals.**
2	**Establishing clinical pilots with healthcare providers, identified by the Go-to-Market team, for day-to-day use to use of XV LVAS in their standard protocol/workflow.**
3	**Conversion of clinical pilot partners, both existing and future, into paying customers of XV LVAS.**
4	**Continued investment into research and development of the Group's product pipeline, including the contrast free VQ product and XVD Scanner, as well as XV LVAS.**

4DMedical™

Financial report

2021
Annual Report

4DMedical Limited ABN 31 161 684 831

General purpose financial report for the year ended 30 June 2021

Contents

Directors' report

The directors of 4DMedical Limited (the **Company** or **4DMedical**) and its controlled entities (the **Group**) present the directors' report, together with the financial report on the consolidated entity (referred to hereafter as the **Group**) for the financial year ended 30 June 2021.

Directors

The names of the Company's directors in office during the financial year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Bruce Rathie (Non-Executive Director and Chairman)

B.Comm, LLB, MBA, FIML, FAICD, FGIA

Mr Bruce Rathie is a professional Non-Executive Director of 20 years, having completed successful prior careers in law and finance. He holds degrees in law (LLB), commerce (B.Comm) and business (MBA Geneva). He is particularly strong in governance being a Fellow of the Australian Institute of Company Directors and holding its Diploma Company Director, a Fellow of Australian Institute of Managers & Leaders and a Fellow of the Governance Institute of Australia and holding its Graduate Diploma in Company Secretarial Practice (Governance).

His legal career included being partner of a prominent private law firm, then Senior Corporate Counsel to Robert Holmes à Court's Bell Resources Limited in the 1980s. After completing his MBA in Switzerland, he went into investment banking in 1986 which took him to New York for three years returning to Sydney in 1990. He spent the 1990s as an investment banker in Sydney, the last five as Director Investment Banking and Head of the Industrial Franchise Group at Salomon Brothers and then Salomon Smith Barney where he lead the firm's joint lead manager roles in the privatisations or IPOs of Qantas, Commonwealth Bank and Telstra amongst other major transactions of the day.

Bruce has been a professional director since 2000 in roles with ASX listed and unlisted companies predominantly in the financial services, biotechnology and technology sectors. He is currently a Non-Executive Director of ASX 200 PolyNovo Limited, Capricorn Society Limited, ASX listed Cettire Limited and Australian Meat Processors Corporation Limited. He is also Chairman of Capricorn Mutual Limited and 4DMedical.

Previously, he has been a Non-Executive Director of ASX listed companies Netlinkz Limited, Compumedics Limited, Anteo Diagnostics Limited (Chairman), USCOM Limited, Mungana Goldmines Limited and Datadot Technology Limited (Chairman). He also served as an inaugural CSIRO nominated Non-Executive Director of Polynovo Biomaterials Pty Ltd when the Polynovo technology was first spun out of the CSIRO in 2004, as with several other CSIRO technology commercialisations and served as chairman of a number of these vehicles.

Bruce is an independent director.

Dr Andreas Fouras (Managing Director)

BEng, MEngSc(Res), PhD, MAICD

Dr Andreas Fouras is the founder, Managing Director and Chief Executive Officer of the Group.

Andreas started his career in academic research studying experimental fluid dynamics in the Department of Mechanical and Aerospace Engineering at Monash University in Melbourne, Australia. His early research in wind tunnel quantification placed him as a young leader in the area of imaging (within fluid dynamics) developing a number of new approaches to the imaging of gas and liquid flow.

Completing a Masters and PhD, and then rapidly rising to the position of Professor of Mechanical and Aerospace Engineering and Director of the Laboratory for Dynamic Imaging, Andreas was recognised by various accolades from a wide range of premier research bodies including the National Health and Medical Research Council and the American Asthma Foundation.

Andreas was able to apply novel concept to clinical use through the development of XV Technology, uniquely measuring airflow within the breathing lungs, at every stage of the breath, with both high spatial and temporal resolution at very low dose. Andreas' research has been documented in over 100 peer reviewed publications and over 40 patents and patent applications. Andreas founded 4DMedical in December 2012 from a desire for his work to reach and positively influence as many people globally as possible.

A recognised leader, as evidenced by an Australian Davos Connection Australian Leadership Award (2013), Andreas is now dedicated to applying his business acumen, drive and innovation to the commercialisation of 4DMedical's technologies.

Lilian Bianchi (Non-Executive Director)

BSc(Econ), MSc, GAICD

Ms Lilian Bianchi brings to 4DMedical an invaluable history of experience in technology products and business transformations, helping lead boards to build an agile and robust strategy through expansive growth. She has participated in business transformations for U.S.-listed technology companies and risk collaborations across financial risk modelling, climate science and primary industry productivity models. She is an experienced contributor to business transformations for U.S.-listed technology companies with technology product expertise with AI and SaaS offerings and has vast international experience in the U.S., Australia, India, Singapore, UK, France, Germany, New Zealand, Italy and Spain.

Lilian's value to the 4DMedical Board of Directors lies in her CEO, board, and senior executive track record in financial services, global listed billion-dollar tech corporations, tech start-ups, tier 1 management consultancies, public sector organisations, and international research operations. Her governance, strategy and capital raising experience has helped her lead corporations in periods of growth, guiding them in the pivot to stock market listings and international sales.

Lilian is an independent director and is Chair of the Audit and Risk Committee.

Dr Robert A. Figlin (Non-Executive Director)

MD, FACP

Dr Robert A. Figlin, MD, FACP, is the Steven Spielberg Family Chair in Hematology-Oncology, Professor of Medicine and Biomedical Sciences, Deputy Director for Cedars-Sinai Cancer, and Deputy Director of the Samuel Oschin Comprehensive Cancer Institute.

Robert received his medical degree from the Medical College of Pennsylvania. He completed his residency and chief residency in internal medicine at Cedars-Sinai Medical Center and a fellowship in hematology/oncology at the David Geffen School of Medicine at UCLA. He is an Emeritus Professor of Medicine and Urology at the David Geffen School of Medicine at UCLA.

Prior to joining Cedars-Sinai, Robert was the Arthur and Rosalie Kaplan Endowed Chair of the Department of Medical Oncology and Therapeutics Research, and the Associate Director for Clinical Research at the City of Hope Comprehensive Cancer Center. Prior to that, Robert served as the Henry Alvin and Carrie L. Meinhardt Endowed Chair in Urologic Oncology and Professor of Medicine and Urology in the Divisions of Hematology/Oncology and Urologic Oncology at the David Geffen School of Medicine at UCLA. Robert joined the UCLA faculty as Assistant Professor of Medicine in the Division of Hematology/Oncology and was Co-Director of the Jonsson Comprehensive Cancer Center's Oncology Program. He held the post of Medical Director of the Thoracic and Genitourinary Oncology Program in the Departments of Medicine, Surgery and Urology, and served as Program Director of Solid Tumor Developmental Therapeutics within the Cancer Center.

Robert serves as Editor for Kidney Cancer Journal, and his studies have appeared in Clinical Cancer Research, Journal of Clinical Oncology, New England Journal of Medicine, The Lancet, JNCI, Lancet Oncology, and Journal of Urology, among others. He has authored over 400 peer reviewed articles, more than 70 book chapters, and has published as editor multiple books in kidney cancer.

A nationally recognised leader in genitourinary and thoracic oncology in the United States, Robert's research focuses on renal cell carcinoma and thoracic malignancies. He established and directs the Kidney Cancer Program at Cedars-Sinai Medical Center, which aims to understand the biology of kidney cancer and translate that knowledge into novel treatment approaches. His leadership is in developing novel anticancer drugs that avoid the toxicity associated with standard treatments furthers Cedars-Sinai's tradition of compassionate patient care.

Robert is an independent director.

Directors' report (continued)

Lusia Guthrie (Non-Executive Director)

BAppSc(Med Tech), MSSTC, MAICD

With over 35 years in the pharmaceutical and bioscience industries, Ms Lusia Guthrie is an experienced CEO, technology developer and medtech entrepreneur, with strong leadership skills and international industry networks. She started her career as a Medical Laboratory Scientist before joining the Manufacturing Division of pharmaceutical company FH Faulding & Co (now Mayne Pharma). Lusia then went on to co-found medical technology innovation company LBT Innovations Limited (ASX:LBT) where she was Chief Executive Officer and Managing Director until 2016 and Chair of Clever Culture Systems, Zurich (LBT's European joint venture company) until 2018.

She currently serves as Chair of the BioMelbourne Network, Chair of Neo-Bionica and an independent director of WearOptimo Pty Ltd. She is also Chair of 4DMedical's wholly owned subsidiary, Australian Lung Health Initiative Pty Ltd (**ALHI**).

Lusia has a proven track record in bringing innovative products to global markets, with experience in France, Germany, and USA. She has an ongoing interest in the commercialisation of innovative healthcare products that incorporate automation, robotics, machine learning and artificial intelligence.

Lusia is an independent director and is a member of the Audit and Risk Committee.

John Livingston (Non-Executive Director)

BAppSc(MedRad), GradDipHlthSc(HlthEdu), GradCertBusAdmin, GAICD

Mr John Livingston was previously one of the founding partners of Lake Imaging, subsequently becoming part of Integral Diagnostics Ltd., where John was Chief Executive Officer and Managing Director. John was awarded the AGFA International Award for Development of Digital Imaging Solutions in 2005.

He has lectured in Australia and abroad on the digital radiology environment, as well as business strategies and systems within the commercial sector. John has considerable commercial experience, having worked with the team at Lake Imaging and later Integral Diagnostics through acquisitions and the establishment of Greenfield facilities across Australia. During his career at Integral Diagnostics, John lead the group through private equity investment with Advent Partners in 2014 and in 2015 John worked with Advent to list Integral Diagnostics on the ASX.

John is a former director of VicWest Community Telco and United Way; a current director at QScan, Comrad Medical Systems and Ballarat Clarendon College (Chairman); and is a graduate member of the AICD.

John is Chair of the Remuneration and Nomination Committee.

Julian Sutton (Non-Executive Director)

BSc, CFA

Mr Julian Sutton started his career in 1995 as an actuarial analyst for Towers Perrin in Melbourne where he consulted to some of Australia's largest superannuation funds. He later transferred with Towers Perrin to Brussels and then London, where he worked predominantly in an asset consulting capacity.

In 2002, Julian joined Credit Suisse Asset Management in London as an assistant portfolio manager in their Multi-Manager team. Driven by strong performance, the team grew assets under management ten-fold from GBP50 million to GBP500 million over the following two years.

In 2004, Julian joined Schroders Investment Management as a Senior Portfolio Manager in the Multi-Asset team, responsible for the management of a suite of investment funds with assets under management in excess of USD1 billion. These funds were invested on a global basis and had exposure to a broad range of asset classes including private equity, hedge funds, property, commodities, equities, bonds and cash.

After seven years with Schroders, Julian returned to Australia with entrepreneurial ambitions. Julian established a sales and marketing business that helps best-in-class international fund management companies establish a presence in the Australian and New Zealand market. Currently, Julian is responsible for the sales and marketing function of Brown Advisory in Australia.

Julian is a member of the Remuneration and Nomination Committee.

Heath Lee (Executive Director)

BEc (Monash), CA ANZ, FFINSIA, GAICD

Retired as Executive Director (20 November 2020)

Mr Heath Lee is a qualified Chartered Accountant that brings significant business and financial acumen to his role as Chief Financial Officer at 4DMedical. Heath commenced his career at KPMG Australia before moving into investment banking as Associate Director in M&A at Barclays Investment Bank, which was later acquired by ABN AMRO. As a merger and acquisition professional for over seven years, Heath worked on several high-profile advisory mandates including the Commonwealth Government of Australia's $4.0 billion privatisation of national airports and CSR Limited's $6.7 billion demerger of Rinker Materials.

In 2004, Heath left ABN AMRO to establish contact centre and market research company OCIS. As co-founder and CEO, Heath successfully grew OCIS from a start-up with 10 staff based in Melbourne to over 600 employees across Australia, New Zealand and Fiji. OCIS was sold in 2013, at which point it was servicing multiple international clients including Optus, The Nielsen Company, Seek.com, Virgin Mobile and the New Zealand Government.

Heath holds a Bachelor of Economics (Accounting Major) from Monash University and a Graduate Diploma in Applied Finance from Financial Services Institute of Australasia (FINSIA). He is also a qualified Chartered Accountant, Fellow member of FINSIA, and a Graduate of the Australian Institute of Company Directors.

Heath joined the 4DMedical Board as Non-Executive Director in 2016 before transitioning to Chief Financial Officer of 4DMedical following his appointment in January 2020. Heath retired from the Board at 4DMedical's 2020 AGM and continues to serve the Company as CFO.

Company Secretary

The details of the Group's secretary in office during the financial year ended 30 June 2021 and until the date of this report are as follows. The secretary was in office for this entire period.

Charlene Stahr (Company Secretary)

BEng, BTech(Aero), MEngSc(Res), GIA(Affiliate), MAICD

Ms Charlene Stahr was appointed Company Secretary of 4DMedical from 18 March 2016 to 12 December 2018, and re-appointed effective 11 September 2019 following a planned leave of absence.

Charlene is a governance and compliance professional with over 7 years' company secretarial experience advising senior management and board levels. Charlene reports to the board and her duties include continuous disclosure compliance, corporate governance, and communication with 4DMedical's 8,000+ shareholders.

Charlene joined 4DMedical as a founding employee in 2013 and has served several roles within the company, including Operations Manager (2014–2019).

Charlene has broad experience across the engineering, biomedical research, and education industries. She has detailed experience in international research programs, leading to publication of research and patented intellectual property.

Charlene holds a Bachelor of Engineering (Mechanical) (hons.), a Bachelor of Technology (Aerospace), and a Master of Engineering Science (Research) from Monash University, her master's thesis demonstrated the application of XV Technology's precursor preclinical research technology to a lung disease model.

Share register

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4DMedical Limited 's shares are listed on the Australian Securities Exchange (**ASX**).

Directors' report (continued)

Dividends

No dividends have been paid or declared since the end of the previous financial year, nor do the directors recommend the declaration of a dividend (2020: none).

