



Market Announcement

25 February 2020

Attached for the information of the market is ASX's query letter to Kollakorn Corporation Limited (ASX:KKL) dated 12 November 2019 and KKL's response dated 25 February 2020.

ASX's enquiries are ongoing. KKL's securities will remain suspended until further notice.

25 February 2020

Reference: 10476

Adrian Smythe
Manager, Listings Compliance (Sydney)
ASX
20 Bridge Street, Sydney, 2000

Dear Adrian,

Kollakorn Corporation Limited (KKL) response to ASX Questions and Request for Information

Please find attached our responses to your letter dated 12 November 2019, and your subsequent requests for clarification.

1. *Please explain how the directors satisfied themselves that the carrying value of \$2,106,622 for Isity is appropriate and adheres 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 valuation for Isity.*

The Directors of Kollakorn Corporation Limited (to be referred to as **Kollakorn**) engaged RSM Corporate Australia Pty Ltd ("**RSM**") to undertake an Independent Experts Report ("**IER**") of the Isity acquisition. That IER was completed in May 2017, before the completion of the acquisition, and presented to shareholders as part of the Extraordinary General Meeting held on June 30, 2017.

As required by the ASX Listing Rule 10.10.2 the Directors sought advice from RSM to assess whether the proposed transaction to acquire Isity was fair and reasonable to the non-associated shareholders of Kollakorn. RSM, the Independent Expert, stated in the IER that in their view:

"As the fair value of a Kollakorn share immediately after the proposed transaction is greater than the fair value prior to the proposed transaction, and in the absence of any other relevant information, in our opinion, the proposed transaction is fair to the non-associated shareholders of Kollakorn."

"In our opinion, the position of the non-associated shareholders if the proposed transaction is approved is more advantageous than the position if it is not approved. Therefore, in the absence of any other relevant information and/or a superior offer, we consider that the proposed transaction is reasonable for the non-associated shareholders of Kollakorn."

Therefore, the view of the IER was that the proposed transaction was fair and reasonable to the non-associated shareholders of Kollakorn.

In accordance with AASB 136 *Impairment of Assets*, the Directors perform annual impairment testing in relation to goodwill acquired in business combinations. Where the Directors find the recoverable amount of the goodwill is less than its carrying amount, the carrying amount is reduced to the recoverable amount and the amount of the reduction is recognised as an impairment loss immediately in profit or loss.

In accordance with paragraph 6 of AASB 136, the Directors measure the recoverable amount of goodwill at the higher of: (1) fair value less costs of disposal; and (2) value in use. In this case, the Directors have determined that it is not possible to measure fair value less costs of disposal in relation to the goodwill because there is no active market for identical assets and the Directors have no means of reliably estimating a price at which an orderly transaction to sell the company's goodwill would take place. Accordingly, the Directors have measured the recoverable amount of the company's goodwill based on its value in use.

For the purposes of the value in use calculation and in accordance with paragraph 31 and 33 of AASB 136, the Directors used their best estimate of future cash flows that the company expects to derive from the cash generating unit to which the goodwill belongs and applied a discount rate to those cash flows in order to discount them back to their present value.

At the time of performing their annual impairment test in relation to goodwill, the Directors:

- based their best estimate of future cash flows on the steps being taken by the company to progress the Waste Conversion Projects; and
- limited the forecast period to 5 years in accordance with paragraph 33 of AASB 136 notwithstanding there were factors present to suggest a longer period may be justifiable.

Since completion of the annual audit, Kollakorn has provided the following documentary evidence, which assists in demonstrating that the Directors best estimate of future cash flows were reasonable and supportable:

- pre-FEED and FEED Study commencement with Advisian, a division of Worley Limited;
- Option for a lease agreement for a Waste Conversion site in regional Victoria; and
- letter of support from the relevant Regional council.

It remains the opinion of the Directors that these steps demonstrate the progress the company is making in developing the first of multiple facilities capable of generating significant revenue for Kollakorn.

The discount rate applied by the Directors was 14.59%, being the company's pre-tax weighted average cost of capital.

