



28 August 2019

ANO Queries Regarding Accounts

We are surprised with the ASX query given that the release of the Annual Report, which includes the qualification, has since had a positive impact on the ANO share price and from shareholders (see attached). However, the delay of the release of our ANO Investor Presentation caused significant negative impact on the share price (see attached emails from angry shareholders).

The Board of ANO responds to the ASX regarding its Annual Report as follows:

1. The Board confirms that in the Director's opinion the Full Year Accounts:
 - a) comply with the relevant Accounting Standards; and
 - b) give a true and fair view of ANO's financial performance and position.

2. We can confirm that the Chairperson of the Audit Committee and Managing Director received confirmation from the Audit Partner he was happy with the wording of the Appendix 4E which did not make any reference to the audit qualification as the auditor had not yet formed a view on the report as at the date the Appendix 4E was released. This view would not be formed by the auditor until after he had reviewed all of the stock material that was provided. This included our stocktake results which showed a variance of \$75,000.

In addition, we did not receive the final decision on the Audit Opinion until Thursday morning at the Audit Committee meeting and we can confirm that the Audit Opinion was modified after discussions at the Audit Committee Meeting of Directors.



3-6. In respect of the queries 3 – 6 we highlight the following paragraphs out of the Annual Report.

Page 57 of Annual Report

Our audit testing revealed that there were material variances in actual inventories on hand compared to the stock records which, in our opinion, resulted in a material overstatement of inventory in the financial statement as at 30 June 19.

As a result of these material variances, we are unable to form a view as to the existence of all inventories stated in the financial statements as at 30 June 2019.

We were subsequently informed that there was inventory at two other locations not known to us and not visited by us. It is possible that the total of inventory at these two locations may explain a significant amount of the variance calculated by us.

Page 2 of Annual Report

The Board acknowledges that at 30 June 2019, the auditor detected stocktake variances in stock counts versus the ERP accounting system. As at 30 June 2019, two inventory locations were not recorded in the accounting system and as a result did not form part of the year end stocktake, which contributed to the majority of the Auditors' variances. Investigations highlighted that with the rapid growth in raw materials, combined with the addition of manufacturing in Brisbane and multiple

warehouse locations (three in Perth and two in Brisbane) there were issues in the transfer of stock between locations and the timely recording of inventory movements. In effect, the control procedures did not keep pace with the rapid growth of the business.

Once informed of the variances, management conducted a stocktake which was reviewed by the Board, and were able to reconcile a number of variances, including raw materials held at “offsite” warehouses to accommodate the rapid growth. Although differences were still noted, the P&L impact of the variances were calculated to be approximately \$75,000, representing approximately 2.2% of the value of inventory as at 30 June.

The Board is taking steps with management to rectify the controls over inventory movements and will be monitoring the variances at more regular intervals during 2020.

We can clearly explain that at the time of the stocktake there were two new stock location warehouses where stock was stored, however, the auditors were not aware of, nor did they ask or raise their variances until late in July which hindered a timely resolution to the variances. The total approximate value of the stock variance in question by the Auditors was estimated to be \$350,000.

Our stocktake performed at a later date found a variance of \$75,000 and we have subsequently found some of these minor variances. As a result, the Board was satisfied as to the existence of inventory at that date.

The Board understands and agrees with the Audit Qualification that it was too difficult to reconcile the stock variances and that no counts were performed at two locations due to miscommunication.

The Board has implemented process changes to the transfer of stock between warehouses to ensure that each warehouse location records stock movements correctly.

The Board will implement quarterly stock takes and will complete random stock takes within each month on particular stock items.

7. The auditors could not accept the results of the second stocktake as evidence that there was not a material error as they were not in attendance at that second stocktake.
8. We confirm that the Board understands its requirements with the Listing Rules and is in compliant with listing rule 3.1.
9. ANO confirms that this response has gone through the required Board approval process.

We acknowledge to our shareholders that there has been a continual list of queries from the ASX since January 2019.

Annual Report Qualifications

We would like to inform our shareholders that the ANO accounts were qualified in 2010 and 2017 and neither received an ASX query.

Investor Presentation

The front cover of the Investor Presentation which required removal had already been released to the market on four separate occasions

- August 2018
- December 2018
- February 2019
- April 2019

We did receive an email from the ASX regarding the front cover at the end of April, however, the Board's view was that this information had already been released to market on four separate occasions and was already in the public domain. It should be noted that we did not receive a query from the ASX on the three separate releases.

Price Queries

We have received two price queries and one price aware query since March 2019.

We have examples of four other occasions between July 2018 and January 2019 where we had similar percentage increases in share price based on similar volumes where we received no price queries from the ASX.

