

10 March 2020

Reference: ODIN15021

Vanessa Nevjestic, Adviser, Listings Compliance (Perth)
ASX Compliance Pty Limited
Level 40 Central Park
152 – 158 St Georges Terrace
PERTH WA 6000

By email: Vanessa.Nevjestic@asx.com.au

Dear Vanessa

Response to ASX Letter - Orcoda Limited ('ODA' or 'Company') Queries regarding Accounts

We refer to your letter dated 5 March 2020 and respond as follows (adopting the numbering in your letter):

1. Is ODA able to confirm that in the Directors' Opinion the Half Year Accounts:

(a) comply with the relevant Accounting Standards; and

Yes.

(b) give a true and fair view of ODA's financial performance and position?

Yes.

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

a. the assumptions within the forecasts used to support the carrying value of the intangible assets were appropriate and reliable; and

The audit of the Company's full year accounts for the financial year ended 30 June 2019 examined the Impairment of Intangibles as a Key Audit Matter due to:

1. the materiality of the goodwill balance;
2. the fact the Directors' assessment of the 'value in use' of the cash generating unit involved judgment about the future underlying cash flows of the business; and
3. the discount rates applied to it.

The full year audit drew attention to the auditor having applied a number of audit procedures in relation to management's impairment assessment including:

- Assessing management's value-in-use methodology of the cash generating unit (**CGU**) to which the goodwill is allocated;
- Challenging the reasonableness of key assumptions used in management's value-in-use calculations, including the cash flow projections, discount rates, and sensitivities used;
- Undertaking enquiries and assessing during the measurement period whether identifiable intangibles existed at the date of acquisition;
- Assessing the carrying value of goodwill for indicators of impairment;

- Assessing the appropriateness of the Consolidated Entity's disclosures relating to intangibles impairment in accordance with the disclosure requirements of AASB 136.

Having thoroughly examined this issue, the then partner of RSM provided an unqualified opinion the Company's financial report of the Group was in accordance with Corporations Act 2001, and gave a true and fair view of the Company's financial position as at 30 June 2019 and complied with the Australian Accounting Standards and Corporations Regulations 2001.

On the basis of the previous full year Audit the Board had no material reason to change its view with respect to the carrying value of the intangible assets as being appropriate and reliable based on RSM's own careful and thorough audit only five months previously.

Further, management obtained a valuation report dated 8 August 2019 (**Valuation Report**) specifically for the purposes of AASB 136 from financial industry expert InterFinancial Corporate Finance Limited. The Valuation Report, was commissioned to provide an opinion as to whether the value of goodwill of Orcoda as at 30 June 2019 (**the Valuation Date**), was required to be impaired in Orcoda's accounts under AASB 136 Impairment of Assets.

The authors concluded because the recoverable amount of the CGUs exceeded the Intangible Assets carrying amount of \$11.1M, they determined that in their opinion no impairment was applicable for the Goodwill under AASB 136 for the financial statements ended 30 June 2019.

The Valuation Report also considered the current market capitalisation of Orcoda in calculating goodwill. Due to the relatively low level of liquidity, market capitalisation was used as a tertiary "sense-check" and not a formal valuation method, but further supported the above assessment of goodwill.

The Auditor received a copy of the Valuation Report in connection with the full year audit and half year audit.

Accordingly, the Board believed they had a reasonable basis for concluding that the Goodwill's valuation was appropriate, based on the:

1. recent full year audit's conclusions;
 2. independent evaluations that supported the Board's position, based on several methodologies;
 3. increased net asset value of the Company; and
 4. quarter on quarter improving revenue metrics.
- b. *the assessment of the vehicle licensing revenue amounting to \$955,600 for the period ended 31 December 2019 as an income on receipt under AASB 15 Revenue from Contracts with Customers is appropriate?*

The full year audit in 2019 examined the application of AASB 15 Revenue from Contracts with Customers on the Company's reported vehicle licensing and other revenue. The Board and the then Auditor concluded that there was no impact from the Company's assessment of the vehicle licensing revenue under AASB 15 Revenue from Contracts with Customers, which it had declared in the 2019 annual period. The Directors indicated that the sale of licenses had contributed substantially to the profitability of the healthcare division in FY2019. No adjustments were deemed necessary by the Directors of its evaluation of the above as revenue under AASB 15. The then Auditor made no qualification of the accounts on the above basis.