The methodology used to determine the carrying value of Kollakorn Thailand was to use a discounted NPV of future revenues for our Tags business. For our Waste Conversion business, we used Net Cash Flow, being inflows less outflows. Waste Conversion was based on projected Net Cash Flows commencing in FY 2021 and ramping up in following years.

Net revenue was heavily discounted to take into account potential arrangements/agreements with Joint Venture partners (such as revenue or profit sharing). This is not the case for our first Victorian Site, and actual percentages will vary based on individual site arrangements. For planning purposes, we ensured a conservative approach.

Based on these numbers, the Directors were of the view that whilst there was every reason to increase the carrying value due to the significant revenue opportunity (including if the Directors only included the Victorian Project), a prudent position would be to maintain the value as per the 2018 Audited Report.

Though the Directors considered the goodwill to be significantly higher, they remained conservative in their valuation of the carrying value. The Directors have no reason to doubt progress will continue with our Waste Conversion projects, and therefore based on the Accounting Standards, the carrying value is fair and reasonable.

The calculations used are summarised in a separate attachment to the ASX which is not for market release.

Kollakorn's strategy regarding Smart Cities, and in particular Waste Conversion, has not changed since this valuation (as disclosed in the Independent Experts Report, dated May 2017). The acquisition of Isity included a substantial pipeline of opportunities across smart cities and waste conversion. The significant revenue numbers were in waste conversion. In the first instance the majority of those opportunities were in China, and in particular Isity was well developed in discussions with potential technologies for the first large scale project in Changchun. Also, in the pipeline were a significant number of Australian projects, to such a degree that Isity had employed a sales lead in Australia prior to the acquisition. The Adelaide Mixed Use Tower Project was a precursor to a Waste Conversion in a Box strategy that has developed into our overall Waste Conversion and Hydrogen Strategy. Our initial R&D funding was around the development of this opportunity. In the Australian pipeline were smaller opportunities to develop waste conversion projects. On acquisition, Kollakorn registered the business names of Isity Australia, Isity Global, and Isity Global Australia. It was, and remains our intention, to use Isity in Australia. Australia was always in the Isity frame. When the Board needed to make the hard decisions to laser focus our attention, we chose Australia as we had the capability and capacity here, and we were leveraging the initial work undertaken by Isity prior to acquisition. This decision was also due to Changchun delaying their project due to the inability to access appropriate feedstocks. This then had a domino effect on other potential opportunities in China. It remains our intention to use Isity in China. We have maintained the Company presence over the last two years, and on success in Australia we intend to replicate our success via the Isity entity back into Changchun. In Australia we chose not to use the Isity entity, rather we renamed Kollakorn Technology Pty Ltd to Kollakorn Environmental Services Pty Limited to better reflect the business we are building. The initial technology access discussions undertaken by Isity were continued by Kollakorn enabling us to gain the Australia and APAC license agreements with Bio Carbon Fuels. It remains our main objective to use what we develop via R&D in Australia, based on what we acquired through Isity, to reengage in Changchun, and other APAC cities.

In the last 16 months, Kollakorn has aggressively pursued our Waste Conversion strategy. We have presented to, or provided tender responses, to many Councils, particularly in Queensland. We have responded to Expressions of Interest (Eoi) to the Rockhampton Regional Council, Logan City Council, and Sunshine Coast Regional Council.

We have also provided submissions on Waste Conversion to Infrastructure Australia and the Victorian Government Inquiry into Recycling and Waste Management (Attachment 3).

On Thursday 28th November, Kollakorn announced that with our technology partner Bio Carbon Fuels Pty Ltd, we have engaged Advisian, a division of Worley Limited (ASX: WOR), (previously Worley Parsons), a globally based, world-leading Engineering, Procurement and Construction Company (EPC) to undertake a Pre-FEED Feasibility Study, and then prepare a detailed FEED Proposal for a Commercial, Demonstration, and Research and Development Facility for managing Municipal Solid Waste (MSW). Successful completion of the Study and Proposal will lead to the construction of an up to 200,000 Tonne Per Annum Waste Conversion Facility.

