

27 March 2019

Ms Cheng Tang
Senior Adviser, Listings Compliance (Melbourne)
Australian Securities Exchange Limited
Level 4, North Tower
Rialto Towers
525 Collins Street
Melbourne VIC 3000

Dear Ms Cheng,

dorsaVi Ltd (DVL or Company) - Queries Regarding Accounts

I refer to your letter dated 21 March 2019 regarding the Company's half year accounts for the half year ended 31 December 2018 lodged with ASX Market Announcements Platform and released on 28 February 2019 (**Half Year Accounts**).

The Company responds as follows, adopting the numbering in your letter:

1. *Is the Company 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 DVL's financial performance and financial position?*

Answer

The Company is 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 DVL's financial performance and financial position?**

2. *Please explain the basis for and the factors considered by the Directors to satisfy themselves that DVL is able to continue as a going concern.*

Answer

The Directors concluded that the Company is able to continue as a going concern following an assessment of:

- the Company's current assets (\$6.4m as at 31 December 2018) which exceeded current liabilities by \$4.8m (30 June 2018: \$5.3m);
- the Company's cash balance at 31 December 2018 of \$4.9m which compared to current liabilities of \$1.5m at the same date;
- the financial performance of the Company, its operating plans (including cashflow forecasts and scenario analyses prepared by management), financial position and sales contracts in the pipeline;
- the Company's recent strategic shift and focus on building a more consistent and sustainable recurring revenue model, its increasing penetration into the US clinical

market through the recruitment of additional sales staff and on closing larger customer contracts that are in the pipeline;

- the increase in recurring revenue for Q2 FY19 which increased by 66% on the prior corresponding period;
- net operating cash outflows for H1 FY19 which represented a 37% reduction compared to net operating cash outflows for H1 FY18; and
- the Company successfully raising, in December 2018, additional capital of \$2.1m before costs.

The Directors were cognisant of the fact that the strategic shift in focus by the Company to a recurring revenue model has and will continue to have, a short-term financial impact on the Company through increased cash burn and lower growth in revenue. However, the Directors formed the view that in the longer term, the size of the US clinical market, the scalability of annuity products and the potential for alliances with larger strategic partners, are expected to provide significant opportunity for the Company and its shareholders.

The Directors also recognised that the Company has incurred operating losses and generated negative cash flows from operations since inception and that short-term financial forecasts indicated that this was expected to continue and accordingly, the Company will be required to obtain additional working capital through capital raises, alternative means of financial support, or, both.

Following on from this, the Directors requested that an immediate internal review be conducted following the release of its Half Year Accounts to reduce expenditure while maintaining the Company's strategic focus and sales capability. Please refer to the response below in Question 5 and the announcement by the Company on 15 March 2019 in relation to the action taken following the completion of the review.

3. *We note the Auditor's Report in the Annual Report includes a material uncertainty related to going concern, which does not modify the auditor's opinion. However, the Auditor's Review Report in the Half Year Report includes a Disclaimer of Conclusion relating to insufficient appropriate audit evidence as to whether the group may be able to trade as forecast or obtain sufficient funding for the cash requirements of the group. How has DVL's circumstances changed in the months between the auditor issuing the Auditor's Report and the Auditor's Review Report to warrant the Disclaimer of Conclusion?*

When reviewing the Annual Report, management prepared and the directors assessed, the financial forecasts for the forthcoming 12 months including any uncertainties that existed in relation to the underlying forecast assumptions. The auditors assessed these forecasts, assumptions and associated uncertainties, and determined that sufficient appropriate audit evidence existed, together with appropriate disclosures regarding the associated uncertainties, that justified a material uncertainty related to going concern within the Audit Report was appropriate.

When reviewing the Half Year Accounts, the Directors considered:

- the actual operating losses incurred, and negative cash flows generated from operations versus the budgeted loss and cashflows for the 6 months ended 31 December 2018; and

- the actual trading results for the 2 months ended 28 February 2019 and the short-term post 1 January 2019 financial forecasts, and chose to reforecast the likely future performance recognising lower consulting revenue may be being achieved following the revised strategic focus on a recurring revenue model.