The Company also obtained an opinion dated 25 February 2020 from registered company auditor Neville Halloran of Business Accountancy. That opinion confirmed that the vehicle licensing revenue could be recognised as income upon receipt under AASB 15.

Accordingly, in preparing for the Half Year Accounts, the Board continued to hold a reasonable basis for concluding that it had correctly reported the vehicle licensing revenue under AASB 15.

3. What steps has ODA taken since the release of the Half Year Accounts to obtain an unqualified opinion with regards to its future financial statements?

The Board notes that the Auditor states that they did not have sufficient information to make an unqualified conclusion as to the carrying value of intangible assets and the treatment of license revenue. They did not positively find that the Company's treatment of those issues was incorrect, nor did they state that they considered such supporting information could not be produced, if given further time. Accordingly, the Company is confident that it will be able to provide sufficient information to its auditors to obtain an unqualified opinion in the future.

The Company has engaged Moore Stephens to prepare a further independent assessment of the application of AASB 15 in respect of ODA's vehicle licensing revenue. The purpose of the engagement of Moore Stephens is to:

1. increase the information available to the Auditor, and
2. obtain third party advice as to whether the Company should record or report its financials differently in order to comply with the relevant standards.

The remaining issue that qualified the Auditor's opinion relates to the "Material Uncertainty Related to Going Concern", namely that the consolidated entity incurred a loss of \$263,535 and had net cash outflows from operating activities of \$162,424 for the half-year ended 31 December 2019.

As noted in the Half Year Accounts, the directors believe there are reasonable grounds to consider ODA is a going concern, and will continue as a going concern, based on the following factors:

- ODA expects to be able to raise further capital within the 12 months from the reporting date (and has in fact raised capital within the past 2 weeks);
- Management will continue to be focussed on growing the Healthcare Logistics division, which recorded a profit of \$606,000 for the half-year;
- The Company's operating loss is significantly reduced from the corresponding previous half-year period;
- Marketing and administration costs are constantly being monitored and minimised;
- and
- The Company's divisions are targeted to become cashflow positive.

As reported in the half-year, the Company had \$2.12M in cash at the close of the half-year. This alone represents several multiples of the net operating loss over the same period.

In addition, as reported then and subsequently, the Company successfully raised a further \$1.2 million, with another \$900,000 raised subject to shareholder approval.

The success the Company has had in raising funds generally, and specifically recently despite market turmoil, has reinforced the Directors' confidence of the Company continuing as a going concern.

4. What steps does ODA intend to take to obtain an unqualified audit opinion with regards to its future financial statements?

Please refer to the above response in relation to questions 2 and 3, noting the Company continues to drive its plans to grow revenue across its three (3) divisions.

5. Does ODA consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX as required under listing rule 12.1? In answering this question, please explain the basis for this conclusion. In answering this question, please comment on the nature of the

ODA's current business activities.

Yes, based on the responses in relation to questions 2 and 3 above. In particular, the Company notes its continuing operations across three divisions and its improving revenue position.

6. Does ODA consider that the financial condition of ODA is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.

Yes, based on the responses in relation to questions 2 and 3 above. In particular, the Company notes its strong cash position and the improving performance (including a profit for the half-year) of its healthcare division.

7. If the answer to questions 5 or 6 is "No", please explain what steps ODA has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rules 12.1 and 12.2.

N/A

8. In relation to the Half Year Accounts, did the Board receive the CFO and CEO declaration, as described in section 4.2 of ASX's Corporate Governance Disclosure, that in the opinion of the CFO and CEO, the financial records of ODA have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of ODA and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?

Yes.

9. If the answer to Question 8 is 'no', why did the Board not receive the CEO and CFO declaration as described in section 4.2 of ODA's Corporate Governance Disclosure?

N/A

10. What enquiries did the Board make of management to satisfy itself that the financial records of ODA have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of ODA?