We announced that the Company had secured the option for a long-term lease, with extension provisions, on a site in Victoria, for the construction of our Commercial, Demonstration, and Research and Development Facility for the conversion of waste. The lease option allows Kollakorn to construct a Waste Conversion Facility on the land once we successfully complete our engineering Pre-FEED Study, obtain a Planning Permit and EPA Works Approval, along with a FEED

Proposal. Payment for the Pre-FEED Study is conditional on meeting specific performance gates associated with each milestone payment. This facility, to be known as a Total Recovery Facility (TRF) will maximise resource recovery through the reuse and recycling of waste materials and create clean, renewable energy and fuels. There is no option fee associated with the extensions of the lease.

In addition, we have spent a lengthy period of time engaging with the local Council and we have gained their support for this project.

Due to the commercial confidentiality involved in finalising the contracts and the lease, the Company is unable to announce these milestones. Announcements will be made as soon as contracts are finalised.

This facility alone will generate revenue of approximately \$20,000,000 per year after operations commence and full production ramp up, which we expect in mid to late 2021 (Please note this is gross revenue and does not take into account associated operating and financing costs and capex). This will be significantly greater than the current carrying value of Isity. This will also provide our technological springboard back into China, and in particular the opportunity in Changchun. Details regarding the associated capital expenditure, operating costs and financing costs for the initial Waste Conversion Facility have been provided to the ASX but are not for market release.

- 2. Please provide a copy of any independent valuation of Isity (not for release to the market). If no independent valuation of Isity has been prepared, please explain why not.*

No independent valuation was performed. The Directors have reviewed the Discounted Cash Flow evaluation and determined that the carrying value remains conservative and does not warrant the expenditure required for an independent valuation.

The Directors of Kollakorn engaged RSM Corporate Australia Pty Ltd to undertake an Independent Experts Report of the Isity acquisition. As expressed in our Annual Reports and AGM's since that Report was prepared and accepted by Shareholders, the only variation to our strategy has been to coordinate our resources to focus on opportunities in Australia. As the answer above testifies, we will soon be able to communicate to the market that the strategy is taking significant steps forward.

The valuation that the IER reviewed was undertaken internally by Kollakorn in Q4 FY2016 and Q1 of FY2017 (June through September 2016), and was based on Isity's Sales Pipeline, and CY 2016 Profit and Loss projections. This revenue stream, particularly from waste conversion, was expected to grow significantly year on year based on the success of the Changchun project in China.

Isity was then valued based on this revenue projection at \$10m. The Board agreed to offer an initial \$2.5m in shares, and an additional \$7.5m based on achieving stretch performance targets. The \$2.5m also required an additional \$1.5m of capital to be raised to progress the opportunity in Changchun.

The Board made the decision not to raise the entire \$1.5m as it was of the belief at the time that the Malaysian Project was close to being confirmed, and that the Company would be better served not raising the additional capital. The Company raised \$0.5m of capital after completion of the Isity Transaction that was directly apportioned to Isity China business development and general operating expense throughout 2017 and into 2018. The Changchun project was postponed (as explained in our response to Question 1), and other identified sales by Isity did not

proceed. For these reasons the Board took the decision to raise no more funds for Isity in China, to significantly manage costs, and to focus our waste conversion efforts on the Australian Market. As a result, the Isity performance targets, due in June 2020, will not be achieved, and no performance shares will be issued.

3. *Is Isity still pursuing any projects or opportunities in China? If the answer to this question is 'yes', please provide details.*

As explained in our response to Question 1, Kollakorn took the tactical decision to focus our initial efforts to develop our waste conversion business in Australia. This would enable the Board and Management Team to be closer to the fundamental growth engine of the business. There are still significant opportunities available to Kollakorn in China, and it is for this reason that we have maintained the Isity entities in Singapore and China. As recently as last week, Charles Hunting, a director of Kollakorn, was in China where a number of potential opportunities were discussed pending the successful development of our Australian opportunities. It is also for this reason that our Master License agreement with Bio Carbon Fuels provides access for Kollakorn to the technology in the China market. At this point in time Bio Carbon Fuels continues to field expressions of interest from China, and it is our stated strategy to gain technical expertise in Australia, build resilience into our balance sheet, and to then re-enter the China market.