Principal activities

The principal activities of the Group during the financial year ended 30 June 2021 were medical research technology and development of a non-invasive respiratory imaging solution using four-dimensional imaging. This four-dimensional lung imaging technology utilises proven, patented mathematical models and algorithms to convert X-ray scans into quantitative data to enhance the capacity of physicians to manage patients with respiratory diseases and diseases of the lung.

There have been no significant changes in the nature of these activities during the year.

Operating and financial review

4DMedical is a medical technology company aiming to deliver the global gold standard in respiratory diagnostics for all lung disorders. Through its technology 4DMedical provides clinicians with greater insights into diseases of the lung with a focus on providing better information to doctors and patients about lung function.

Review of operations

On 7 August 2020, 4DMedical was admitted to the official list of the Australian Securities Exchange (**ASX**) following the successful completion of a $55.79 million initial public offering (**IPO**), raising $50.0 million of new capital. The IPO included the issue of approximately 68.49 million fully paid ordinary shares and the sale and transfer of approximately 7.94 million fully paid ordinary shares, at the issue price of $0.73 per share.

In September 2020, 4DMedical received the Therapeutic Goods Administration (**TGA**) Class 1 approval[1] for its XV Lung Ventilation Analysis Software (XV LVAS™) offering. This approval follows the U.S. Food and Drug Administration (**FDA**) 510(k) clearance the Company received for XV LVAS in May 2020, allowing 4DMedical to define a path for immediate adoption of its Software-as-a-Service (**SaaS**) product and supply of the software to departments of health, laboratories, medical practitioners and health care professionals in Australia and the U.S.

Clinical trials and product development

4DMedical continues to invest in its product pipeline, primarily by adding features to the XV product line, and through investment in the upcoming Ventilation-Perfusion (**VQ**) product line. Clinical trials are utilised to verify and validate the technology to the Company and regulators (FDA and TGA), but as importantly, clinical trials provide ongoing confidence to current and potential users of the technology. The primary outcome of such clinical trials are scientific presentations and peer-reviewed publications and are likely to be a value multiplier in sales and marketing efforts.

During the financial year, 4DMedical partnered with University of Miami Health System (**University of Miami**) to establish the Functional Lung Imaging Research Program to advance breakthrough lung technologies. The initiative is the Company's first research program in the U.S. and is expected to deliver several preclinical and clinical studies studying the use of XV Technology™ in various lung-related conditions, such as emphysema, chronic bronchitis, cystic fibrosis, pulmonary hypertension, pulmonary embolism and lung cancer.

In June 2021, the Company commenced patient recruitment and scanning for its clinical trial at Johns Hopkins School of Medicine (**Johns Hopkins**) in Baltimore, U.S. The clinical trial will be carried out throughout 2021 and is focused on providing further evidence of the capability of XV LVAS to evaluate and monitor patients suffering from chronic obstructive pulmonary disease (**COPD**). By integrating with Johns Hopkins existing imaging equipment, XV LVAS is being utilised to detect early changes in airway function, disease progression and regional ventilation defects in the lungs of approximately 15 COPD patients. The results will be compared to traditional respiratory diagnostics such as spirometry and computed tomography (**CT**).

In its continued effort to drive the adoption and implementation of XV LVAS at leading hospitals and medical institutions, 4DMedical announced its partnership with the Respiratory Compromise Institute (**RCI**) in April 2021 to evaluate between 75-100 late-stage COPD patients undergoing endobronchial valve procedures. The partnership is expected to be conducted over eight of its clinical sites across the U.S. The Company is currently working with Temple University Hospital to be the first clinical site to install XV LVAS under the RCI partnership.

During the year, 4DMedical also made significant progress on its VQ product, which is its first combination diagnostic tool that measures both airflow (ventilation) and blood flow (perfusion) in the lungs without the use of any contrast agents. Ventilation-perfusion measurements provide valuable insights to clinicians by enabling earlier detection of and intervention in lung diseases. 4DMedical began recruitment and scanned the first cohort of participants of its clinical trial to validate its VQ product at the University of Miami.

1 *Approval for inclusion in the Australian Register of Therapeutic Goods (ARTG).*

With the addition of Johns Hopkins, 4DMedical currently has a total of eight clinical trials with at least Institutional Review Board (IRB) approval status in the U.S. comprising seven studying XV LVAS and one studying the Company's contrast-free VQ product. Other clinical trials currently scanning patients include Cleveland Clinic, Duke University and University of Miami, as well as Vanderbilt University Medical Center where XV LVAS is being used to study the effects of environmental exposure on the lungs of U.S. war veterans.

Hospital	Location	Indication	XV Technology Study
Cleveland Clinic	Cleveland, OH, U.S.	Pulmonary hypertension	VQ
Duke University	Durham, NC, U.S.	Lung transplant	XV LVAS
Johns Hopkins	Baltimore, MD, U.S.	COPD	XV LVAS
Johns Hopkins	Baltimore, MD, U.S.	Cystic fibrosis (paediatric)	XV LVAS
Oregon Health and Science University	Portland, OR, U.S.	COPD	XV LVAS
University of Miami	Miami, FL, U.S.	COPD	VQ
University of Miami	Miami, FL, U.S.	Bronchoscopic lung volume reduction	XV LVAS
Vanderbilt University	Nashville, TN, U.S.	Constrictive bronchiolitis (veterans)	XV LVAS

The Group has continued to invest in research and development (**R&D**) to drive future use cases and integration with a broader range of hospital equipment, including CT scanners. These developments will not only enhance the capabilities of XV LVAS but also the Company's product pipeline, which includes its contrast free VQ product and dedicated XV Technology lung scanner (XVD Scanner™).

Clinical pilots and commercial rollout

Compared to clinical trials, which are focused on the output of peer-reviewed research publication, clinical pilots allow clinicians to use XV LVAS in everyday practice by integrating the Company's end-to-end workflow into the hospital infrastructure – this is often a precursor to forming commercial relationships.

Integral to 4DMedical's commercialisation strategy, the Company continues to secure new and advance its existing clinical pilots in the U.S. and Australia. In March 2021, 4DMedical secured a streamlined process for securing contracts with the U.S. Department of Defense (**DoD**) and Veterans Affairs (**VA**) through NASA's Solutions for Enterprise-Wide Procurement (**SEWP**) program. This access will allow DoD and VA affiliated healthcare facilities to contract with 4DMedical to integrate and use XV LVAS as part of their clinical practice. Revenue will be generated as the Company secures supply contracts from each facility adopting the technology and pricing has been pre-agreed under this process.

During the year 4DMedical has made significant progress in verifying healthcare reimbursement pathways and billing channels for XV LVAS in both the U.S. and Australian markets. Analysis of the U.S. payor market has identified American Medical Association (**AMA**), Current Procedural Terminology (CPT®), 76000 Fluoroscopy (separate procedure), as an appropriate billing code for the fluoroscopic imaging component required for XV LVAS analysis in both inpatient and outpatient care. Widely recognised by all U.S. payors, CPT 76000 will allow 4DMedical to drive provider and payor adoption of XV LVAS while the Company develops the necessary requirements to secure new, distinct AMA Category I CPT codes specific to XV LVAS.

In Australia, reimbursement research and analysis has identified potential payment opportunities for XV LVAS in the public and private, inpatient and outpatient markets within existing Australian Refined Diagnosis-Related Groups (AR-DRGs) and Medicare Benefits Scheme (MBS) payment systems. 4DMedical will work towards securing distinct coverage and payment for XV LVAS through the Australian Medical Services Advisory Committee technology review processes.

In June 2021, 4DMedical secured an order from the University of Michigan to purchase one of its Permetium™ preclinical scanners and associated XV Technology™ for the value of US$0.6 million. The purchase was funded by the U.S. National Institutes of Health (NIH) and is expected to be delivered to University of Michigan in FY22. The preclinical scanner sale will continue to contribute a small proportion of overall revenue for the Group, assisting with generating support and adoption of 4DMedical's software products.

MRFF Stage Two grant funding and capital raising

4DMedical's wholly owned subsidiary, ALHI was the recipient of $28.9 million in funding over five years from the Australian Federal Government's Medical Research Future Fund (**MRFF**) Frontier Stage Two initiative. Funds will be used to develop two generations of the XVD Scanner™, world's first dedicated, low dose lung function scanner integrated with 4DMedical's proprietary XV Technology.

4DMedical has been granted full commercialisation rights and will be responsible for the global sale and marketing of XVD Scanners in the field of lung health. Under the commercialisation agreement, the Company is set to receive revenue generated from XVD Scanner sales, any associated service revenue, as well as any SaaS sales generated from the use of XV Technology.

Directors' report (continued)

On the back of the MRFF Stage Two funding award in March 2021, the Group successfully raised approximately $40.0 million, before costs, through the issue of approximately 25.8 million new shares from a strongly supported share placement to institutional and sophisticated investors. Based on the same issue price of $1.55 per share, 4DMedical raised a further $6.0 million from a Share Purchase Plan (**SPP**) offer to existing shareholders, resulting in the issue of approximately 3.87 million new shares.

Proceeds raised under the Placement and SPP will be primarily used to accelerate development and commercialisation of the XVD Scanner and provide the Group with balance sheet flexibility to pursue identified growth opportunities.

Other corporate updates

4DMedical continued to grow its portfolio of intellectual property rights that complement and facilitate the Company's business objectives. During the year, 4DMedical's patent portfolio grew to a total of 50 patents (23 granted and 27 filed) across jurisdictions such as the U.S., Europe, Australia, Japan, Singapore, Canada, India, New Zealand and China. The Company also has 11 trademarks and trademark applications filed for 4Dx, 4DMedical, XV Technology and XV LVAS across jurisdictions such as the U.S., Australia and China.

On 21 December 2020, 4DMedical was added to the S&P/ASX All Technology Index (XTX.ASX). The All Tech Index provides investors direct access to ASX's fastest growing sector in a single index and comprises of 70 Australian leading and emerging technology companies across a range of sectors.

The Group has more than doubled its headcount from the previous financial year, expanding its team across critical business functions such as sales and distribution, clinical and medical liaison, information technology and dedicated specialist teams developing and commercialising the XVD Scanner. At the start of 2021, 4DMedical appointed Mr Craige Pendleton-Browne as Chief Information Officer. Mr Pendleton-Browne is responsible for leading 4DMedical's Information Technology department and will oversee business transforming technology-based products and projects, in particular the Company's SaaS platform.

Financials

The net result after tax of the Group for the financial year ended 30 June 2021 was a loss of $21.42 million (2020: $21.98 million), a decrease of $0.55 million from the previous year.

The result from the underlying operation is in line with 4DMedical's ramp up in commercialisation efforts of its FDA-cleared and TGA approved XV LVAS and its continued investment in enhancing existing XV Technology capabilities and developing associated pipeline of SaaS products.

The Group recorded total income of $5.77 million during the financial year, up 71% from $3.37 million in the previous year. Total income comprised operating revenue of $0.22 million (2020: $1.23 million) from on-going preclinical hardware support and maintenance contracts and associated SaaS revenue; and other income for the full year of $5.55 million, up 159% from $2.14 million in the previous corresponding year. Other income for the Group included R&D Tax Incentive credits of $4.07 million and grant income of $1.26 million, of which $0.68 million was reported by wholly owned subsidiary, ALHI under the MRFF initiative.

Operating expenditure for the Group was $24.46 million, higher by $8.39 million from last year, driven mainly by increased headcount and corresponding employment expenses as well as increased expenditure in research and clinical development activities. Employee benefit expenses were higher by 49% or $3.77 million compared to the previous corresponding period, which includes non-recurring equity-settled share-based payment and other employee benefit expense of $1.59 million arising from options and rights issued under the Company's legacy employee equity plan. R&D expenditure relating to the establishment of the Company's first U.S. research program, clinical trials and collaboration expenses; and XVD Scanner product development costs increased by $2.32 million in the current financial year. Go-to-market, reimbursement and marketing expenses also increased 25% from the previous year, contributing $0.96 million (2020: $0.77 million) to operating expenses of the Group. Compared to the previous corresponding year, 4DMedical reported an increase of $0.95 million in listed company expenses and non-recurring IPO and capital raising costs.

The net loss after tax includes a non-cash interest expense of $2.63 million relating to the convertible notes issued by the Company during the previous financial year, which were converted to issued capital at the IPO on 7 August 2020. Loss per share decreased to 0.08 cents per share in the current year as a result of 29.73 million new ordinary shares issued at the completion of the Company's Placement and SPP in March 2021.

The Group reported a net cash balance of $80.88 million, up $72.45 million from the previous year, on the back of a successful $50.0 million IPO, Placement and SPP. In addition, ALHI received $4.99 million in funding under the MRFF Stage Two initiative during the year, of which $4.48m remains as deferred income reflected on the consolidated statement of financial position at 30 June 2021 (Note 18).

R&D Tax incentives

During the financial year, AusIndustry approved 4DMedical's application for an Advanced Overseas Finding under the Australian R&D Tax Incentive scheme. The Advanced Overseas Finding allows the Company to receive credits for up to 43.5% of eligible overseas R&D expenditure incurred in the financial year. This extension of the Australian Federal Government's support to include the Company's overseas R&D activities, for example U.S. clinical trials, demonstrates the quality of the Company's R&D program and will facilitate an acceleration of product development. During the year, 4DMedical received $2.01 million in R&D tax refunds relating to prior years' overseas R&D expenditure claims.

Options and rights

For the financial year ended 30 June 2021, 4,026,570 (2020: 8,893,413) options to acquire, and no rights to purchase shares in the Company were granted (2020: 3,938,512). 8,492,850 and 3,230,913 shares were issued respectively during the financial year by virtue of the exercise of options and rights. There are 4,026,570 options and nil rights that were granted but not yet vested as at 30 June 2021 (2020: 28,777,815 and 8,492,850 respectively).

Unissued shares of 4DMedical under options granted during the year:

Date options granted	Expiry date	Exercise price of options	Number under option
7 August 2020	7 August 2024	$0.73	2,599,572
15 March 2021	15 March 2025	$2.33	14,367
25 June 2021	25 June 2025	$2.33	66,476
25 June 2021	25 June 2025	$1.30	1,346,155

Significant changes in the state of affairs

Other than as disclosed in this report, there have been no significant changes in the state of affairs of the Group during the financial year ended 30 June 2021.

Significant events after the reporting period

As announced on 8 August 2021, the Group signed a commercial contract with multinational pharmaceutical company, Novartis, for the use of XV LVAS to assess pharmaceutical therapies for treating patients with COPD. The commercial contract is not material in terms of revenue but represents the first commercial application of XV LVAS in the pharmaceutical industry.