The Audit Committee examined management assumptions in detail prior to making recommendations to the Board. In particular, having regard to the matters set out in relation to questions 2 and 3 above, the Company considers it has taken appropriate and prudent steps in preparing the Half Year Accounts.

11. Commenting specifically on the qualified conclusion, does the board consider that ODA has a sound system of risk management and internal control which is operating effectively?

The Board considers the Company has a sound system of risk management and internal control which is operating effectively. In particular, having regard to the matters set out in relation to questions 2 and 3 above, the Company considers it has taken appropriate and prudent steps in preparing the Half Year Accounts.

The Company's Resources division is a supplier member of Achilles FPS Oil & Gas Asia Pacific Community, meaning criteria including Quality Management and Financial & Insurance have been validated by an independent third party as part of pre-qualifying the Company for work in the oil & gas sector.

The Company also notes the recent appointment of Greg Kahn as Chief Financial Officer, which further strengthens the Company's internal systems.

12. Given the Auditor has been unable to obtain sufficient and appropriate audit evidence as to whether the ODA can continue as a going concern and ODA has cash and cash equivalents of \$2,125,267 and total current liabilities of \$887,503 as at 31 December 2019, on what basis do the directors consider that ODA is a going concern.

ODA notes that the auditor's concern relates to whether the Company can continue as a going concern and not whether the Company is presently a going concern.

Nevertheless, the directors consider that the factors identified in relation to questions 2 and 3 above (and set out in the Half Year Accounts) provide a reasonable basis to consider ODA is a going concern and will continue as a going concern.

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

We confirm that the Company is in compliance with the Listing Rules and, in particular, Listing Rule 3.1

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

We confirm that the above responses have been authorised and approved by the Board in accordance with ODA's continuous disclosure policy.

Yours faithfully



Julian Rockett
Company Secretary



5 March 2020

Reference: ODIN15021

Mr Julian Rockett
Company Secretary
Orcoda Limited
Unit 312, 434 St Kilda Road
MELBOURNE VIC 3004

By email: julian.rockett@boardroomlimited.com.au

Dear Mr Rockett

Orcoda Limited ('ODA'): Queries regarding Accounts

ASX refers to:

- A. ODA's half year accounts for the half year ended 31 December 2019 lodged with ASX Market Announcements Platform and released on 2 March 2020 ('Half Year Accounts').
- B. ASX notes that the Independent Auditor's Report attached to the Half Year Accounts ('Auditor's Report') contains a qualified conclusion together with the Basis for qualified opinion:

"Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial report, which indicates that the consolidated entity incurred a loss of \$263,535 and had net cash outflows from operating activities of \$162,424 for the half-year ended 31 December 2019. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the consolidated entity's ability to continue as a going concern. Our conclusion is not further modified in respect of this matter.

Basis for Qualified Conclusion

The consolidated entity's intangible assets are carried in the statement of financial position at \$11,056,745. We were unable to obtain sufficient appropriate audit evidence to support the assumptions within the forecasts used to support the carrying value of the intangible assets. Consequently, we were unable to determine whether any adjustments to the carrying amount of intangible assets were necessary as at 31 December 2019.

The consolidated entity recorded revenue amounting to \$1,473,019 for the period ended 31 December 2019. Of this amount, \$955,600 is in relation to vehicle licencing income. We were unable to obtain sufficient appropriate audit evidence to support the directors' assessment that vehicle licencing income should be brought to account as income on receipt under AASB 15 Revenue from Contracts with Customers. Consequently, we were unable to determine whether any adjustments to the recognition of revenue was necessary for the period ended 31 December 2019.

Qualified Conclusion

Based on our review, which is not an audit, except for the matters described above in the Basis for Qualified Conclusion paragraph, we have not become aware of any matter that makes us believe that the half-year financial report of Orcoda Limited and its controlled entities is not in accordance with the Corporations Act 2001 including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001."

- C. ODA's Corporate Governance Statement for 2019 lodged on the ASX Market Announcements Platform on 26 September 2019 which provides confirmation that ODA complies with recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations (Third Edition) which states:

"The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively."

- D. Listing Rule 12.1 which states:

12.1 The level of an entity's operations must, in ASX's opinion, be sufficient to warrant the continued +quotation of the entity's +securities and its continued listing.