4. *Noting that the qualified opinion in the Auditor's Report relates, in part, to the Auditor's inability to obtain sufficient appropriate audit evidence to support the carrying value of KKL's goodwill, please provide a detailed explanation why the Auditor has been unable to obtain sufficient appropriate audit evidence to verify the carrying value of KKL's goodwill.*

The value of Kollakorn's goodwill is demonstrated in our ability to leverage the Isity pipeline and commence the development of our first Waste Conversion Facility (as described in our response to Question 1). The value of the goodwill is intrinsically linked to our ability to commence this project, and our ability to commence conversations across Australia with both Councils and Industry, via the initial opportunity pipeline developed by Isity. Isity has enabled us to license technology and identify sales opportunities that Kollakorn itself would have struggled to achieve.

As referred to in the previous questions, the auditors took the view at the time of the accounts being finalised for the year, there was not an appropriate amount of audit evidence in relation to some of the assumptions – for example that there were no signed contracts or other appropriate supporting documents. Since that time, further documentary evidence has been developed and shared with the ASX, and that process will continue as our projects further progress.

5. *Please explain how the directors satisfied themselves that the fair value of \$1,500,000 for KKL's investment in Kollakorn Co is appropriate and adheres 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 valuation of Kollakorn Co.*

The Kollakorn Co. Ltd (to be referred to as **Kollakorn Thailand**) investment is aligned to our Tamper Evident Break on Removal RFID Tag technology. The calculation of the number of shares and the value was explained in a correspondence to the Auditors on 24th July 2019.

The Directors were advised of KKL Thailand's intentions to embark on a Rights Issue in late May 2015. There was no further advice and no reference to any rights issue in the KKL Thailand June 2015 half yearly accounts. Kollakorn first became aware that the Rights Issue had occurred on receipt of KKL Thailand's 31 December 2015 accounts, received on 13 January 2016. This was then disclosed to the market in Kollakorn's 2015 Half Yearly accounts, released to the market on 22 February 2016. Our interest was reduced to 16.75%, and is shown as such in our accounts, and has been reported in our accounts since the 2015 Half Yearly accounts were lodged. Kollakorn's shareholding was diluted by cash, not by the value of the shareholding, which maintained the same value. At the time of the offer it would not have been an investment priority for the Company. A decision would have been made not to participate

Of the number of shares available for Kollakorn Corporation Limited, 100% of our entitlement was taken up by another Thailand based company.

The percentage of Kollakorn Thailand held by Kollakorn Corporation Limited before the rights issue was 26.67% . With the rights issue, Issued Capital in Kollakorn Thailand increased from 93m to 150m Bhat.

Kollakorn Corporation Limited's ownership was calculated based on taking the new investors percentage of our ownership in prior years to calculate the new investors entitlement.

This new investor took 100% of Kollakorn Corporation Limited's entitlement fully paid, which reduced Kollakorn Corporation Limited's percentage to 16.75%.

In summary, on or around July 2018 Kollakorn Thailand issued 7,441,913 shares that was in addition to the original 7,500,000 shares on issue. By not taking up the offer, Kollakorn Corporation Limited was therefore diluted by 49.6128% to 16.75%.

The fair value of \$1,500,000 was determined based on the amount of issued capital and the market value of Kollakorn's investment:

Kollakorn Thailand issued capital – 150,000,000 @10 Baht

Exchange rate at time of Kollakorn Annual Report Preparation – 0.04636

Fair Value Calculation – $150,000,000 * 0.04636 = \$6,954,000$

Kollakorn value - $\$6,954,000 * 16.75\% = \mathbf{\$1,164,795}$

The Directors satisfied themselves that \$1,500,000 was the fair value based on our expectations for the Tags business as referred to in Question 11, using the Company's discounted cash flow which is based on Kollakorn's historical Weighted Average Cost of Capital. The Directors remain of the view that the valuation was conservative based on the potential upsides provided by the Tag opportunities in Malaysia and Myanmar. The fair value that has been provided takes into account the equity position of \$1,164,795, the expected tag sales to Malaysia, the opportunity presented in Myanmar, and the flow on effect these two opportunities will have in Thailand once successful. (Our expectation is that Thailand will be compelled to progress with their delayed Border Crossing Project due to the roll out in Malaysia and Myanmar).