On 1 September 2021, the Group announced the successful completion of Phase One of its clinical pilot program with I-MED Radiology Network (**I-MED**) at an imaging clinic in Victoria. Having received positive feedback from radiologists and patients, the clinical pilot has been progressed to Phase Two that will assess the potential for a commercial partnership with I-MED.

The Group continues to monitor the impact of the COVID-19 pandemic and the response from governments in controlling outbreaks. The Group has and will continue to take steps to mitigate the impact of unforeseen restrictions to ensure the safety of its staff and stakeholders.

There have been no other significant events occurring after the reporting period which may affect either the Group's operations or results of those operations or the Group's state of affairs.

Likely developments and expected results

Likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

Environmental regulation and performance

The Group is not subject to any particular or significant environmental regulation under laws of the Commonwealth or of a State or Territory.

Indemnification and insurance of directors and officers

The Company has entered into deeds of access and indemnity with each of the directors in accordance with the constitution, under which the Company indemnifies each director for cost incurred, in their capacity as a director, for which they may be held personally liable. No other indemnities have been given or paid during, or since the end of the financial period for any person who is, or has been an officer of the Group.

The Company has insured its directors and Company Secretary, under its Directors' and Officers' Liability Insurance policy against any liability to the extent permitted by the *Corporations Act 2001*. Key person insurance has been in place for the financial year ended 30 June 2021 for an officer of the Company.

Directors' report (continued)

Indemnification of auditor

The Company has not, during or since the financial year, indemnified or agreed to indemnify the auditor, PKF Melbourne Audit & Assurance Pty Ltd, of the Company or of any related body corporate against a liability incurred as auditor.

Auditor's independence

The directors have received a declaration from the auditor of 4DMedical. This is included on page 46. The auditor did not perform any non-audit services during the year.

Directors' meetings

The number of meetings of directors (including meetings of committees of directors) held during the financial year ended 30 June 2021 and the number of meetings attended by each director were as follows:

	Board Meetings		Audit and Risk		Remuneration & Nomination	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Bruce Rathie	17	17	–	–	–	–
Dr Andreas Fouras	17	17	–	–	–	–
Lilian Bianchi	17	17	8	8	–	–
Dr Robert A. Figlin	17	16	–	–	–	–
Lusia Guthrie	17	17	8	8	–	–
John Livingston	17	17	–	–	5	5
Julian Sutton	17	16	–	–	5	5
Heath Lee	8	8	–	–	–	–

Committee membership

Members acting on the committees of the Board during the year were:

Audit and Risk Committee	Remuneration and Nomination Committee
Lilian Bianchi (Chair)	John Livingston (Chair)
Lusia Guthrie	Julian Sutton

Interests in the shares and options of the Company

As at the date of this report, the interests of the directors in the shares and options of 4DMedical Limited were:

	Number of ordinary shares	Number of options over ordinary shares
Bruce Rathie	509,638	–
Dr Andreas Fouras	64,838,000	6,036,693
Lilian Bianchi	53,306	–
Dr Robert A. Figlin	519,943	–
Lusia Guthrie	207,409	–
John Livingston	1,925,352	–
Julian Sutton	480,800	6,205,162

Remuneration report

Letter from the Chair of the Remuneration and Nomination Committee

Dear Shareholders

The past year has been one of great importance as 4DMedical was admitted to the official list of ASX and solidified itself as an ASX-listed entity. A number of important structural changes were implemented in the lead up to the listing to support future shareholder value, including changes to the remuneration structure of executives, which were altered to provide executives with a mix of fixed and variable pay, in line with industry standards.

At 4DMedical, our people are our greatest asset, and the safety and wellbeing of our people is our primary concern, especially so through the continuing COVID-19 pandemic. Having the right culture and a team of people with shared values is critical to the success of our business. Despite the challenges of numerous 'lockdowns' in Victoria, and the continuously changing COVID-19 landscape in Los Angeles, we successfully conducted a hiring drive during the year, and with no compromise to our culture, more than doubled our employee numbers to 95 by the reporting year end. We have actively worked to keep our workforce happy, connected, aligned and productive.

Changes to remuneration

The Board regularly reviews our executive remuneration structure to ensure it continues to drive shareholder value and enables us to attract and retain the talent we need.

In preparation of being a listed entity, we reviewed our short and long-term incentive arrangements to ensure that it could attract, retain and motivate high quality senior executives and enable aligning their interests with shareholders, and with 4DMedical's values.

Introduction of LTI

We implemented a long-term incentive (**LTI**) plan for the financial year ended 30 June 2021, in which senior executives were granted options with a three-year vesting period, for the purposes of driving enhanced company and individual performance and aligning the longer term interest of senior executives.

Introduction of STI

We introduced a short-term incentive (**STI**) plan for the financial year ended 30 June 2021, in which executives and senior managers were eligible to receive an STI award as a cash bonus for achievement against key performance indicators across a balanced category set.

Remuneration outcomes

Our achievements over the financial year are reflected in the executive remuneration outcomes for the year. Executives received an average of 90.2% of their STI target for performance against key performance indicators.

Broad based Employee Share Plan

We introduced a broad based 'Tax Exempt' Employee Share Plan in June 2021, to reward, retain and motivate all group employees, while aligning the economic interests of employees with shareholders and promoting shareholder value. The plan was very well received with 100% participation.

The Board is confident that our remuneration structures continue to support 4DMedical's financial and strategic goals. We are committed to transparency and an ongoing dialogue with shareholders on remuneration and to this end we have expanded the remuneration report to improve the overall format and flow of information.

On behalf of the Board, I invite you to review the full report and thank you for your continued interest.

Sincerely,

John Livingston
Chair of Remuneration and Nomination Committee

Remuneration report (continued)

The directors of 4DMedical Limited present the Remuneration Report (the **Report**) for the Company and its controlled entities (the **Group**) for the year ended 30 June 2021. This Report forms part of the directors' report and has been audited in accordance with section 300A of the *Corporations Act 2001*.

1. Key management personnel

The Report details the remuneration arrangements for the Company personnel (**KMP**) comprised of:

- non-executive directors (**NEDs**); and
- executive directors (**executives**)

The KMP of the Group are those persons who, directly or indirectly, have authority and responsibility for planning, directing and controlling the major activities of the Company and Group.

The table below outlines the KMP of the Group and their movements during the financial year.

Name	Position	Term in position as KMP
Non-Executive Directors		
Bruce Rathie	Chair and Non-Executive Director	Full financial year
Lilian Bianchi	Non-Executive Director	Full financial year
Dr Robert A. Figlin	Non-Executive Director	Full financial year
Lusia Guthrie	Non-Executive Director	Full financial year
John Livingston	Non-Executive Director	Full financial year
Julian Sutton	Non-Executive Director	Full financial year
Executive Directors		
Dr Andreas Fouras	Managing Director and Chief Executive Officer	Full financial year
Heath Lee	Executive Director and Chief Financial Officer	1 July 2020 until retirement as Executive Director 20 November 2020[1]

(1) Heath Lee continued to serve as 4DMedical's Chief Financial Officer following his retirement as executive director.

The focus of this Report is on the remuneration arrangements and outcomes for the KMP listed in the table above. It also outlines information about the remuneration policy more broadly.

2. Overview of executive remuneration

Overview of 4DMedical remuneration policy and structures

The Remuneration and Nomination Committee (**RNC**) is responsible for developing, reviewing, making recommendations and providing assistance and advice to, the Board on the remuneration arrangements for NEDs and executives. The role of the RNC is set out in more detail in its charter, available on the Company's website at: *https://4dmedical.com/corporate-governance*.

The performance of the Group depends on the quality of its NEDs and executives. To that end, the Company's remuneration philosophy is to attract, motivate and retain high performance and high-quality talent.

The Group's executive reward framework is based on objectives to:

- accelerate growth and profitability;
- align executive rewards with achievement of strategic objectives and the delivery of shareholder value; and
- provide competitive remuneration packages that recognise both individual and organisational performance.

The executive remuneration framework, and any potential changes to that framework, are assessed on the following guiding remuneration policy objectives:

- equitable remuneration structures and alignment with the long-term interests of the Company and its shareholders;
- attraction and retention of skilled executives;
- consistency with and promotion of the achievement of strategic objectives and adherence to the Group's values, policies and procedures;

- fairness of remuneration for the work undertaken having regard to employee remuneration in comparable positions, organisations and geographic locations;
- structuring of short and long-term incentives that are challenging and linked to the creation of sustainable shareholder returns;
- termination benefits which are justified and appropriate;
- support gender pay equity; and
- comply with all relevant legal, tax and regulatory provisions.

The RNC and the Board have structured an executive remuneration framework that is market competitive, is designed to retain and motivate the leadership team, and sets a standard for transparency and good corporate governance.

The determination of NED and executive remuneration is separately addressed below.

The Group did not seek or receive any remuneration recommendations within the definition of the *Corporations Act 2001*.

Our executive remuneration policy and structures

The Company rewards executives with a level and mix of remuneration appropriate to their position, responsibilities and performance, in a way that is aligned with the business strategy.

The Group's remuneration policy is designed to attract, retain and motivate highly qualified and experienced executives.

The executive's remuneration structure during the financial year had three components:

- fixed remuneration in the form of salary, superannuation contributions and benefits;
- short-term incentives payable as a cash bonus subject to the achievement of financial and non-financial key performance indicators; and
- long-term incentives via participation in the Company's Long-Term Incentive Plan, which rewards, retains and motivates executives in a manner aligned with long-term shareholder value.

Elements of executive remuneration

Fixed remuneration

The fixed remuneration component consists of base salary, superannuation and other non-monetary benefits. It is designed to reward the scope of their role and responsibilities, their skills, experience and qualification, and individual and group performance, and is set at a level to attract and retain executive talent with the appropriate capabilities to deliver the Company's objectives.

Fixed remuneration is generally positioned at the median of the relevant market and is reviewed and benchmarked periodically to ensure alignment with other organisations within the industry and market capitalisation as determined by the Board.

Fixed remuneration is generally reviewed annually, however, there is no guaranteed annual increase. Any adjustments to executive remuneration are approved by the Board, based on RNC recommendations.

Performance-based remuneration

The performance-based remuneration components for executives align reward with the achievement of annual and longer term objectives of the Group, and the optimisation of shareholder value over the short and long term.

Performance-based remuneration is provided in the form of a STI plan and a LTI plan.

STI

The STI plan provides executives with the opportunity to earn an annual incentive award which is delivered in cash.

The key objectives of the STI plan are to drive and reward outstanding performance against annual strategic financial and operational performance objectives, promote effective management of capital, and position the Company to continuously achieve in future years.

The key features of the STI award plan can be summarised as follows:

How is it paid?	The STI is provided to executives in the form of cash payments.
How much is the STI opportunity?	During the financial year ended 30 June 2021, the CEO was able to earn 25% of his fixed annual remuneration, and the CFO was able to earn 20% of his fixed annual remuneration.

Remuneration report (continued)

How is performance measured?	The STI performance measures were chosen as they reflect the core drivers of short-term performance and also provide a framework for delivering sustainable value to the Group and its shareholders. During the year, nine key performance indicators covering financial and non-financial were utilised. A summary of the measures and weightings are set out in the table below:

Category	CEO	CFO
Financial	20%	40%
Clinical trials	15%	–
Sales, business development, strategic initiatives	30%	35%
Shareholder and stakeholder engagement	10%	15%
Product pipeline, safety and quality	25%	10%
Total	**100%**	**100%**

When is it paid?	The STI award is determined after the end of the financial year following a review of performance over the year against the STI performance measures by the CEO (and in the case of the CEO, by the Board). The Board approves the final STI award based on this assessment of performance. The STI is paid in cash three months after the end of the performance period.
Deferral terms	None.
What happens if an executive ceases employment?	If an executive resigns or is terminated for cause before the end of the financial year, no STI is awarded for that year. If an executive ceases employment during the performance period by reason of redundancy, ill health, death, or other circumstances approved by the Board, the executive will be entitled to a pro-rata cash payment based on assessment of performance up to the date of ceasing employment for that year.

LTI

The Company established a new LTI plan with effect from its listing. The objective of that LTI plan is to assist in the motivation, retention and reward of executives, and to link the long-term reward for those executives with the creation of shareholder value through the allocation of equity awards which are subject to specific performance conditions.

Under the LTI plan, directors, senior executives and other key employees identified by the Board can be offered participation in the form of options and/or performance rights. The vesting of those options and/or performance rights will be subject to the satisfaction of appropriate service-based conditions and/or performance hurdles determined by the Board.

The key features of the LTI plan can be summarised as follows:

How is it paid?	The LTI is provided in the form of options and/or performance rights.
How much is the LTI opportunity?	During the financial year ended 30 June 2021, the CEO had a target LTI opportunity of 40% of his fixed annual remuneration, and the CFO had a target LTI opportunity of 35% of his fixed annual remuneration.
When is it vested?	Three years from the date of offer.
What happens if an executive ceases employment?	If an executive resigns or is terminated for cause, any unvested LTI awards are forfeited, unless otherwise determined by the Board. If an executive ceases employment during the performance period by reason of redundancy, ill health, death, or other circumstances approved by the Board, the executive will generally be entitled to a pro-rata number of unvested options based on achievement of the performance measures over the performance period up to the date of ceasing employment (subject to Board discretion). The treatment of vested and unexercised awards will be determined by the Board with reference to the circumstances of cessation.

Prior to the establishment of the LTI plan, awards were granted to some directors and employees of the Company in the period from 15 January 2017 and 1 March 2020 in accordance with the Company's former remuneration and incentive arrangements. A number of those options and rights issued under those legacy arrangement remain in existence.

Target remuneration mix

The target remuneration mix for the executives is as follows, noting that the financial year ended 30 June 2021 represents the first year the remuneration mix, including STI and LTI, was introduced.