The Directors concluded that while the Company had raised capital in December 2018, it would likely be required to obtain additional working capital through capital raises, alternative means of financial support or both.

The auditor's half year review assessed historical actual results and existing forecasts and were advised that the directors' latest assessment was that the Company's forecasts were not likely to be achieved and that there was now a likely requirement to fund additional working capital through capital raises, alternative means of financial support or both. Given the lower short term forecast trading performance and no formalised plans in place for raising funding working capital at the date of signing the Half Year Accounts, the auditors exercised professional scepticism and determined that a Disclaimer of Conclusion in respect of going concern was appropriate.

4. *Given the Auditor has been unable to obtain sufficient and appropriate audit evidence as to whether DVL can continue as a going concern, on what basis do the directors consider that DVL is a going concern?*

Answer

The Directors have reviewed the financial performance of the Company, its revised strategic model, operating plans (including cashflow forecasts), financial position, sales contracts in the pipeline, net current asset position and existing available cash resources, and took into account the reasonable expectation that the Company will be able to raise additional working capital funding if required.

Following this comprehensive analysis by the Directors, it was concluded that the going concern basis is appropriate.

Please also refer to the response in Question 2.

5. *What steps has DVL taken since the release of the Half Year Accounts to obtain an unqualified opinion with regards to its future financial statement?*

Answer

The Company released to the market on 15 March 2019, the results of an internal review performed following the release of the Company's Half Year Accounts.

The market was advised that the review had led to a range of initiatives to reduce operating costs, build revenue and sales capability, and optimise cash reserves. With a reduction in operational and labour expenses which took immediate effect, cash outflows from operating activities (excluding government grants and tax incentives) once normalised, are expected to be reduced by 30-40% compared to the 1st half of FY19.

The initiatives to reduce cash outflows include:

- a voluntary reduction in senior management salaries. Importantly the CEO, agreed to reduce salary and benefits from USD\$310,000 to USD\$221,500. Now based in the US,

the CEO remains committed to the goals of building the US market through strategic deals and increased recurring revenue;

- a reduction in corporate and marketing overheads; and
- optimising spend on new development within our technical team reflecting a focus on enhancing dorsaVi's core products in the marketplace and tuning the product platform for large multi-national company applications, rather than pursue new applications.

The net effect of these changes is that staff numbers have been reduced in corporate and support services whilst the Company maintains a focus on building revenue and sales capability.

In addition, the technical team will focus on enhancing the existing product portfolio rather than developing additional products. These changes are in line with the Company's strategy to prioritise the US market and to increase direct sales capability in the US workplace and clinical markets. The Company will then look to strategically expand its sales, product development and support capabilities in a measured way as its recurring revenue base increases over time.

In support of these initiatives the Company's non-executive directors resolved, subject to shareholder approval, to accept options in lieu of directors' fees applicable from 1st March 2019.

The directors also have the reasonable expectation that the Company will be able to raise additional working capital funding if required.

6. *What steps has DVL intend to take to obtain an unqualified audit opinion with regards to its future financial statements?*

Answer

Please refer to Question 5.

7. *Does DVL consider that the financial condition of DVL 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.*

Answer

Yes. Please refer responses provided above to Questions 2, 4 and 5.

8. *If the answer to Question 7 is "No", please explain what steps DVL has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rule 12.2?*

Answer

Not applicable.

9. *Please confirm that DVL is complying with the Listing Rules and, in particular, Listing Rule 3.1 and 12.2.*

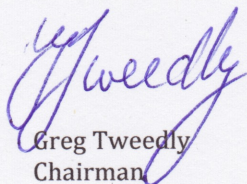
Answer

Confirmed.

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

Answer
Confirmed.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Greg Tweedly', written over the printed name and title.