- E. Listing Rule 12.2 which states:

12.2 An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued +quotation of its +securities and its continued listing.

- F. Listing Rule 19.11A which states:

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

- (a) If the entity controls an entity within the meaning of section 50AA of the Corporations Act or is the holding company of an entity, required by any law, regulation, rule or accounting standard, or if ASX requires, the +accounts must be consolidated +accounts.*
- (b) The +accounts must be prepared to Australian accounting standards. If the entity is a +foreign entity the +accounts may be prepared to other standards agreed by ASX.*
- (c) If the listing rule requires audited +accounts, the audit must be conducted in accordance with Australian auditing standards by a registered company auditor. If the entity is a +foreign entity, the audit may be conducted in accordance with other standards agreed by ASX and may be conducted by an overseas equivalent of a registered company auditor.*
- (d) If the listing rule requires +accounts to be reviewed, the review must be conducted in accordance with Australian auditing standards. If the entity is a +foreign entity, the*

review may be conducted in accordance with other standards agreed by ASX. Unless the listing rule says an independent accountant may conduct the review, it must be conducted by a registered company auditor (or, if the entity is a +foreign entity, an overseas equivalent of a registered company auditor).

(e) *If there is a +directors' declaration that relates to the +accounts, the +directors' declaration must be given to ASX with the +accounts.*

(f) *If there is a +directors' report that relates to the period covered by the +accounts, the +directors' report must be given to ASX with the +accounts.*

Request for Information

In light of the information contained in the Half Year Accounts and the Auditor's Report, and the application of the Listing Rules stated above, please respond to each of the following questions:

1. Is ODA able to confirm that in the Directors' Opinion the Half Year Accounts:
 - (a) comply with the relevant Accounting Standards; and
 - (b) give a true and fair view of ODA's financial performance and position?
2. Please explain the basis for and the factors considered by the Directors to satisfy themselves that:
 - (a) the assumptions within the forecasts used to support the carrying value of the intangible assets were appropriate and reliable; and
 - (b) the assessment of the vehicle licensing revenue amounting to \$955,600 for the period ended 31 December 2019 as an income on receipt under AASB 15 Revenue from Contracts with Customers is appropriate?
3. What steps has ODA taken since the release of the Half Year Accounts to obtain an unqualified opinion with regards to its future financial statements?
4. What steps does ODA intend to take to obtain an unqualified audit opinion with regards to its future financial statements?
5. Does ODA consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX as required under listing rule 12.1? In answering this question, please explain the basis for this conclusion. In answering this question, please comment on the nature of the ODA's current business activities.
6. Does ODA consider that the financial condition of ODA is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.
7. If the answer to questions 5 or 6 is "No", please explain what steps ODA has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rules 12.1 and 12.2.
8. In relation to the Half Year Accounts, did the Board receive the CFO and CEO declaration, as described in section 4.2 of ASX's Corporate Governance Disclosure, that in the opinion of the CFO and CEO, the financial records of ODA have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of ODA and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?
9. If the answer to Question 8 is 'no', why did the Board not receive the CEO and CFO declaration as described in section 4.2 of ODA's Corporate Governance Disclosure?

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10. What enquiries did the Board make of management to satisfy itself that the financial records of ODA have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of ODA?
 11. Commenting specifically on the qualified conclusion, does the board consider that ODA has a sound system of risk management and internal control which is operating effectively?
 12. Given the Auditor has been unable to obtain sufficient and appropriate audit evidence as to whether the ODA can continue as a going concern and ODA has cash and cash equivalents of \$2,125,267 and total current liabilities of \$887,503 as at 31 December 2019, on what basis do the directors consider that ODA is a going concern.
 13. Please confirm that ODA is complying with the Listing Rules and, in particular, Listing Rule 3.1.
 18. Please confirm that ODA's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of ODA with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

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

Unless the information is required immediately under Listing Rule 3.1, a response is requested as soon as possible and, in any event by no later than **6:00 am AWST Wednesday, 11 March 2020**.

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

Enquiries

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

Yours sincerely

Vanessa Nevjestic
Adviser, Listings Compliance (Perth)