Position	Fixed remuneration	STI	LTI
CEO	61%	15%	24%
CFO	64%	13%	23%

3. Executive remuneration outcomes in FY21

Executive remuneration

The actual remuneration earned by executives, for the years ended 30 June, are set out below:

		Short-term benefits			Post-employment benefits	Other long-term benefits	Share-based payments				
Executive	Financial year	Salary $	Cash bonus[1]/ STI $	Other benefits $	Pension/ Superannuation $	Long service leave entitlement $	LTI –Options and/or performance rights $	Termination payments $	Total remuneration $	Performance related %	Equity based %
Dr Andreas Fouras	2021	502,142	95,621	–	–	–	48,132	–	645,895	22%	7%
	2020	434,611	–	–	5,782	–	848,663[3]	–	1,289,056	66%	66%
Heath Lee[2]	2021	100,000	75,000	350	9,224	474	23,318	–	208,366	47%	11%
	2020	146,333	–	–	13,862	383	–	–	160,578	–	–

(1) Cash bonus paid during the financial year ended 30 June 2021 is in relation to services performed in the previous financial year and the completion of the IPO.

(2) Remuneration for Heath Lee was for the period up to his retirement as an executive director and KMP. Heath continues to serve as CFO and is not considered a KMP.

(3) The options relating to the financial year ended 30 June 2020 were issued under the Company's legacy employee equity plan prior to the IPO.

Short-term incentives

STI offered for the 2021 financial year

A total STI pool of US$164,750 and A$351,034 was offered for the financial year.

Who are the participants of the STI?

The CEO, his functional direct reports, and managers in the business identified as having the ability to influence the strategic outcomes of the business.

Outcomes of STI for 2021 financial year

Executives received an average of 91.2% of their STI target for performance against key performance indicators, equating to total payments to participants of US$141,942 and A$319,824.

Remuneration report (continued)

Long-term incentives

LTI offered for the financial year ended 30 June 2021

The Company granted 2,680,415 options during the financial year under its Long-Term Incentive Plan (**FY21 LTIP**). Furthermore, the Company granted 1,346,155 options on 25 June 2021 under its Long-Term Incentive Plan, for the next financial period ending 30 June 2022 (**FY22 LTIP**).

Who are the participants of the LTI?

The CEO, his functional direct reports, and key senior leaders in the business identified as having the ability to influence the strategic outcomes of the business.

Outcomes of LTI for financial year ended 30 June 2021

The FY21 LTIP and FY22 LTIP options do not vest until FY25 or later. No assessment regarding these options was necessary at the end of FY21.

Employment contracts

Remuneration and other terms of employment for executives are formalised in employment agreements. The CEO does not have a fixed term contract with the Group. Details of the employment agreement as at 30 June 2021 are as follows:

Name:	Andreas Fouras
Title:	Managing Director and Chief Executive Officer
Agreement commenced:	1 July 2020 (superseding an employment agreement dated 18 December 2015)
Term of agreement:	Open ended
Details:	Andreas has entered into an employment contract with 4DMedical R&C Inc. (formerly 4Dx, Inc.) which governs his employment with the Group. Andreas will receive a fixed annual remuneration of US$375,000 and the payment of health benefits (which include health insurance, dental and vision insurance). Andreas is eligible to participate in an STI arrangement each year. The target STI for the first year of this agreement is 25% of fixed annual remuneration. Andreas is also eligible to participant in an LTI arrangement to a value equating to 40% of fixed annual remuneration per year unless otherwise agreed with the Company. Either party may terminate Andreas' employment by giving six months' notice. The Group may elect to make a payment in lieu of notice or can place Andreas on gardening leave for all or part of that notice period. The Group may terminate Andreas' appointment without notice in circumstances warranting summary dismissal. The employment contract contains express provisions protecting the Group's confidential information and intellectual property, along with post-termination non-compete obligations for a period of up to 12 months, subject to the usual legal constraints.

4. Non-executive directors' remuneration

NED fee policy

Under the Constitution, the Board decides the total amount paid to each director as remuneration for his or her services as a director of the Company. However, under the Constitution (and the ASX Listing Rules), the total amount paid to all NEDs for their services must not exceed in aggregate in any financial year the amount fixed by the Company in general meeting. The current aggregate limit for NED fees is $500,000 per annum. The Company is seeking to increase the aggregate directors' fee pool limit to $750,000 at its 2021 Annual General Meeting. This will allow the Company to make additional payments to non-executive directors of its subsidiaries, including for ALHI, and to provide flexibility to the Company to attract and retain non-executive directors of a high calibre as the complexity of the Company increases.

NEDs are paid an annual fee as agreed with the Company for serving as a director, together with additional fees for chairing any Board committee.

To preserve independence and impartiality, NEDs are not entitled to any form of incentive payments including options and the level of their fees is not set with reference to measures of the Company's performance.

Non-Executive Directors	Financial year	Directors' fees and allowances (exclusive of super-annuation contributions) $	Post-employment benefits (including super-annuation contributions) $	Share-based payments (options and/or performance rights) $	Consulting fees $	Total $
Bruce Rathie	2021	80,527	7,650	–	–	88,177
	2020	33,011	3,136	–	–	36,147
Lilian Bianchi	2021	63,659	11,699	–	–	75,358
	2020	22,667	–	–	–	22,667
Dr Robert A. Figlin	2021	58,767	–	–	–	58,767
	2020	50,000	–	–	–	50,000
Lusia Guthrie	2021	71,332	6,777	–	–	78,109
	2020	53,333	–	–	–	53,333
John Livingston	2021	57,329	5,446	–	25,000	87,775
	2020	1,550	1,414	167,500	–	170,464
Julian Sutton	2021	52,998	5,035	–	52,500	110,533
	2020	–	1,267	380,750	–	382,017

During the financial year, the Company made a termination payment to John Livingston as consideration for the early termination of a consultancy agreement entered into with the Company in July 2019. Similarly, Julian Sutton received consulting fees in consideration for his services under an Introducer Agreement and Services Agreement entered into with the Company in September 2019 and May 2020, respectively. Prior to the IPO on 7 August 2020, all consultancy and service agreements with the NEDs were terminated.

The Company does not have any other consultancy or services agreements in place with any of its NEDs.

Directors may be reimbursed for all reasonable travelling and other expenses incurred by them in attending to the Company's affairs, including but not limited to attending and returning from Board meetings or any meetings of Board committees and in attending and returning from any general meetings of the Company.

Directors may be paid such additional or special remuneration if they, at the request of the Board, perform any extra services or make special exertions.

There are no retirement benefit schemes for NEDs, other than statutory superannuation contributions.

Appointment letters

Non-executive directors do not have fixed term contracts with the Company. Each of the NEDs has entered into an appointment letter with the Company, confirming the terms of their appointment, their roles and responsibilities and the Company's expectations for them as a director.

All directors including non-executive directors are subject to the annual one-third retirement requirement at the annual general meeting provided that directors must also retire by whichever is the longer period: the third annual general meeting following their appointment or the third anniversary date of appointment. All retired directors are eligible for re-election.

Remuneration report (continued)

5. Share-based compensation

Issue of shares

No shares were issued to KMPs as part of compensation during the year ended 30 June 2021.

Options

Details of options issued to directors and other KMP as part of compensation during the year ended 30 June 2021 are set out below:

Name	Award	Options granted	Grant date	Fair value per option at grant date ($)	Exercise price per share ($)	Vesting date	Expiry date	Value of options granted ($)
Dr Andreas Fouras	FY21 LTIP	914,000	7 August 2020	0.18	1.45	7 August 2023	7 August 2024	161,175
Heath Lee[1]	FY21 LTIP	244,560	7 August 2020	0.55	0.73	7 August 2023	7 August 2024	76,674

(1) Options issued to Heath Lee during the financial year relate to the period up to his retirement as an executive director and KMP. Heath continues to serve as CFO and is not considered a KMP.

The value of options granted were determined at the time of grant. For details on the valuation of the options, including models and assumptions used, please refer to Note 24. There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

Performance rights

No performance rights were issued to KMPs as part of compensation during the year ended 30 June 2021.

Additional disclosures relating to KMP

Shareholding

The number of ordinary shares in the Company held during the financial year by each NED and executive, including their personally related parties, is set out below:

Name	Balance at 1 July 2020	Received as part of remuneration	Additions	Disposals/ Other	Balance at 30 June 2021
Non-Executive Directors					
Bruce Rathie[1]	–	–	509,638	–	509,638
Lilian Bianchi[2]	–	–	53,306	–	53,306
Dr Robert A. Figlin	519,943	–	–	–	519,943
Lusia Guthrie[3]	65,000	–	142,409	–	207,409
John Livingston[4]	698,538	–	1,226,814	–	1,925,352
Julian Sutton[5]	480,000	–	206,279	(205,479)	480,800
Executive Directors					
Dr Andreas Fouras	64,838,000	–	–	–	64,838,000
Heath Lee[6]	1,237,476	–	–	(179,794)	1,057,682

(1) Shareholding acquired during the financial year through the Share Purchase Plan completed in March 2021 (9,638 shares) and as part of the Priority Offer at 4DMedical's IPO on 7 August 2020 (500,000 shares).

(2) Shareholding acquired during the financial year through the Share Purchase Plan completed in March 2021 (3,306 shares) and as part of the Priority Offer at 4DMedical's IPO on 7 August 2020 (50,000 shares).

(3) Shareholding acquired during the financial year through the Share Purchase Plan completed in March 2021 (2,409 shares) and as part of the Priority Offer at 4DMedical's IPO on 7 August 2020 (140,000 shares).

(4) Shareholding acquired during the financial year relate to the conversion of performance rights held to ordinary shares on a 1 for 1 basis at 4DMedical's IPO on 7 August 2020.

(5) Shareholding acquired during the financial year relate to the conversion of performance rights held to ordinary shares on a 1 for 1 basis at 4DMedical's IPO on 7 August 2020.

(6) Shareholdings of Heath Lee during the financial year relate to the period up to his retirement as an executive director and KMP. Heath continues to serve as CFO and is not considered a KMP.

Other share-based holdings

The number of performance rights and options held during the financial year by each director and other KMP, including their personally related parties, is set out below:

Name	Type	Balance at 1 July 2020	Granted during the year	Exercised	Expired/ Granted/ Forfeited from any other change	Balance at 30 June 2021	Vested and exercisable	Vested not exercisable
Dr Andreas Fouras	Options	5,122,693	914,000	–	–	6,036,693	5,122,693	–
	Performance Rights	–	–	–	–	–	–	–
Julian Sutton	Options	6,205,162	–	–	–	6,205,162	6,205,162	–
	Performance Rights	206,279	–	(206,279)	–	–	–	–
John Livingston	Options	–	–	–	–	–	–	–
	Performance Rights	1,226,814	–	(1,226,814)	–	–	–	–
Heath Lee[1]	Options	249,600	244,560	–	–	494,160	249,600	–
	Performance Rights	–	–	–	–	–	–	–

(1) Other share-based holdings held by Heath Lee during the financial year relate to the period up to his retirement as an executive director and KMP. Heath continues to serve as CFO and is not considered a KMP.

Other transactions with KMP and their related parties

No loans have been made to any of the KMP or their related parties during the financial year.

This concludes the remuneration report, which has been audited

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

Signed in accordance with a resolution of the directors.

Dr Andreas Fouras
Managing Director

23 September 2021

Auditor's independence declaration

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF 4DMEDICAL LIMITED

In relation to our audit of the financial report of 4DMedical Limited for the year ended 30 June 2021, I declare to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and

(b) no contraventions of any applicable code of professional conduct.

PKF
Melbourne, 23 September 2021

Steven Bradby
Partner

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Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2021

	Notes	2021 $	2020 $
Revenue	4.1	216,978	1,232,501
Cost of sales		(91,853)	(1,121,111)
Gross income		125,125	111,390
Other income	4.3	5,550,207	2,140,762
Employee benefits expense	4.4	(11,428,932)	(7,660,705)
Depreciation and amortisation expense	4.5	(741,481)	(584,653)
Foreign currency gains/(losses)		40,514	(190,991)
Other expenses	4.6	(12,293,467)	(7,828,060)
Finance costs – net	4.7	(2,657,189)	(7,961,364)
Loss before income tax		**(21,405,223)**	**(21,973,621)**
Income tax expense	6	(15,308)	(1,758)
Loss for the year		**(21,420,531)**	**(21,975,379)**
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations	21.5	3,647	–
Total comprehensive loss for the year		**(21,416,884)**	**(21,975,379)**
Earnings per share			
Basic, loss for the period attributable to ordinary equity holders	7	($0.08)	($0.15)
Diluted, loss for the period attributable to ordinary equity holders	7	($0.08)	($0.10)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

As at 30 June 2021

	Notes	2021 $	2020 $
Assets			
Current assets			
Cash and cash equivalents	8	80,880,062	8,429,192
Trade and other receivables	9	426,601	649,151
Inventories	10	153,374	16,045
Research and development tax incentive receivable		3,562,174	1,102,213
Other assets		826,785	101,043
Deferred costs	11	–	387,980
Total current assets		85,848,996	10,685,624
Non-current assets			
Trade and other receivables	9	84,208	108,205
Property, plant and equipment	12	1,188,978	803,398
Right-of-use assets	13	1,628,255	965,434
Intangible assets	14	3,886,166	3,261,939
Total non-current assets		6,787,607	5,138,976
Total assets		**92,636,603**	**15,824,600**
Liabilities and equity			
Current liabilities			
Trade and other payables	15	6,037,774	2,334,626
Contract liabilities	16	955,200	492,085
Loans and borrowings	17	723,452	17,436,459
Employee benefit liabilities	19	437,100	298,870
Financial liabilities at fair value through profit or loss	20	–	6,174,221
Other liabilities		14,559	221,761
Total current liabilities		8,168,085	26,958,022
Non-current liabilities			
Loans and borrowings	17	965,355	621,154
Employee benefit liabilities	19	146,573	55,274
Total non-current liabilities		1,111,928	676,428
Total liabilities		**9,280,013**	**27,634,450**
Net assets/(liabilities)		**83,356,590**	**(11,809,850)**
Equity			
Issued capital	21	141,587,808	18,927,393
Other capital reserves	21.3	1,771,037	7,051,341
Other equity	21.4	–	796,787
Other reserves	21.5	3,647	–
Accumulated losses		(60,005,902)	(38,585,371)
Total equity/(deficit)		**83,356,590**	**(11,809,850)**
Total liabilities and equity		**92,636,603**	**15,824,600**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the year ended 30 June 2021