Greg Tweedly
Chairman



21 March 2019

Mr Brendan Case
Company Secretary
dorsaVi Ltd

By email: brendan@casegovernance.com.au

Dear Mr Case

dorsaVi Ltd ('DVL'): Queries regarding Accounts

ASX refers to:

- A. DVL's half year accounts for the half year ended 31 December 2018 lodged with ASX Market Announcements Platform and released on 28 February 2019 ('Half Year Accounts').
- B. ASX notes that the Independent Auditor's Report attached to the Half Year Accounts ('Auditor's Review Report') contains a disclaimer of opinion together with the Basis for disclaimer of opinion:

"Disclaimer of Conclusion

We were engaged to perform a review, which is not an audit, of the Group, which comprises the condensed consolidated statement of financial position as at 31 December 2018, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half year ended on that date. Because of the significance of the matters described in the Basis for Disclaimer of Conclusion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for a review conclusion on this financial report.

Basis for Disclaimer of Conclusion

As described in Note 1(b) Going Concern, the Group has incurred a loss from ordinary activities after income tax of \$1,907,290 and the Group's capacity to continue as a going concern is dependent on its ability to trade as forecast and raise additional funding. As described in Note 1(b), the Directors are of the opinion that the Group will realise future sales revenue and secure sufficient funding, however, at the date of this auditor's review report the Group and its Directors have been unable to provide sufficient evidence supporting future sales revenue or committed funding for the cash requirements of the Group for the twelve months from the date of this auditor's review report. We have been unable to obtain alternative sufficient appropriate evidence as to whether the Group may be able to trade as forecast or obtain such funding to remove significant doubt on its ability to continue as a going concern within twelve months of the date of this auditor's review report."

- C. DVL's annual report for the full year ended 30 June 2018 lodged with ASX Market Announcements Platform and released on 19 September 2018 ('Annual Report').
- D. ASX notes that the Independent Auditor's Report attached to the Annual Report ("Auditor's Report") includes the following material uncertainty related to going concern:

"Material Uncertainty Related to Going Concern

We draw attention to Note 1(b) in the financial report, which indicates that the Group incurred a net loss of \$3,727,073 during the year ended 30 June 2018 and had total net cash outflows of \$4,642,745. As at 30 June 2018, the Group's current cash reserves total \$3,966,857. As stated in Note 1(b), these events or conditions, along with other matters as set forth in Note 1(b), indicate that a material

uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter."

E. 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.

F. 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.

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 Half Year Accounts and the Auditor's Review Report, and the application of the Listing Rules stated above, please respond to each of the following questions:

1. Is DVL 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 DVL's financial performance and position?
2. Please explain the basis for and the factors considered by the Directors to satisfy themselves that DVL is able to continue as a going concern.

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3. We note the Auditor's Report in the Annual Report includes a material uncertainty related to going concern, which does not modify the auditor's opinion. However, the Auditor's Review Report in the Half Year Report includes a Disclaimer of Conclusion relating to insufficient appropriate audit evidence as to whether the group may be able to trade as forecast or obtain sufficient funding for the cash requirements of the group. How has DVL's circumstances changed in the months between the auditor issuing the Auditor's Report and the Auditor's Review Report to warrant the Disclaimer of Conclusion?
 4. Given the Auditor has been unable to obtain sufficient and appropriate audit evidence as to whether DVL can continue as a going concern, on what basis do the directors consider that DVL is a going concern.
 5. What steps has DVL taken since the release of the Half Year Accounts to obtain an unqualified opinion with regards to its future financial statements?
 6. What steps does DVL intend to take to obtain an unqualified audit opinion with regards to its future financial statements?
 7. Does DVL consider that the financial condition of DVL 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.
 8. If the answer to questions 7 is "No", please explain what steps DVL has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rule 12.2.
 9. Please confirm that DVL is complying with the Listing Rules and, in particular, Listing Rule 3.1 and 12.2.
 10. Please confirm that DVL's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of DVL 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 DVL's response to the market. Accordingly, DVL'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 **9:30 am AEDT Thursday, 28 March 2019**.

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

Cheng Tang
Senior Adviser, Listings Compliance (Melbourne)