

9 October 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

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

Dear Vanessa

We refer to your letter dated 6 October 2020 and respond as follows (adopting the numbering in your letter):

1. *Is ODA able to confirm that in the Directors' Opinion that the Full 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 the assumptions within the forecasts used to support the carrying value of the intangible assets were appropriate and reliable.*

The audit of the Company's full year accounts for the financial year ended 30 June 2019 and 30 June 2020 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 for 30 June 2019 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. .

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 recoverable amount of Orcoda's goodwill is defined as the higher of the fair value less cost to sell (FVLCS) and the value in use (VIU). 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 to 30 June 2019 and half year audit to 31 December 2019.

Prior to the 30 June 2020 full year audit, management also undertook a full review of the assumptions made in the previous valuation and used numerous valuation methodologies to determine fair value less cost to sell (FVLCS) and as a result determined that the Goodwill should be written down from \$11.1m to \$6.7m which was then put to the Audit Committee and then to the Board.

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

1. the independent valuation carried out on 8th August 2019;
2. evaluation by management that supported the Board's position, based on several valuation methodologies;
3. increased net asset value of the Company; and
4. future improving revenue metrics
5. Current market capitalisation.

3. *What steps has ODA taken since the release of the Full 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. 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 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 \$6,873,873 and had net cash outflows from operating activities of \$1,790,473 for the year ended 30 June 2020.

As noted in the Full 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:

- o ODA expects to be able to raise further capital within the 12 months from the reporting date;
- o the Company received R&D incentive payments of \$420,000 during this financial year relating to FY2020 R&D expenditure, is expecting to receive R&D incentive payments

of approximately \$400,000 during the next financial year relating to FY2021 and is confident it will receive such payments into the future in respect of R&D expenditure incurred;

- the cash flow forecasts for the consolidated entity indicate there will be sufficient funds to enable its cash requirements to be met over the 12-month period from the date of this report and sufficient working capital to enable the consolidated entity to meet its debts as and when they fall due;
- the consolidated entity expects to generate income from existing contracts in accordance with its cash flow forecasts;
- Marketing and administration costs are constantly being monitored and minimised; and
- All division are forecast to be cash flow positive in this FY2021 half after being seriously hit by COVID-19 last half.

As reported in the full-year, the Company had \$1,530,000 in cash and term deposits at the close of the full-year plus R&D funds owing of \$420,000 (of which \$270,000 has been received to date and the balance expected in the next week). Our current cash burn as previously announced in our 4C is approximately \$100k per month and we expect this to improve over the next 12 months.

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 of its 3 divisions.

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 Full Year Accounts, did the Board receive the CFO and CEO declaration, as described in section 4.2 of ODA'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 Full 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 Full 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 appointment of Greg Kahn as Chief Financial Officer, earlier in 2020 has further strengthened the Company's internal systems.

12. *Given the Auditor has been unable to obtain sufficient and appropriate audit evidence as to whether ODA can continue as a going concern and ODA has cash and cash equivalents of \$1,371,549 and total current liabilities of \$817,012 as at 30 June 2020, 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 Full Year Accounts) provide a reasonable basis to consider ODA is a going concern and will continue as a going concern.

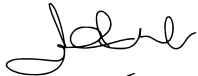
13. *Please confirm that ODA is complying with the Listing Rules and, in particular, Listing Rule 3.1.*

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 ODA's Board in accordance with ODA's continuous disclosure policy.

Yours faithfully



Julian Rockett
Company Secretary



6 October 2020

Reference: ODIN25475

Mr Julian Rockett
Company Secretary
Orcoda Limited
Unit 312, 434 St Kilda Road
Melbourne, Victoria 3004

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

Dear Mr Rockett

Orcoda Limited ('ODA'): Queries regarding Accounts

ASX refers to:

- A. ODA's full year accounts for the year ended 30 June 2020 lodged with ASX's Market Announcements Platform ('MAP') and released on 30 September 2020 ('Full Year Accounts').
- B. ASX notes that the Independent Auditor's Report attached to the Full Year Accounts ('Auditor's Annual Report') contains a qualified opinion together with the basis for qualified opinion:

"Qualified opinion

We have audited the accompanying financial report of Orcoda Limited (the Company) and its controlled entities (the consolidated entity), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying financial report of the consolidated entity is 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 2020 and its performance for the year then ended; and*
- ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.*

Basis for Qualified Opinion

The consolidated entity's intangible assets are carried in the statement of financial positions at \$6,708,030. 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 30 June 2020.

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 consolidated entity 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 (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Material Uncertainty related to Going Concern

We draw attention to Note 1 in the financial report, which indicated that the consolidated entity incurred a loss of \$6,873,873 and had net cash outflows from operating activities of \$1,790,473 for the year ended 30 June 2020. 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 cause significant doubt on the consolidated entity's ability to continue as a going concern. Our opinion is not further modified in respect of this matter."

- C. ODA's Corporate Governance Statement and Appendix 4G for the year ended 30 June 2020 lodged on MAP on 30 September 2020 provides confirmation that ODA 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."

- 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 Full Year Accounts, the Auditor's Annual 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 that the Full 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 the assumptions within the forecasts used to support the carrying value of the intangible assets were appropriate and reliable.
3. What steps has ODA taken since the release of the Full 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 Full Year Accounts, did the Board receive the CFO and CEO declaration, as described in section 4.2 of ODA'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?
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?

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12. Given the Auditor has been unable to obtain sufficient and appropriate audit evidence as to whether ODA can continue as a going concern and ODA has cash and cash equivalents of \$1,371,549 and total current liabilities of \$817,012 as at 30 June 2020, 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.
 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.

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 **9:00 am AWST Friday, 9 October 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)