	Issued capital (Note 21.2) $	Other capital reserves (Note 21.3) $	Other equity (Note 21.4) $	Other reserves (Note 21.5) $	Accumulated losses $	Total equity $
At 1 July 2020	**18,927,393**	**7,051,341**	**796,787**	**–**	**(38,585,371)**	**(11,809,850)**
Loss for the year	–	–	–	–	(21,420,531)	(21,420,531)
Other comprehensive income	–	–	–	3,647	–	3,647
Total comprehensive income/(loss) for the year	–	–	–	3,647	(21,420,531)	(21,416,884)
Issue of share capital	96,066,271	–	–	–	–	96,066,271
Capital raising costs (Note 21)	(5,229,461)	–	–	–	–	(5,229,461)
Share-based payments (Note 24)	–	1,402,917	–	–	–	1,402,917
Conversion of rights to issued capital	2,716,482	–	–	–	–	2,716,482
Conversion of options to issued capital	2,453,949	–	–	–	–	2,453,949
Conversion of convertible notes to issued capital (Note 21)	26,653,174	–	(796,787)	–	–	25,856,387
Settlement of rights – issued capital	–	(2,961,151)	–	–	–	(2,961,151)
Settlement of options – issued capital	–	(628,676)	–	–	–	(628,676)
Buyback of options	–	(3,093,394)	–	–	–	(3,093,394)
At 30 June 2021	**141,587,808**	**1,771,037**	**–**	**3,647**	**(60,005,902)**	**83,356,590**

	Issued capital (Note 21.2) $	Other capital reserves (Note 21.3) $	Other equity (Note 21.4) $	Other reserves (Note 21.5) $	Accumulated losses $	Total equity/ (deficit) $
At 1 July 2019	**17,705,138**	**3,460,544**	**–**	**–**	**(16,609,992)**	**4,555,690**
Loss for the year	–	–	–	–	(21,975,379)	(21,975,379)
Other comprehensive income	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	(21,975,379)	(21,975,379)
Issue of share capital	1,222,255	–	–	–	–	1,222,255
Share-based payments (Note 24)	–	3,590,797	–	–	–	3,590,797
Convertible notes	–	–	796,787	–	–	796,787
At 30 June 2020	**18,927,393**	**7,051,341**	**796,787**	**–**	**(38,585,371)**	**(11,809,850)**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the year ended 30 June 2021

	Notes	2021 $	2020 $
Operating activities			
Receipts from customers		696,467	3,089,919
Payments to suppliers and employees		(12,947,405)	(7,611,281)
Research costs		(9,310,089)	(3,318,089)
Interest and other costs of finance paid		(60,950)	(274,698)
Government grants and tax incentives		7,168,618	554,657
Interest received		31,161	57,143
Net GST paid		(60,663)	(147,006)
Other tax paid		(13,143)	(993)
Deposits paid		(24,000)	–
Net cash flows used in operating activities	**8**	**(14,520,004)**	**(7,650,348)**
Investing activities			
Purchase of property, plant and equipment		(576,352)	(325,297)
Purchase of intangibles		(148,651)	(183,745)
Research and development tax incentive		371,680	372,005
Capitalisation of development costs to intangible assets		(227,126)	(649,412)
Net cash flows used in investing activities		**(580,449)**	**(786,449)**
Financing activities			
Proceeds from issues of equity securities		96,000,000	1,222,255
Transaction costs related to issues of equity securities or convertible debt securities		(6,382,474)	–
Payment of principal portion of lease liabilities		(533,664)	(354,815)
Repayment of borrowings		–	(3,000,000)
Proceeds from convertible notes issue		–	17,412,500
Payments for cost of fund raising		–	(1,499,175)
Net cash paid for settlement of options		(1,532,539)	–
Net cash flows from financing activities		**87,551,323**	**13,780,765**
Net increase in cash and cash equivalents		72,450,870	5,343,968
Cash and cash equivalents at the beginning of the year		8,429,192	3,085,224
Cash and cash equivalents at the end of the year	**8**	**80,880,062**	**8,429,192**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements

For the year ended 30 June 2021

1. Corporate information

The consolidated financial statements of 4DMedical Limited and its controlled entities (the **Group**) for the year ended 30 June 2021 were authorised for issue in accordance with a resolution of the directors on the date the directors' declaration was signed.

4DMedical Limited (the **Company**) is a for-profit public company limited by shares incorporated in Australia. The Company listed on Australian Securities Exchange (**ASX**) on 7 August 2020 (ASX code: 4DX).

The registered office and principal place of business of the Group is Suite 501, Level 5, 468 St Kilda Road, Melbourne, Victoria 3004.

The nature of the operations and principal activities of the Group are described in the directors' report. The information on the Group structure is provided in Note 25.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis.

The financial report is presented in Australian dollars ($).

The consolidated financial statements provide comparative information in respect of the previous periods.

2.2 Compliance with International Financial Reporting Standards (IFRS)

The financial statements also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

2.3 Changes in accounting policies and disclosures

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2021, and have not been early adopted in preparing these consolidated financial statements. The directors have assessed the impact of these new standards are expected to have on the consolidated financial statements of the Group.

Accounting Standards and Interpretations issued but not yet effective

The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

AASB 2020-1 *Amendments to AASs – Classification of Liabilities as Current or Non-current*

Effective for annual reporting periods beginning on or after 1 January 2023.

A liability is classified as current if the entity has no right at the end of the reporting period to defer settlement for at least 12 months after the reporting period. The AASB recently issued amendments to AASB 101 *Presentation of Financial Statements* to clarify the requirements for classifying liabilities as current or non-current. Specifically:

- The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists.
- Management intention or expectation does not affect classification of liabilities.
- In cases where an instrument with a conversion option is classified as a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current.

These amendments are applied retrospectively. Earlier application is permitted.

AASB 2021-2 *Amendments to AASB 108 – Definition of Accounting Estimates*

Effective for annual reporting periods beginning on or after 1 January 2023.

An accounting policy may require items in the financial statements to be measured using information that is either directly observable, or estimated. Accounting estimates use inputs and measurement techniques that require judgements and assumptions based on the latest available, reliable information.

The amendments to AASB 108 clarify the definition of an accounting estimate, making it easier to differentiate it from an accounting policy. The distinction is necessary as their treatment and disclosure requirements are different. Critically, a change in an accounting estimate is applied prospectively whereas a change in an accounting policy is generally applied retrospectively.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

2. Summary of significant accounting policies (continued)

2.3 Changes in accounting policies and disclosures (continued)

The new definition provides that 'Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.' The amendments explain that a change in an input or a measurement technique used to develop an accounting estimate is considered a change in an accounting estimate unless it is correcting a prior period error.

- For example, a change in a valuation technique used to measure the fair value of an investment property from market approach to income approach would be treated as a change in estimate rather than a change in accounting policy.
- In contrast, a change in an underlying measurement objective, such as changing the measurement basis of investment property from cost to fair value, would be treated as a change in accounting policy.

The amendments did not change the existing treatment for a situation where it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate. In such a case, the change is accounted for as a change in an accounting estimate.

The amendments are applied prospectively. Earlier application is permitted.

Summary of Accounting Standards and Interpretations issued but not yet effective that is expected to have an immaterial impact on the Group

Standard		Effective date
AASB 2020-3	*Amendment to AASB 9 – Fees in the '10 per cent' Test for Derecoqnition of Financial Liabilities (Part of Annual Improvements 2018-2020 Cycle)*	1 January 2022
AASB 2014-10	*Amendments to AASs – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	1 January 2022
AASB 2020-3	*Amendments to AASB 116 – Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
AASB 2020-3	*Amendments to AASB 137 – Onerous Contracts – Cost of Fulfilling a Contract*	1 January 2022
AASB 2020-3	*Amendments to AASB 3 – Reference to the Conceptual Framework*	1 January 2022

2.4 Significant accounting policies

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June 2021. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of Other Comprehensive Income (**OCI**) are attributed to the equity holders of the Parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

b) Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when it is:

- Expected to be settled in the normal operating cycle;
- Held primarily for the purpose of trading;
- Due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

c) Foreign currencies

The Group's consolidated financial statements are presented in Australian dollars ($).

Transactions in foreign currencies are initially recorded by the Group at its respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss and other comprehensive income.

d) Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise of cash at bank.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash, as defined above.

e) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials: purchase cost on a first-in/first-out basis.
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

2. Summary of significant accounting policies (continued)

2.4 Significant accounting policies (continued)

f) Research and development tax incentive receivable

The Company is eligible to obtain tax incentives from the Australian Tax Office as a result of its continued investment in research and development activities, which reduces research and development costs by offering tax offsets for eligible expenditure. This non-refundable tax offset reduces the tax due to be paid by the Company.

g) Other assets

Prepayments and deposits are carried at amortised cost and represents goods and services paid for by the Group in advance prior to the end of the financial period that have not been received.

h) Deferred costs

Capital raising costs that are permitted to be capitalised are recognised as deferred costs in the consolidated statement of financial position and will be transferred to capital raising costs as a component of equity.

i) Property, plant and equipment

Plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Furniture and fixtures	10 years
Workshop equipment	10 years
Computer equipment	5 years
Leasehold improvement	40 years
Conference assets	13 years

Assets under construction are not subject to depreciation.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

j) Intangible assets

Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in consolidated statement of profit or loss and other comprehensive income in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually.

A summary of the policies applied to the Group's intangible assets is, as follows:

	Branding	Patents	Development costs
Useful lives	Finite (40 years)	Finite (20 years)	Finite
Amortisation method used	Amortised on a straight-line basis over the period of the brand	Amortised on a straight-line basis over the period of the patent	Not amortised as not yet reached stage requiring amortisation

Development costs

Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- its intention to complete and its ability and intention to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in consolidated statement of profit or loss and other comprehensive income. During the period of development, the asset is tested for impairment when indicators of impairment are noted.

k) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment.

(ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset.

(iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value (i.e. below $5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

2. Summary of significant accounting policies (continued)

2.4 Significant accounting policies (continued)

l) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating units (CGU) fair value less costs of disposal and its value in use. The recoverable amount 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. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in the consolidated statement of profit or loss and other comprehensive income as an expense.

m) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30-60 days of recognition.

n) Provisions and employee benefit liabilities

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Wages, salaries and sick leave

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave which are expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave and annual leave

The Group does not expect its long service leave or annual leave benefits to be settled wholly within 12 months of each reporting date. The Group recognises a liability for long service leave and annual leave measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Warranty provision

The Group provides a manufacturer's warranty for general repairs on defects of goods that may have existed at the time of sale. Provisions related to these warranties are recognised when the product is sold or the service is provided to the customer.

o) Loans and borrowings

Loans and borrowings are measured initially at fair value, net of directly attributable transaction costs.

Loans and borrowings are derecognised when the obligation under the loan or borrowing is discharged, cancelled, or expires.

p) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

The Group's financial liabilities at fair value through profit or loss consist of embedded derivatives. The embedded derivatives are held for trading as they are not designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in AASB 9 are satisfied.

Financial liabilities at fair value through profit or loss are derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing liability terms are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

q) Issued capital

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

r) Convertible notes

Convertible notes are separated into liability and equity components based on the terms of the contract.

On issuance of the convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible instrument. This amount is classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in equity. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible notes, based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

s) Share-based payments

Employees and directors (including senior executives) of the Group receive part, if not all of their remuneration in the form of share-based payments, whereby employees and directors render services as consideration for equity instruments (equity-settled transactions). Employees and directors working in the business development group are granted share appreciation rights. It is the intention of the Group that the options will be equity settled (equity-settled transactions).

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 24. Where it does not qualify for recognition as assets, the cost is recognised in employee benefits expense (Note 4.4), together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the consolidated statement of profit or loss and other comprehensive income for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions or the cost qualifies for recognition as assets.

No expense is recognised for awards that do not ultimately vest because of non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

t) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

2. Summary of significant accounting policies (continued)

2.4 Significant accounting policies (continued)

u) Revenue recognition

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements and that it typically controls the goods or services before revenue transferring them to the customer.

Sale of goods

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment. The normal credit term is 30 to 90 days upon delivery.

Ongoing support and maintenance and software licences

The Group recognises revenue from ongoing support and maintenance and software licences over time, using an output method to measure progress towards complete satisfaction of the services, because the customer simultaneously receives and consumes the benefits provided by the Group.

Contract balances

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Trade and other receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as debt instruments at amortised cost.

Allowance for expected credit losses (ECLs)

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

v) Finance income

Interest income is recorded using effective interest rate (EIR) method. The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the consolidated statement of profit or loss and other comprehensive income.

w) Taxes

Current income tax

Current income tax assets and liabilities 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 at the reporting date.

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

Goods and services tax (GST)

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

- When the GST incurred on a sale or purchase of assets or services is not payable to or recoverable from the taxation authority, in which case the GST is recognised as part of the revenue or the expense item or as part of the cost of acquisition of the asset, as applicable; and
- When receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the consolidated statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

x) Comparatives

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

3. Significant accounting judgements, estimates and assumptions

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

Development costs capitalised to intangible assets

The treatment of development costs depends on whether and when there is an identifiable asset that will generate expected future economic benefits.

Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

An intangible asset arising from the development phase of an internal project shall be recognised if, and only if, an entity can demonstrate all of the AASB 138 *Intangible Assets* requirements.

The cost of an internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria. The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Recognition of convertible notes

At balance date management exercised its judgement to assess the probability of the convertible notes being converted into equity. In relation to the face value of the convertible notes, the result was to recognise both a liability component and an embedded derivative (equity component). An associated interest expense was also recognised with a corresponding increase to the liability component. Refer to Notes 17 and 21.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

4. Revenue and expenses

4.1 Revenue from contracts with customers

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	2021 $	2020 $
Type of goods or service		
Sale of goods	–	1,100,000
Ongoing support and maintenance	84,478	16,251
Software licences	132,500	116,250
Total revenue from contracts with customers	**216,978**	**1,232,501**
Timing of revenue recognition		
Goods transferred at a point in time	–	1,100,000
Services transferred over time	216,978	132,501
Total revenue from contracts with customers	**216,978**	**1,232,501**
Geographical markets		
Australia	100,000	1,200,000
United States of America	116,978	32,501
Total revenue from contracts with customers	**216,978**	**1,232,501**

The Group has considered its internal reporting framework, management and operating structure and the directors' conclusion is that the Group has one operating segment. Refer to Note 5.