Kollakorn estimated that the value should recognise the very sizeable Malaysian opportunity and the flow on to Myanmar and Thailand. Therefore, to provide adequate room for adjustment, the Directors were of the view that a value of \$1.5m is justifiable.

In accordance with paragraph 4.1.4 of AASB 9, the company measures its investment in Kollakorn Thailand at fair value through other comprehensive income. In determining the fair value, the company applied the fair value hierarchy set out in AASB 13 *Fair Value Measurement* adopting a Level 3 classification in relation to its investment in Kollakorn Thailand.

The company adopts a discounted cash flow methodology, similar to its value in use goodwill impairment model, in order to determine the fair value of its investment in Kollakorn Thailand. Consistent with Level 3 of the fair value hierarchy, the company uses unobservable inputs because no observable market inputs exist in relation to the Kollakorn Thailand investment. The Directors best estimate of future cash flows:

- was based on projected tag sale revenues in Malaysia commencing in CY2020, as summarised in a separate schedule submitted to the ASX which is not for market release; and;
- terminated at year 5 in accordance with usual value in use modelling practises.

As the annual audit progressed, the Directors became aware of positive movements for the sale of tags to Malaysia and Myanmar. Since completion of the annual audit, Kollakorn has provided documentary evidence in the form of our agreement with our Malaysia Partner on the commercial arrangements for the project, which assists in demonstrating that the Directors best estimate of future cash flows were reasonable and supportable.

The discount rate applied by the Directors was 14.59%, being the company's pre-tax weighted average cost of capital.

It is the opinion of the Directors that these steps demonstrate the progress the Company is making in extracting the greatest value from the Tags business for Kollakorn.

Based on the valuation model, the Directors formed the view that whilst there were reasonable grounds to increase the fair value of the company's investment in Kollakorn Thailand due to the significant revenue opportunity (and not including Myanmar and Thailand), it was prudent to discount the figure closer to the actual value of the Kollakorn Thailand investment when 16.75% of the paid up capital value in Baht was converted to Australian Dollars.

Kollakorn no longer has direct access to Kollakorn Thailand, and holds no executive or director positions. Kollakorn receives periodic updates from Kollakorn Thailand when specifically requested. At 16.75% ownership, we are not entitled to more information than we receive, so we do not have access to budgets, management accounts and so forth. What we are entitled to is the half year and full year results. As a minority shareholder, we maintain review over the accounts at year end.

Kollakorn is aware of the negligible revenue of Kollakorn Thailand per its FY2018 accounts. Fair value was based on the value of existing assets in Kollakorn Thailand and our expectations of the value of the Tag Project currently being pursued in Malaysia and elsewhere.

The total investment in Kollakorn Thailand was \$6,461,652 as at June 2014.

6. *Please provide a copy of any independent valuation of Kollakorn Co (not for release to the market). If no independent valuation of Kollakorn Co has been prepared, please explain why not.*

There has been no independent valuation of Kollakorn Thailand. Kollakorn Thailand is audited according Thailand corporate regulations as at 31st December each year. These audited accounts were provided to Kollakorn's auditor, and have been each and every year.

Kollakorn does not own enough shares in Kollakorn Thailand to be entitled to demand an independent valuation. At this time, the cost to Kollakorn would be excessive, and there is no guarantee Kollakorn Thailand would agree to allowing it. We are carrying Kollakorn Thailand at the Balance Sheet Value.

The recent capital raising exercise, in which we did not participate, valued Kollakorn Thailand at 10 Baht per share. We used this number as the basis for our valuation and evidence of fair value.

The valuation incorporates a a number of underlying assumptions that were shared with the auditors. The Directors believe that the estimated value of Kollakorn Thailand should recognise the very sizeable Malaysian opportunity. In the first instance due to the tender requirements, Malaysia will need to use Kollakorn tags. This would be an initial sale of greater than the carrying value. Based on reports from our Malaysian Project Partners, we do expect an announcement that Malaysia will commence rolling out their new registration program using our BOR Tags. We anticipate this announcement will occur in early 2020. We have agreed estimated volumes with our partner over the life of their contract. The methodology to support our valuation has been provided to the ASX, however remains market sensitive.