Geoff Acton (B.Com CA)

Managing Director



23 August 2019

Mr Geoff Acton
Managing Director and Company Secretary
Advance Nanotek Limited
1821 Ipswich Road
Rocklea, QLD 4106

By email: antaria.geoff@gmail.com

Dear Mr Acton

Advanced Nanotek Limited ('ANO'): Queries regarding Accounts

ASX refers to:

- A. ANO's full year accounts for the full year ended 30 June 2019 lodged with ASX Market Announcements Platform and released on 22 August 2019 ('Full Year Accounts').
- B. ASX notes that the Independent Auditor's Report attached to the Full Year Accounts ('Auditor's Report') contains a qualified opinion which states:

"Basis for Qualified Opinion

Our audit testing revealed that there were material variances in actual inventories on hand compared to the stock records which, in our opinion, resulted in a material overstatement of inventory in the financial statement as at 30 June 2019.

As a result of these material variances, we are unable to form a view as to the existence of all inventories stated in the financial statements as at 30 June 2019.

We were subsequently informed that there was inventory at two other locations not known to us and not visited by us. It is possible that the total of inventory at these two locations may explain a significant amount of the total variance calculated by us."

- C. ANO's Annual Report for the year ended 30 June 2019 lodged with ASX Market Announcements Platform and released on 22 August 2019 ('Annual Report') which states on Page 2:

"INVENTORY ADJUSTMENT (audit qualification)

The Board acknowledges that at 30 June 2019, the auditor detected stocktake variances in stock counts versus the ERP accounting system. As at 30 June 2019, two inventory locations were not record in the accounting system and as a result did not form part of the year end stocktake, which contributed to the majority of the Auditors' variances. Investigations highlighted that with the rapid growth in raw materials, combined with the addition of manufacturing in Brisbane and multiple warehouse locations (three in Perth and two in Brisbane) there were issues in the transfer of stock between locations and the timely recording of inventory movements. In effect, the control procedures did not keep pace with the rapid growth of the business.

Once informed of the variances, management conducted a stocktake which was reviewed by the Board, and were able to reconcile a number of variances, including raw materials held at "offsite" warehouses to accommodate the rapid growth. Although differences were still noted, the P&L impact of the variances were calculated to be approximately \$75,000, representing approximately 2.2% of the value of inventory as at 30 June.

The Board is taking steps with management to rectify the controls over inventory movements and will be monitoring the variances at more regular intervals during 2020.”

- D. ANO’s Corporate Governance Statement for 2019 lodged on the ASX Market Announcements Platform on 22 August 2019 which provides confirmation that ANO complies with recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations 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.”

- 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. Paragraph 16 of Appendix 4E which states:

16. If the accounts have not yet been audited and are likely to contain an independent audit report that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph.

- G. 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 Full Year Accounts, the Annual Report and the Auditor's Report, and the application of the Listing Rules stated above, please respond to each of the following questions, set out in numbered order in your response:

1. Is ANO able to confirm that in the Directors' Opinion the Full Year Accounts:
 - (a) comply with the relevant Accounting Standards; and
 - (b) give a true and fair view of ANO's financial performance and position?
2. When did ANO first become aware that the financial records were to be subject to a qualified opinion from the Auditor? If this date was on or before the release of ANO's Appendix 4E on 16 August 2019, why was this not included in the Appendix 4E, as required by Paragraph 16 above?
3. Given the qualified opinion relates to the Auditor's inability to obtain sufficient information to verify the carrying values of ANO's inventory, please explain how the directors satisfied themselves that the carrying values of the second stocktake were appropriate and adhered to the current Australian Accounting Standards. In answering this question, reference should be made to the underlying assumptions used by the directors in coming to this conclusion, as well as any independent valuations and the validity of the assumptions upon which these valuations are based.
4. Given that inventory makes up a significant amount (45.99%) of ANO's current assets, what changes to the control procedures for inventory have already been made?
5. What changes to the control procedures for inventory are planned during 2020?
6. What types of monitoring of the control procedures for inventory are planned during 2020? In your answer, be specific about how the inventory amounts are proposed to be measured, particularly at multiple warehouse locations.
7. Given the qualified opinion relates to the Auditor's inability to obtain sufficient information to support the carrying values of ANO's inventory, and management has also conducted a second stocktake which has been reviewed by the Board, please explain why the Auditor has still been unable to obtain sufficient information to verify the carrying values of ANO's inventory?
8. Please confirm that ANO is complying with the Listing Rules and, in particular, Listing Rule 3.1.
9. Please confirm that ANO'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 ANO 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 ANO's response to the market. Accordingly, ANO'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 **4 pm AEST Thursday, 29 August 2019**.

Any response should be sent to me by return email at ListingsComplianceSydney@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.

Regards

Lauren Osbich

Compliance Adviser, Listings Compliance (Sydney)