4.2 Performance obligations

Sale of goods

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment. A manufacturer's warranty is provided on the sale of goods, refer to Note 2.4(n). The normal credit term is 30 to 90 days upon delivery. Refer to Note 2.4 (u).

Ongoing support and maintenance

Ongoing support and maintenance services are provided for a defined time period in which the customer has the ability to use the Group's support team in relation to goods purchased by the customer. The entitlement to this service is either considered over time or linked to output targets. Payment is received in advance, and the revenue is recognised over the satisfaction period and commences from the date the related goods are delivered. Refer to Note 2.4 (u).

Software licences

The Group provides software licences with the goods sold for a fixed period. The commencement of the satisfaction period of the performance obligation is considered to be when the related goods are delivered. Payment is received in advance, and the revenue is recognised monthly over the satisfaction period. The ongoing obligation for maintenance support is either considered over time or linked to output targets. Refer to Note 2.4 (u).

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 30 June are, as follows:

	2021 $	2020 $
Within one year	741,897	148,751
More than one year	213,303	343,334
	955,200	**492,085**

The remaining performance obligations expected to be recognised in more than one year relate to the provision of software licences that is to be satisfied within three years. All the other remaining performance obligations are expected to be recognised within one year. Please refer to Note 16.

4.3 Other income

	2021 $	2020 $
Research and development tax incentive	4,069,632	819,719
Government grants (Note 18)	1,259,734	1,320,945
Other income	220,841	98
Total other income	**5,550,207**	**2,140,762**

4.4 Employee benefits expense

	2021 $	2020 $
Wages and salaries	9,048,979	3,459,403
Other employee and directors' benefits expenses	909,219	1,419,515
Equity settled share-based payment (Note 24)	1,402,917	2,781,787
Tax exempt direct share issue	67,817	–
Total employee benefits expense	**11,428,932**	**7,660,705**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

4. Revenue and expenses (continued)

4.5 Depreciation and amortisation expense

	2021 $	2020 $
Leasehold improvements	1,747	1,551
Furniture and fixtures	19,611	19,955
Workshop equipment	15,029	12,992
Conference assets	2,779	8,922
Computer equipment	132,918	104,847
Right-of-use assets	556,836	392,195
Other intangible assets	12,561	44,191
Total depreciation and amortisation expense	**741,481**	**584,653**

4.6 Other expenses

	2021 $	2020 $
Computer expenses	1,056,649	267,241
Research and development expenses*	2,358,017	26,516
Bad debt expenses	–	125,000
Insurance expenses	886,626	321,529
Legal, professional and consultant expenses	5,375,410	4,310,385
Occupancy and utilities expenses	277,154	181,630
Sales and marketing expenses	964,648	774,129
Travel expenses	302,996	349,991
General expenses	1,039,899	1,471,639
Share-based payment expenses to third parties	32,068	–
Total other expenses	**12,293,467**	**7,828,060**

* *The expenses reported relate to the Group's research and development into four-dimensional visualisation of lung motion for clinical and preclinical applications. Research and development costs that are not eligible for capitalisation are expensed in the period incurred.*

4.7 Finance costs – net

	2021 $	2020 $
Interest expense on borrowings and convertible notes	2,627,400	7,964,459
Interest expense on lease liabilities	60,950	54,048
Total finance costs	**2,688,350**	**8,018,507**
Interest income	(31,161)	(57,143)
Total finance income	**(31,161)**	**(57,143)**
Total finance costs – net	**2,657,189**	**7,961,364**

5. Segment information

The Group is required to determine and present its operating segments based on the way in which financial information is organised and reported to the chief operating decision-maker (**CODM**). The CODM has been identified as the Board of Directors on the basis that they make the key operating decisions of the Group and are responsible for allocating resources and assessing performance.

Key internal reports received by the CODM, primarily the management accounts, focus on the performance of the Group as a whole. The performance of the operations is based on EBITDA (earnings before interest, tax, depreciation and amortisation) and adjusted EBITDA which excludes the effects of significant items of income and expenditure that may have an impact on the quality of earnings. The accounting policies adopted for internal reporting to the CODM's are consistent with those adopted in the financial statements.

The Group has considered its internal reporting framework, management and operating structure and the directors' conclusion is that the Group has one operating segment.

6. Income tax

6.1 Income tax expense

The major components of income tax expense for the years ended 30 June 2021 and 2020 are:

	2021 $	2020 $
Current income tax charge:		
Current income tax charge	15,308	1,758
Deferred tax:		
Relating to the origination and reversal of temporary differences	–	–
Income tax expense reported in the consolidated statement of profit or loss	**15,308**	**1,758**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

6. Income tax (continued)

6.2 Reconciliation between tax expense and the accounting loss multiplied by the Group's domestic tax rate for 2021 and 2020

	2021 $	2020 $
Accounting loss before income tax	**(21,405,223)**	**(21,973,621)**
At Company's statutory income tax rate of 26% (2020: 27.5%)	(5,565,358)	(6,042,746)
Research costs (permanent differences)	1,299,502	471,379
Other losses not recognised	4,281,164	5,573,125
Income tax expense reported in the statement of profit or loss	**15,308**	**1,758**

Carry forward tax losses

As at 30 June 2021, the Group has carry forward tax losses of $26,408,233 (2020: $18,770,268) which may be utilised to reduce future net taxable income subject to satisfying one of the tax loss utilisation tests contained within the *Income Tax Assessment Act 1997.*

7. Earnings per share

Basic EPS is calculated by dividing the net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the net loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The basic and diluted earnings per share for the reporting period were as follows:

	2021 $	2020 $
Basic earnings per share	(0.08)	(0.15)
Diluted earnings per share	(0.08)	(0.10)

The following reflects the income and share data used in the basic and diluted EPS calculations:

	2021 $	2020 $
Loss attributable to ordinary equity holders	**(21,420,531)**	**(21,975,379)**

	2021	2020
Weighted average number of ordinary shares for basic earnings per share	261,419,569	146,877,834
Effect of dilution from:		
Convertible notes	–	36,511,199
Options and rights	21,962,641	37,270,665
Weighted average number of ordinary shares adjusted for the effect of dilution	**283,382,210**	**220,659,698**

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

8. Cash and cash equivalents

	2021 $	2020 $
Cash at bank	**80,880,062**	**8,429,192**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the above.

Cash flow reconciliation

	2021 $	2020 $
Reconciliation of net loss after tax to net cash flows from operations:		
Net loss for the year	(21,420,531)	(21,975,379)
Adjustments for:		
Depreciation and amortisation expense	741,481	584,653
Research and development tax incentive	(4,069,632)	(819,719)
Operating share-based payment expense	1,500,802	3,472,712
Unrealised foreign currency losses	4,097	89,381
Capital raising costs	1,444,583	–
Expected credit losses	–	125,000
Assets written off	33,584	146,942
Interest on convertible notes	2,627,400	7,743,809
Changes in assets and liabilities:		
Decrease/(increase) in trade and other receivables	137,470	(87,365)
(Increase)/decrease in inventories	(137,329)	612,713
(Increase)/decrease in other assets	(728,742)	80,680
Increase in trade and other payables	4,115,728	1,068,466
(Increase)/decrease in research and development tax incentive receivables	730,533	554,657
Increase in employee benefit liabilities	229,529	163,842
Increase in contract liabilities	463,115	367,499
(Decrease)/increase in other liabilities	(192,092)	221,761
Net cash flows used in operating activities	**(14,520,004)**	**(7,650,348)**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

8. Cash and cash equivalents (continued)

8.1 Changes in liabilities arising from financing activities

	1 July 2020 $	Cash flows $	Settlement of embedded derivatives $	Interest accrued $	Other $	30 June 2021 $
Convertible notes (net of fund raising cost)*	17,054,766	(25,856,387)	6,174,221	2,627,400	–	–
Current – Lease liabilities	381,693	(533,664)	–	–	875,423	723,452
Non-current – Lease liabilities	621,154	–	–	–	344,201	965,355
Total liabilities from financing activities	**18,057,613**	**(26,390,051)**	**6,174,221**	**2,627,400**	**1,219,624**	**1,688,807**

	1 July 2019 $	Cash flows $	Recognition of embedded derivatives $	Interest accrued $	Other $	30 June 2020 $
Loan from third party	3,000,000	(3,000,000)	–	–	–	–
Convertible notes (net of fund raising cost)*	–	15,485,178	(6,174,221)	7,743,809	–	17,054,766
Current – Lease liabilities	341,430	(354,815)	–	–	395,078	381,693
Non-current – Lease liabilities	974,575	–	–	–	(353,421)	621,154
Total liabilities from financing activities	**4,316,005**	**12,130,363**	**(6,174,221)**	**7,743,809**	**41,657**	**18,057,613**

* *The cash flows in relation to convertible notes consist solely of the liability component recognised upon receipt of the convertible notes.*

9. Trade and other receivables

	2021 $	2020 $
Current		
Trade receivables	426,601	462,000
GST receivable	–	187,151
	426,601	**649,151**
Non-current		
Employee receivables	82,100	106,100
Net other receivables	2,108	2,105
	84,208	**108,205**

(i) Trade receivables

Trade receivables as at 30 June 2021 includes an amount relating to the sale of a pre-clinical scanner to South Australian Health and Medical Research Institute. No provision for expected credit losses has been recognised in trade receivables (2020: none).

(ii) Employee receivables

The employee receivables are interest free, limited recourse loans to employees to facilitate the purchase of shares in the Group and do not have a specific repayment date. Repayment of the principal sum will be funded through after tax distributions/ dividends paid by the Group.

If at the time of sale, transfer, buy-back or disposal of the shares a principal sum remains outstanding, the maximum amount payable by the borrower is limited to the value of the shares or the value of the loan (whichever is lower at that date). As at 30 June 2021, the Group had not impaired any of these loans because the market value of each share at that time was greater than the issue price.

10. Inventories

	2021 $	2020 $
Work in progress	153,374	16,045
Total inventories at the lower of cost and net realisable value	**153,374**	**16,045**

11. Deferred costs

	2021 $	2020 $
Current		
Deferred capital raising costs	**–**	**387,980**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

12. Property, plant and equipment

	Assets under construction $	Furniture and fixtures $	Conference assets $	Leasehold improve-ments $	Workshop equipment $	Computer equipment $	Total $
Cost or valuation							
At 1 July 2019	–	197,665	184,729	62,040	72,546	465,695	982,675
Additions	–	10,664	8,000	–	14,355	292,278	325,297
Assets written off	–	(4,034)	(152,234)	–	–	(8,779)	(165,047)
Foreign exchange adjustment	–	3,102	–	–	(3,923)	3,809	2,988
At 30 June 2020	**–**	**207,397**	**40,495**	**62,040**	**82,978**	**753,003**	**1,145,913**
At 1 July 2020	–	207,397	40,495	62,040	82,978	753,003	1,145,913
Additions	123,297	49,570	–	34,917	–	368,568	576,352
Assets written off	–	(9,560)	(7,570)	–	(214)	(19,678)	(37,022)
At 30 June 2021	**123,297**	**247,407**	**32,925**	**96,957**	**82,764**	**1,101,893**	**1,685,243**
Depreciation							
At 1 July 2019	–	22,441	4,518	4,076	18,028	164,151	213,214
Depreciation charge for the period	–	19,955	8,922	1,551	12,992	104,847	148,267
Assets written off	–	(1,544)	(11,068)	–	–	(5,493)	(18,105)
Foreign exchange adjustment	–	(746)	(1)	–	(3,923)	3,809	(861)
At 30 June 2020	**–**	**40,106**	**2,371**	**5,627**	**27,097**	**267,314**	**342,515**
At 1 July 2020	–	40,106	2,371	5,627	27,097	267,314	342,515
Depreciation charge for the period	–	19,611	2,779	1,747	15,029	132,918	172,084
Assets written off	–	(3,560)	(2,785)	–	(170)	(11,819)	(18,334)
At 30 June 2021	**–**	**56,157**	**2,365**	**7,374**	**41,956**	**388,413**	**496,265**
Net book value							
At 30 June 2020	**–**	**167,291**	**38,124**	**56,413**	**55,881**	**485,689**	**803,398**
At 30 June 2021	**123,297**	**191,250**	**30,560**	**89,583**	**40,808**	**713,480**	**1,188,978**

13. Leases

Group as a lessee

The Group has lease contracts for office premises and data centre facilities. These leases used in its operations generally have lease terms between 3 and 6 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Right-of-use assets $
As at 1 July 2019 (on adoption of AASB 16)	**1,316,005**
Depreciation expense	(392,195)
Foreign exchange adjustment	41,624
As at 30 June 2020	**965,434**
Additions	1,261,281
Depreciation expense	(556,836)
Foreign exchange adjustment	(41,624)
As at 30 June 2021	**1,628,255**

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

	2021 $	2020 $
As at 1 July	**1,002,847**	**–**
On adoption of AASB 16	–	1,316,005
Additions	1,261,281	–
Accretion of interest	60,950	54,048
Payments	(594,614)	(408,863)
Foreign exchange adjustment	(41,657)	41,657
At 30 June	**1,688,807**	**1,002,847**
Current	723,452	381,693
Non-current	965,355	621,154

The following are the amounts recognised in profit or loss:

	2021 $	2020 $
Depreciation expense of right-of-use assets	556,836	392,195
Interest expense on lease liabilities	60,950	54,048
Total amount recognised in profit or loss	**617,786**	**446,243**

The Group had total cash outflows for leases of $594,614 in 2021 (2020: $408,863).