7. *ASX notes that KKL did not participate in the rights issue offered by Kollakorn Co to its shareholders in July 2018 ('Rights Issue'). This resulted in the dilution of KKL's ownership interest in Kollakorn Co to 16.75% and had implications for KKL's financial statements (see paragraph J(x) above).*
- (a) When did KKL decide that it would not participate in the Rights Issue?*
- (b) When was the Rights Issue completed?*
- c) If KKL first decided that it would not participate in the Rights Issue prior to 2 September 2019, please explain why this information was not released to the market at an earlier time, commenting specifically on when you believe KKL was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps KKL took to ensure that the information was released promptly and without delay.*
- (d) When did KKL first become aware of the implications for KKL's financial statements of its non-participation in the Rights Issue?*
- (e) If KKL first became aware of the implications for the financial statements of its non-participation in the Rights Issue prior to 2 September 2019, please explain why this information was not released to the market at an earlier time, commenting specifically on when you believe KKL was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps KKL took to ensure that the information was released promptly and without delay.*
- a. The Directors were advised of KKL Thailand's intentions to embark on a Rights Issue in late May 2015. There was no further advice and no reference to any rights issue in the KKL Thailand June 2015 half yearly accounts. Kollakorn first became aware that the Rights Issue had occurred on receipt of KKL Thailand's 31 December 2015 accounts, received on 13 January 2016. This was then disclosed to the market in Kollakorn's 2015 Half Yearly accounts, released to the market on 22 February 2016. Our interest was reduced to 16.75%, and is shown as such in our accounts, and has been reported in our accounts since the 2015

Half Yearly accounts were lodged. Kollakorn's shareholding was diluted by cash, not by the value of the shareholding, which maintained the same value. At the time of the offer it would not have been an investment priority for the Company. A decision would have been made not to participate.

- b. The rights issue was completed soon after.
- c. Kollakorn was unaware of the event and therefore was unaware it potentially had obligations to release information to the market. Kollakorn can only release relevant information that the Company has knowledge about. Irrespective of this, once the Company did become aware of the Rights Issue, we were of the view that as the value to shareholders of our investment was unchanged, it was not an event requiring an announcement. The investment in Kollakorn Thailand remained unchanged, only our shareholding was diluted. The Directors were of the view this did not impact shareholders. The only impact on Kollakorn was a move away from equity accounting, to accounting for Kollakorn Thailand as an investment.

The carrying amount is the same amount as the paid up capital. Goodwill didn't eventuate and we wrote it down. The impact of tag sales has yet to occur, yet there is the same paid up capital. Kollakorn is carrying approximately \$1,164,795 which is our 16.75% investment. Currency fluctuations and the lack of tag sales at 30 June 2019 resulted in the write down. Our actual investment value has not changed. Kollakorn still has the same capital investment, just a smaller percentage ownership. The total investment in Kollakorn Thailand was \$6,461,652 as at June 2014.

- d. Kollakorn became aware of the implications for our financial statements during discussions with the Company's auditors, commencing July 12, 2019, and continuing up to the completion of the Preliminary Annual Audit on 31 August 2019. Please refer to our response to Question 5.
 - e. Kollakorn only became aware of the implications for our financial statements during discussions with the Company's auditors. As responded to in question 7 (c), this did not change the underlying investment value.
8. *Noting that the qualified opinion relates, in part, to the Auditor's inability to obtain sufficient appropriate audit evidence about the initial fair value of KKL's investment in Kollakorn Co in July 2018 and the carrying value of KKL's investment in Kollakorn Co at 30 June 2019, please provide a detailed explanation why the Auditor has been unable to obtain sufficient appropriate audit evidence to verify both the initial fair value and the carrying value of the investment in Kollakorn Co.*

The full dilution of the shares occurred in July 2018. Our interest was reduced to 16.75% and is now shown as such in our accounts. Kollakorn's shareholding was diluted by cash, not by the value of the shareholding, which maintained the same capital value. The Directors formed the view that as the value to shareholders of our investment was unchanged, it was not an event requiring an announcement. The capital value of our investment in Kollakorn Thailand remained unchanged, only our shareholding was diluted. The Directors were of the view this did not impact shareholders. The only impact on Kollakorn was a move away from equity accounting, to accounting for Kollakorn Thailand as an investment.