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

14. Intangible assets

	Development costs $	Other intangible assets $	Total $
Cost			
At 1 July 2019	2,264,009	402,303	2,666,312
Additions	485,003	183,745	668,748
At 30 June 2020	**2,749,012**	**586,048**	**3,335,060**
At 1 July 2020	2,749,012	586,048	3,335,060
Additions	503,033	148,651	651,684
Assets written off	–	(17,670)	(17,670)
At 30 June 2021	**3,252,045**	**717,029**	**3,969,074**
Amortisation			
At 1 July 2019	–	28,930	28,930
Amortisation for the period	–	44,191	44,191
At 30 June 2020	**–**	**73,121**	**73,121**
At 1 July 2020	–	73,121	73,121
Amortisation for the period	–	12,561	12,561
Assets written off	–	(2,774)	(2,774)
At 30 June 2021	**–**	**82,908**	**82,908**
Net book value			
At 30 June 2020	2,749,012	512,927	3,261,939
At 30 June 2021	**3,252,045**	**634,121**	**3,886,166**

15. Trade and other payables

	2021 $	2020 $
Current		
Trade payables	448,201	1,666,945
Other payables	985,643	591,126
Government grants (Note 18)	4,475,033	45,055
Unearned other income	–	31,500
GST payable	128,897	–
	6,037,774	**2,334,626**

16. Contract liabilities

	2021 $	2020 $
At 1 July	**492,085**	**124,586**
Deferred during the year	611,865	400,000
Released to the consolidated statement of profit or loss and other comprehensive income	(148,750)	(32,501)
At 30 June	**955,200**	**492,085**

Contract liabilities include advances received to deliver ongoing support and maintenance and software license services. The increase in contract liabilities was due to the advances received in relation to the sale of a Permetium™ preclinical scanner to the University of Michigan.

17. Loans and borrowings

	2021 $	2020 $
Current		
Lease liabilities (Note 13)	723,452	381,693
Convertible notes	–	17,054,766
	723,452	**17,436,459**
Non-current		
Lease liabilities (Note 13)	**965,355**	**621,154**

Convertible notes

The convertible notes with a coupon rate of 10%, issued by the Company during the previous financial year were converted to issued capital as a result of the IPO on 7 August 2020. See below for reconciliation from face value of convertible notes to the value that was converted to issued capital.

	2021 $	2020 $
Face value	16,281,965	16,281,965
Other equity securities – value of conversion rights (Note 21.4)	–	(796,787)
Embedded derivative	–	(6,174,221)
	16,281,965	**9,310,957**
Interest expense*	10,371,209	7,743,809
Convertible notes before conversion to share	26,653,174	17,054,766
Converted to share capital	(26,653,174)	–
	–	**17,054,766**

* *Interest expense is calculated by applying the effective interest rates between 42.00% and 49.72% to the liability component. The interest expense disclosed above is the cumulative expense recognised from the date of issue of the convertible notes.*

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

18. Government grants

	2021 $	2020 $
At 1 July	**45,055**	**–**
Received during the year	5,689,712	1,366,000
Released to the consolidated statement of profit or loss and other comprehensive income	(1,259,734)	(1,320,945)
At 30 June	**4,475,033**	**45,055**

ALHI, a wholly owned subsidiary of 4DMedical was awarded a $28.9 million grant under the Australian Federal Government's MRFF Frontier Stage Two initiative (the **MRFF Grant**). The MRFF Grant will fund the development of the XVD Scanners™, the world's first dedicated, low dose lung function scanners integrated with 4DMedical's proprietary XV Technology, over a period of five years. During the year, ALHI received its first payment of $4.99 million under the MRFF Grant.

The grant received from the Government is subject to satisfactory delivery of agreed project outcomes and compliance by ALHI with its obligations under the grant agreement.

As the grant is subject to milestone achievements, the grant is initially reflected on the consolidated statement of financial position, and will be recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grant is intended to compensate.

19. Employee benefit liabilities

	2021 $	2020 $
Current		
Employee entitlements	**437,100**	**298,870**
Non-current		
Employee entitlements	**146,573**	**55,274**

20. Financial liabilities at fair value through profit or loss

	2021 $	2020 $
Current		
Financial liabilities at fair value through profit or loss	**–**	**6,174,221**

The embedded derivative liability in relation to the convertible notes (Note 17) is separated from the convertible notes and carried at fair value through profit or loss.

21. Issued capital and reserves

	2021 $	2020 $
Ordinary shares	**141,587,808**	**18,927,393**

21.1 Terms and conditions of ordinary shares

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

21.2 Movement in ordinary shares on issue

	No. of shares	$
At 1 July 2019	**144,888,792**	**17,705,138**
Issued shares	3,145,500	1,222,255
At 1 July 2020	**148,034,292**	**18,927,393**
Issued shares	98,222,583	90,836,810
Conversion of rights to issued capital	8,492,850	2,716,482
Conversion of options to issued capital	3,230,913	2,453,949
Conversion of convertible notes to issued capital	36,511,199	26,653,174
At 30 June 2021	**294,491,837**	**141,587,808**

21.3 Reserves

	2021 $	2020 $
Share-based payment reserve	**1,771,037**	**7,051,341**

	2021 $	2020 $
Movement in the share-based payment reserve		
Balance at the beginning of the year	7,051,341	3,460,544
Share-based payments expense during the year (Note 24)	1,402,917	3,590,797
Settlement of rights – issued capital	(2,961,151)	–
Settlement of options – issued capital	(628,676)	–
Buyback of options	(3,093,394)	–
Balance at the end of the year	**1,771,037**	**7,051,341**

The share-based payment reserve comprised of the value of the employee, non-employee and director share plans that were granted during the year.

21.4 Other equity

	2021 $	2020 $
Value of conversion rights – convertible notes	**–**	**796,787**

	2021 $	2020 $
Movement in conversion rights		
Balance at the beginning of the year	796,787	–
Convertible notes	–	796,787
Conversion of convertible notes to issued capital	(796,787)	–
Balance at the end of the year	**–**	**796,787**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

21. Issued capital and reserves (continued)

21.4 Other equity (continued)

Conversion rights of convertible notes

The amount shown for other equity securities is the value of the conversion rights relating to the convertible notes with a coupon rate of 10%, details of which are shown in Note 17.

21.5 Other reserves

	2021 $	2020 $
Foreign currency translation reserve	**(3,647)**	**–**

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from translation of financial statements of foreign subsidiaries.

22. Capital management

The Group's capital includes issued capital, other capital reserves, accumulated losses and other equity. The objectives of managing the Group's capital is to ensure the Group's ability to achieve sustained business growth and profitability so as to maximise shareholder value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the business. To maintain an optimal capital structure, the Group may return capital to shareholders or issue new shares subject to the Company's constitution and relevant regulations. The Group's policies in respect of capital management and allocations are reviewed by the Board of Directors and there has been no changes made during the year.

23. Financial risk management objectives and policies

23.1 Risk exposures and responses

The key risks the Group is exposed through its financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk. Financial instruments affected by exposure risk include loans and borrowings and financial liabilities at fair value through profit or loss.

Interest rate risk

Exposure to interest rate risk is when the value of financial assets and liabilities fluctuates as a result in change in interest rates, affecting future cash flows or the fair value of fixed rate financial instruments. As the Group's loans and borrowings carry a fixed interest rate, the Group does not have any significant exposure to interest rate risk.

Foreign currency risk

As the Group's financial liabilities are denominated in Australian Dollars (AUD), the Group's exposure to foreign currency risk is immaterial.

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

The Group's exposure to credit risk is immaterial.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through capital raising. The Group mitigates liquidity risk by ensuring it has sufficient funds on hand to meet its working capital and investment objectives, while also focusing on improving its operational cash flow.

With the exception of non-current lease liabilities, all contractually fixed payments included in the consolidated statement of financial position as at 30 June 2021 are expected to be settled within one year of this date.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

Year ended 30 June 2021	On demand $	Less than 3 months $	3 to 12 months $	1 to 5 years $	> 5 years $	Total $
Lease liabilities (Note 13)	–	192,069	531,383	965,355	–	1,688,807
Trade and other payables	9,404	851,343	5,177,027	–	–	6,037,774
	9,404	**1,043,412**	**5,708,410**	**965,355**	**–**	**7,726,581**

Year ended 30 June 2020	On demand $	Less than 3 months $	3 to 12 months $	1 to 5 years $	> 5 years $	Total $
Lease liabilities (Note 13)	–	93,347	288,346	621,154	–	1,002,847
Trade and other payables	448,787	1,487,437	398,402	–	–	2,334,626
	448,787	**1,580,784**	**686,748**	**621,154**	**–**	**3,337,473**

23.2 Fair value estimation

Trade and other receivables

Trade receivables are non-interest bearing and generally on 30 days terms. An allowance for expected credit losses is made where there is objective evidence that a trade receivable is impaired. Fair value approximates carrying amount due to their short-term nature.

Trade and other payables

Trade payables are non-interest bearing and are normally settled on 30 days terms. Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

Embedded derivatives

The embedded derivative is calculated based on the share price at the IPO date. The carrying value approximates its fair value.

24. Share-based payments

During the year ended 30 June 2021, certain employees (including KMP) were granted 4,026,570 options (2020: 8,893,413) under the 4DMedical Long-Term Incentive Plan. No rights were granted during the year (2020: 3,938,512).

8,492,850 shares from the conversion of rights and 3,230,913 shares from the conversion of options were issued during the year (2020: nil). There are 4,026,570 (2020: 28,777,815) options that were granted but not yet vested as at date of this report. There were no rights that were granted but not yet vested at date of this report (2020: 8,492,850).

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

24. Share-based payments (continued)

Description of the Share-based payments arrangement

The Group had the following share-based payment arrangements, which are described below:

	Date of grant:	Total Vested and Unvested:	Vesting conditions:
2016 Options Offer	15 January 2017	249,600	50% to vest on/after 15 January 2017; and 50% on/after 30 June 2017
2016 Options Offer (Other)	15 January 2017	3,280,018	50% to vest on/after 15 January 2017; and 50% on/after 30 June 2017
2017 Fundraiser's Offer	15 March 2017	6,400,000	Vesting is subject to the Fundraising Hurdle
2017 Options USA Offer	1 October 2017	22,157	50% on 1 July 2018 and 50% on 30 June 2019
2019 USA Options Incentive Offer	1 July 2018	12,826	50% on 1 July 2019, 50% on 30 June 2020
Series C 'Early Bird'	24 October 2019	2,256,775	100% to vest on 24 October 2019
2019 Incentive Offer	1 January 2020	2,000,000	50% on 1 January 2020, 50% on 1 January 2021
FY20A Special Options Offer	1 March 2020	1,842,675	100% on 1 March 2020
2020 Introducer Options Offer A	1 March 2020	910,150	100% on 1 March 2020
2020 Introducer Options Offer B	1 March 2020	1,028,346	100% to vest after a successful IPO
FY21 Long-Term Incentive Plan (Other)	7 August 2020	914,000	Complete 3 years service from grant date
FY21 Long-Term Incentive Plan	7 August 2020	1,685,572	Complete 3 years service from grant date
FY21B Long-Term Incentive Plan	15 March 2021	14,367	Complete 3 years service from grant date
FY21C Long-Term Incentive Plan	25 June 2021	66,476	Complete 3 years service from grant date
FY22 Long-Term Incentive Plan	25 June 2021	1,346,155	Complete 3 years service from grant date
Total vested and unvested:		**22,029,117**	

Movements during the year

The cost recognised for employee and directors' services received during the year and remunerated by equity-settled share-based payment transactions is shown in the following table:

	2021 $	2020 $
Recognised in employee and directors' benefits expense (Note 4.4)	1,402,917	2,781,787
Recognised in the cost of capitalised development costs	–	118,085
Recognised in legal, professional and consultant expenses	–	690,925
Total expense arising from share-based payment transactions	**1,402,917**	**3,590,797**

The following table illustrates the number of, and movements in, options during the year:

	2021 Number	2020 Number
Outstanding at 1 July	**28,777,815**	**19,884,402**
Granted during the year	4,026,570	8,893,413
Bought back during the year	(7,332,732)	–
Net settled and converted to issued capital during the year	(3,442,536)	–
Outstanding at 30 June	**22,029,117**	**28,777,815**
Vested and exercisable at 30 June	18,002,547	26,791,634

The following table illustrates the number of, and movements in, rights during the year:

	2021 Number	2020 Number
Outstanding at 1 July	**8,492,850**	**4,582,505**
Granted during the year	–	3,938,512
Converted to issued capital during the year	(8,492,850)	(28,167)
Outstanding at 30 June	**–**	**8,492,850**
Exercisable at 30 June	–	–

The weighted average remaining contractual life for the options outstanding as at 30 June 2021 was 4.25 years (2020: 5.53).

The weighted average fair value of options granted during the year was $0.36 (2020: $0.35).

No rights were granted during the year. The weighted average fair value of rights granted in the previous year was $0.35.

The range of exercise prices for options outstanding at the end of the year was $0.40 to $2.33 (2020: $0.40 to $1.20).

The following tables list the inputs to the models used for the plans for the year ended in 30 June 2021 and 30 June 2020 respectively:

2021

	Option plans	Fundraiser plans	Right plans
Weighted average fair values at the measurement ($)	0.40	0.39	–
Expected volatility (%)	55	55	–
Risk-free interest rate (%)	0.50-1.00	1.00	–
Expected life of options (years)	4.25	5.71	–
Weighted average share price ($)	0.73-2.33	0.73	–
Model used	Black-Scholes	Black-Scholes	–

2020

	Option plans	Fundraiser plans	Right plans
Weighted average fair values at the measurement ($)	0.41	0.31	0.66
Expected volatility (%)	55	55	–
Risk-free interest rate (%)	1.00	1.00	–
Expected life of options (years)	5.6	6.7	–
Weighted average share price ($)	0.73	0.73	0.73
Model used	Black-Scholes	Black-Scholes	Qualitative assessment

The expected life of the options is based on historical data and current expectations, and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumptions that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

25. Group information

Subsidiaries

The consolidated financial statements of the Group include the Company and the following subsidiaries:

			% equity interest	
Subsidiaries	**Principal activities**	**Country of incorporation**	**2021**	**2020**
4DMedical R&D Inc. (previously 4Dx, Inc.)	Research and development in support of 4DMedical's technology development	USA	100	100
4Dx Pte Ltd	Dormant	Singapore	100	100
Australian Lung Health Initiative Pty Ltd	Deliver project milestones under the MRFF Research Plan Grant	Australia	100	100
4DMedical R&D Pty Ltd	Dormant	Australia	100	100
4DMedical USA Inc.	Sales, marketing and distribution of 4DMedical's patented imaging solutions	USA	100	100
4DMedical NZ Limited*	Dormant	New Zealand	100	–
4DMedical Employee Share Trust**	Employee share trust established to acquire, deliver, allocate and hold shares under 4DMedical's employee equity plans for the benefit of its participants	Australia	100	–

* *This entity was incorporated on 14 January 2021.*

** *This Trust was incorporated on 17 July 2020.*

26. Related party disclosures

Compensation of KMP of the Group

The total compensation of KMP for the Group was $1,352,506 (2020: $2,163,879). In addition, the Group paid key person insurance for an officer of the Group of $3,656 during the year (2020: $3,178).

	2021 $	**2020 $**
Categories of compensation:		
Short-term employee and directors' benefits	1,157,726	741,505
Post-employment benefits	45,830	25,461
Share-based payment	71,450	1,396,913
Consulting fees	77,500	–
	1,352,506	**2,163,879**

27. Commitments and contingencies

Lease commitments

The Group has no lease contracts that have not yet commenced as at 30 June 2021 (2020: $nil).

Contingencies

The Group has no contingent assets or liabilities as at 30 June 2021 (2020: $nil).

28. Events after the reporting period

As announced on 8 August 2021, the Group signed a commercial contract with multinational pharmaceutical company, Novartis, for the use of XV LVAS to assess pharmaceutical therapies for treating patients with COPD. The commercial contract is not material in terms of revenue but represents the first commercial application of XV LVAS in the pharmaceutical industry.

On 1 September 2021, the Group announced the successful completion of Phase One of its clinical pilot program with I-MED Radiology Network (**I-MED**) at an imaging clinic in Victoria. Having received positive feedback from radiologists and patients, the clinical pilot has been progressed to Phase Two that will assess the potential for a commercial partnership with I-MED.

The Group continues to monitor the impact of the COVID-19 pandemic and the response from governments in controlling outbreaks. The Group has and will continue to take steps to mitigate the impact of unforeseen restrictions to ensure the safety of its staff and stakeholders.

There have been no other significant events occurring after the reporting period which may affect either the Group's operations or results of those operations or the Group's state of affairs.

29. Auditor's remuneration

The auditor of 4DMedical is PKF Melbourne Audit & Assurance Pty Ltd.

	2021 $	2020 $
Amounts paid or payable to PKF Melbourne Audit & Assurance Pty Ltd:		
An audit or review of the financial report of the entity	**81,500**	**53,500**

30. Information relating to 4DMedical Limited (Parent)

	2021 $	2020 $
Current assets	81,123,185	11,195,280
Total assets	89,552,343	15,708,824
Current liabilities	2,465,914	26,296,421
Total liabilities	3,577,842	26,772,818
Issued capital	141,587,808	18,927,393
Other capital reserves	1,771,037	7,051,341
Other equity	–	796,787
Accumulated losses	(57,384,344)	(37,839,515)
	85,974,501	**(11,063,994)**
Loss for the year	(19,544,829)	(21,222,113)

The commitments and contingencies of the Parent are that of the Group, which are disclosed at Note 27.

Directors' declaration

In accordance with a resolution of the directors of 4DMedical Limited, I state that:

1. In the opinion of the directors:
   (a) the consolidated financial statements and notes of 4DMedical Limited for the financial year ended 30 June 2021 are in accordance with the *Corporations Act 2001*, including:
      (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2021 and its performance for the year ended on that date; and
      (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*;
   (b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2.1; and
   (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration is made pursuant to the declaration given to the director by the chief executive officer and chief financial officer in accordance with section 295A of the *Corporations Act 2001* for the year ended 30 June 2021.

On behalf of the board

Dr Andreas Fouras
Managing Director

23 September 2021

Independent auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF 4DMEDICAL LIMITED

Report on the Financial Report

Auditor's Opinion

We have audited the accompanying financial report of 4DMedical Limited (the Company) and its controlled entities (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2021, 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, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration of the Company and of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

In our opinion, the financial report of 4DMedical Limited is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the financial report section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (*including Independence Standards*) (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

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

Key Audit Matter – Treatment of financial instruments	*How our audit addressed this matter*
Notes 17, 21 and 24 of the financial report describe the financial instruments entered into by the Company, leading up to and subsequent to the Initial Public Offering (IPO) and listing on the Australian Securities Exchange (ASX) on 7 August 2020. The following summarises the related events, transactions and balances: **Listing on the ASX** Upon listing on the ASX, the Company issued 68.493 million new shares at $0.73 per share generating new capital of $50.0 million. **Conversion of converting notes** During the previous financial year, the Company issued 696.5 convertible notes, each with a face value of $25,000, generating proceeds of $17.4 million. The notes were to be redeemed or converted as per the terms of the converting note deed poll by 20 December 2020. Upon listing all convertible notes and related derivatives were converted to equity, representing 36.5 million shares at the IPO price of $0.73 per share.	Our procedures included, but were not limited to, assessing and challenging: **Listing on the ASX** • the calculations associated with the capital raising, matching reported proceeds to underlying records and bank receipts, • the volume of shares issued (plus those shares acquired from existing holders and transacted to new holders through '4DMedical SaleCo'), validating to lead manager and corporate records. **Conversion of converting notes** • the treatment of the conversions to equity, including the valuation of the instrument at date of conversion, the appropriateness of the conversion valuation method adopted and the resulting fair value on conversion of instruments to share capital, • the adequacy of disclosures in the financial statements with reference to the conversion, (continued)

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Independent auditor's report (continued)

Key Audit Matter - Treatment of financial instruments	*How our audit addressed this matter*
Settlement of rights and legacy incentive options Through previous years and up to the date of listing, the Company had issued 8.5 million rights and 26.5 million options under the Legacy Employee Incentive Plan. These rights and options had various vesting conditions (including time-based conditions) and have been accounted for as equity-settled share-based payments. Upon listing the following transactions occurred: • all 8.5 million rights were converted to shares on a one for one basis; • of the options, 10.8 million vested with all vesting periods being accelerated if not fully vested at that date. Of these options, 7.3 million were bought back and cancelled, and 3.4 million were exercised; and • the remaining 15.7 million options were not accelerated and continued to vest in line with respective offer arrangements. The accounting for these financial instruments is a Key Audit Matter due to the complex nature of the instruments and the judgemental estimates used in determining the valuation and conversion to equity in accordance with applicable Australian Accounting Standards.	**Settlement of rights and legacy incentive options** • the calculations as presented by Management, considering the accounting treatment in respect of each of the following scenarios: o acceleration of the vesting of those options and rights not fully vested; o accounting for the buyback and cancellation of options by the Company; o accounting for the options exercised by holders; o accounting for associated employee tax liabilities in respect of rights and options transferred from the employees to 4DMedical SaleCo. • accounting outcomes against the various agreements and documents supporting the transactions as noted above; and • reconciliations of issued share capital, share-based payment reserve and movements in the profit or loss, to ascertain the reasonableness of movements during the period, as a result of or in conjunction with the IPO process. We considered the adequacy of disclosures in the financial statements as regards the above transactions on 30 June 2021.
Key Audit Matter – Recognition of software development costs as intangible assets	***How our audit addressed this matter***
As disclosed in note 14 of the financial report, the carrying amount of the Group's internally developed software is $3,252,045 (2020: $2,749,012). The accounting policy in respect of this asset is outlined in Note 2.4(i). Judgement is required in determining development expenditures that should be capitalised. These judgements include consideration of matters such as generation of future economic benefits and distinction between development of new software and maintenance or upgrade of existing software. Amortisation of the asset begins when development is complete and the asset is available for use, a stage which has not yet been achieved. Accounting for software development costs is considered a Key Audit Matter due to the judgements applied in the recognition of expenditure capitalised and the specific criteria that must be met for capitalisation, in accordance with Australian Accounting Standards.	Our procedures included, but were not limited to, assessing and challenging: • the nature of the Group's development costs relative to the ongoing development projects and specifically incurred in the period to assess both the accuracy and completeness of amounts capitalised; • the key assumptions used, and estimates made in capitalising development costs and testing on a sample basis the accuracy of costs included for compliance with AASB 138 *Intangible Assets* and the Group's accounting policy; • evidence of the Group's conclusion of the economic feasibility of the products relying on the application of the software, including Board approved budgets and marketing and business development plans; • the Group's determination that the asset has not achieved a stage of completion and thus does not require amortisation; • whether there are any indicators of impairment, such as evidence of adverse market or other conditions; and • the appropriateness of related disclosures in the financial statements.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2021 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report.

In connection with our audit of the financial report, our responsibility is to read the other information and in doing so, we 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 information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue the 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 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and other related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent auditor's report (continued)

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

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

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

Report on the Remuneration Report

Auditor's Opinion

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of 4DMedical Limited for the year then ended 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.

PKF
Melbourne, 23 September 2021

Steven Bradby
Partner

ASX additional information

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 1 September 2021.

(a) Distribution of equity securities

(i) Ordinary share capital

- 294,491,837 fully paid ordinary shares are held by 8,319 individual shareholders.

All issued ordinary shares carry one vote per share and carry the rights to dividends.

(ii) Options

- 22,029,117 options are held by 19 individual option holders.
- Options do not carry a right to vote.

The number of shareholders, by size of holding, in each class are:

	Fully paid ordinary shares	Options
1-1,000	1,213,096	–
1,001-5,000	7,491,755	–
5,001-10,000	9,296,573	–
10,001-100,000	58,294,642	197,888
100,001 and over	218,195,771	21,831,229
	294,491,837	**22,029,117**
Holding less than a marketable parcel	95,831	–

(b) Substantial shareholders

	Fully paid Number	Percentage
Ordinary shareholders		
4DMedical Limited (substantial holding in shares of itself due to ASX mandatory escrow arrangements)*1		
Velocimetry Consulting Pty Ltd (substantial holding due to direct holdings and having voting power in 4DMedical Limited above 20%)*2	87,016,727	29.55%
Helen Fouras (substantial holding due to direct holdings and having voting power in Velocimetry Consulting Pty Ltd above 50%)*3		
Dr Andreas Fouras (substantial holding due to having voting power in Velocimetry Consulting Pty Ltd above 20%)*4	64,838,000	22.02%
Perennial Value Management Limited*5	19,894,267	6.76%

Notes:

**1. As per Form 604 lodged with ASX on 10 August 2021.*
**2. As per Form 604 lodged with ASX on 10 August 2021.*
**3. As per Form 604 lodged with ASX on 10 August 2021.*
**4. As per Form 604 lodged with ASX on 7 June 2021.*
**5. As per Form 604 lodged with ASX on 23 August 2021.*

ASX additional information (continued)

(c) Twenty largest holders of quoted equity securities (of holders not currently subject to restriction or voluntary escrow)

The holders of quoted equity securities listed below are not currently subject to restriction or voluntary escrow arrangements.

	Fully paid	
Ordinary shareholders	**Number**	**Percentage**
National Nominees Limited	16,355,854	7.88%
JP Morgan Nominees Australia Pty Limited	9,127,791	4.40%
Ryder Innovation Fund LP	6,290,475	3.03%
BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd	6,149,690	2.96%
HSBC Custody Nominees (Australia) Limited	4,821,206	2.32%
BNP Paribas Noms Pty Ltd	4,542,208	2.19%
HSBC Custody Nominees (Australia) Limited – A/C 2	2,695,298	1.30%
CS Third Nominees Pty Limited	2,399,067	1.16%
BNP Paribas Nominees Pty Ltd	1,814,406	0.87%
CitiCorp Nominees Pty Limited	1,670,998	0.81%
Truebell Capital Pty Ltd	1,258,064	0.61%
FCR Daunt Pty Ltd	1,250,000	0.60%
Jianwen Xiao	1,216,176	0.59%
AAX Pty Ltd	1,200,000	0.58%
Mr Dean Vincent Egan	1,180,905	0.57%
Alltogether Pty Ltd	1,115,000	0.54%
Wal Assets Pty Ltd	1,103,055	0.53%
Lefkios Michael & Helen Michael	1,004,819	0.48%
Harry Maglis & Chrisy Maglis	1,000,000	0.48%
Edward Jerome Burke & Mary Jane Sinobio	1,000,000	0.48%
	67,195,012	**32.38%**

(d) Unquoted equity securities shareholdings greater than 20%

	Number
Fully paid ordinary shares	
Velocimetry Consulting Pty Ltd	64,838,000

(e) Restricted or escrow securities

	Number
The number and class of restricted securities subject to mandatory ASX escrow	
Fully paid ordinary shares escrowed until 7 August 2022	85,536,074
Unquoted options escrowed until 7 August 2022, exercisable at various prices and expiring on various dates	12,770,998
Unquoted options escrowed until 1 January 2021, exercisable at $0.40 and expiring on 31 December 2024	2,000,000

Corporate governance statement (CGS)

The directors and management are committed to conducting the business of 4DMedical in an ethical manner and in accordance with the highest standards of corporate governance. 4DMedical has adopted and has substantially complied with the ASX Corporate Governance Council's Principles and Recommendations (Fourth Edition) (**Recommendations**) to the extent appropriate to the size and nature of its operations.

In accordance with Listing Rule 4.10.3, the Group's Corporate Governance Statement, which sets out the corporate governance practices that were in operation during the financial year, identifies and explains any Recommendations that have not been followed. The 2021 Corporate Governance Statement can be found on the Company's website at *https://4dmedical.com/corporate-governance/.*

Corporate information

4DMedical Limited ACN 161 684 831

REGISTERED OFFICE

Suite 501, Level 5, 468 St Kilda Road
Melbourne VIC 3004
Australia

T: +613 9545 5940
E (general): info@4dmedical.com

BOARD OF DIRECTORS

Mr Bruce Rathie, Non-Executive Director and Chairman

Dr Andreas Fouras, Managing Director and CEO

Ms Lilian Bianchi, Non-Executive Director

Dr Robert A. Figlin, Non-Executive Director

Ms Lusia Guthrie, Non-Executive Director

Mr John Livingston, Non-Executive Director

Mr Julian Sutton, Non-Executive Director

COMPANY SECRETARY

Ms Charlene Stahr

E: companysecretary@4dmedical.com

AUDITOR

PKF Melbourne Audit & Assurance Pty Ltd

Level 12, 440 Collins Street
Melbourne VIC 3000
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INVESTOR RELATIONS

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F: +61 2 9287 0309 (proxy forms only)
E: registrars@linkmarketservices.com.au
W: *www.linkmarketservices.com.au*

STOCK EXCHANGE LISTING

The Company's shares are quoted on the Australian Securities Exchange (ASX) under ASX code: 4DX.

WEBSITES

4DMedical Investor Centre:

https://investors.4dmedical.com/Investor-Centre/

4DMedical Corporate Governance:

https://4dmedical.com/corporate-governance

4DMedical Enquiries:

http://4dmedical.com

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