Kollakorn became aware of the implications for our financial statements during discussions with the Company's auditors. Correspondence with the auditors confirmed the calculation methodology and the correct carrying value of Kollakorn's investment in Kollakorn Thailand. Kollakorn Corporation Limited's (KKL) ownership of 16.75% at 30 June 2019 was consistent with Kollakorn Co., Ltd (Kollakorn Thailand) 31 December 2018 audited financials and changes in Kollakorn Thailand paid up shares during the 6 months to 31 December 2018. Given Kollakorn holds 16.75% ownership of Kollakorn Thailand and is unlikely to have significant influence over Kollakorn Thailand, the auditor's recommendation was that Kollakorn needed to discontinue equity accounting for the investment from the date it ceased to be an associate. In accordance with AASB 128 Investments in Associates and Joint Ventures paragraph 22, Kollakorn measured the retained interest at fair value on initial recognition as a financial asset in accordance with AASB 9 Financial Instruments. Kollakorn recognised in its profit or loss any difference between the carrying amount of the investment at the date the equity method was discontinued.

The total investment in Kollakorn Thailand was \$6,461,652 as at June 2014.

9. *What steps, if any, has KKL taken since the release of the Annual Report to obtain an unqualified audit opinion in relation to its future financial statements?*

Kollakorn's efforts are focused on delivering to shareholders a profitable business. Three years ago, the Company refined its strategy to pursue opportunities in the Smart Cities marketplace, particularly in waste to energy conversion. The Directors held the view that this would enable the Company to continue developing the CertainID technology, and also to provide a stronger long term revenue stream to that experienced in our RFID tag business, which as explained in previous answers is highly dependent on third party decisions. This path will enable the Company to become profitable, and to therefore obtain an unqualified audit opinion in relation to its future financial statements.

Currently, we have progressed from a disclaimer to a qualified opinion. Kollakorn Thailand is not audited on the same calendar as Kollakorn Corporation Limited. Their audit occurs as at 31st December, not 30th June. Kollakorn's auditors, RSM Australia, have therefore taken an unaudited June 30 set of results for Kollakorn Thailand and incorporated those in the Kollakorn audit.

We have requested Kollakorn Thailand undertake an additional 30th June audit, but this has been refused.

Kollakorn aims to obtain unqualified audit opinions in the current financial year based on the progress we are making in our projects. The FY2020 audit report will be based on expected progress and the timing of contract signings and announcements, so as to provide appropriate audit evidence and satisfy the auditors.

10. *What steps, if any, does KKL intend to take to obtain an unqualified audit opinion in relation to its future financial statements?*

Please refer to our response to Question 9. The Board may consider a further market appraisal as our strategy for waste conversion progresses.

11. *ASX notes that:*

- *CertainID is in development and that KKL is developing its approach to commercialising the product (see sub-paragraph J(i) above).*
- *KKL plans to commence entering the market for waste conversion with demonstration technology in 2020 (see sub-paragraph J(i) above).*
- *KKL 'does not see any significant turnaround in the foreseeable future' for the RFID tag business (see sub-paragraph J(i) above).*
- *KKL only generated sales of \$12,615 in FY2019 (all from sales of RFID tags/AVI segment).*

In light of the above, does KKL consider that its level of operations is sufficient to warrant the continued quotation of its securities and its continued listing on ASX in accordance with the requirements of listing rule 12.1? In answering this question, please also explain the basis for your conclusion.

Kollakorn does consider that its level of operations is sufficient to warrant the continued quotation of its securities and its continued listing on ASX in accordance with the requirements of listing rule 12.1, as we recognise the significant commercialisation opportunity provided by CertainID and Kollakorn Environmental Services This is supported by the following response to your specific statements:

- a. Certain ID. Biometrics constitute an essential and practical factor for authentication and access-control, i.e., present yourself rather than remembering a code and carrying a physical device. However, existing biometric solutions store and communicate biometric templates, a digital representation of unique biological features such as fingerprints, palm, palm veins, hand geometry, face, iris, retina, DNA and odour, and behavioural characteristics such as typing, gaits and voice. The fundamental problem with these biometric templates is that their compromise causes permanent harm. The stolen biometric template can be used to continually claim the identity of the victim. These challenges make biometrics-based security solutions (e.g., authentication, confidentiality and digital signature) risky for both users from whom these features are extracted and organizations which extract, use and store these features.

CertainID fills a significant gap by providing a safe method for biometrics-based security solutions. Kollakorn and Data61 have developed the CertainID demonstrator using a low-cost camera capable of reading iris from a comfortable distance (e.g., 40 cm). CertainID changes the way biometric features are used. Rather than directly storing and using biometric information in security applications, biometric information can be used to lock (e.g., encrypt) and unlock (e.g., decrypt) revokable security keys. CertainID uses biometric sensors which accept a seed value to generate a seeded biometric code. This seeded biometric code is used to lock a set of security keys which are used in security solutions, such as access control. If the device storing CertainID data is lost or compromised, no sensitive information associated with individuals can be hacked off the device, the user can revoke the security keys and change the seed to produce a different seeded biometric code from the same biometric features.

We are continuing this project to bring CertainID to a higher Technology Readiness Level ("**TLR**"). This is a global standard that estimates a technologies maturity (1 to 9). Our first project with Data61 took the product to TLR 4. Our next project with them will be through AustCyber, the Australian Cyber Security Growth Network, part of the Federal Governments cyber security strategy. We will take the product to TLR 8, which is a product completed and qualified through verification, testing and demonstration. This will allow commercialisation in financial transactions, records management,

building access control, facilities management, and other device and network based transactions. We expect this process to be completed by Q1 of 2021, with commercialisation occurring immediately after.

b. Waste Conversion:

We have described in our response to Question 1 our activities in respect to growing our business in waste conversion.

Kollakorn's objective, through our wholly owned subsidiary Kollakorn Environmental Services (KES), is to achieve zero waste and a landfill free future. Kollakorn will support Councils and Industry manage the increasing amounts of waste being generated by a growing population, to increase the recovery of valuable resources, and to reduce the reliance on landfill and incineration. We will focus our efforts on maximising resource recovery through the reuse and recycling of waste materials, and by creating clean energy and fuels (and potentially other more valuable products) from the waste that the community creates.

We will incorporate commercially proven leading-edge technologies in a unique combination that is designed to eliminate waste streams through reuse and recycling, and then produce environmentally responsible renewable energy and fuels from remaining waste streams so as to virtually eliminate landfill. We will bring to the market proven, reliable and proprietary waste conversion technology that will provide the community with world leading waste management.

We will bring these technologies together into a "Total Waste Recovery Facility" (TRF). The process undertaken in these facilities will eliminate the need for future landfills, dramatically reduce any use of existing landfills, reduce land contamination and degradation, reduce greenhouse gas emissions, protect and renew the environment, eliminate the need for municipal solid waste stockpiling, create employment in your communities, and produce clean, green, renewable energy and fuels. Most importantly our waste conversion technology will not use incineration. We will use pyrolysis which is a thermal process of heating feedstock while oxygen is not present. There will be no harmful emissions into the atmosphere.

We will implement our proven process in collaboration with our technology partners including a world leading EPC (Engineering, Procurement, Construction) firm that will provide guaranteed performance and quality standards. Our TRF represents a significant step up from the basic material recovery facilities ("MRF") currently found in Australia, which only recover and recycle approximately 51% of waste (mostly metals, glass, and hard plastics), and ignore the more difficult organic and cellulosic wastes. Our process recovers almost all the waste streams, maximises recycling and reuse where economically and environmentally applicable, and converts the enormous amount of residual waste into renewable electricity, natural gas, renewable diesel, or hydrogen.

Our TRF facilities will provide the opportunity to achieve an almost complete reuse of all waste produced in our community. They will be designed to comfortably process all waste streams, 24 hours per day, 365 days per year, and in all weather conditions, with extremely minimal emissions, virtually eliminating landfill. In particular our focus will be on Municipal Solid Waste, Commercial and Industrial, and Green Waste. The TRF is also able to manage Construction and Demolition waste but this is not a preferred option as our focus is on waste conversion.

Our solution is unique, proven, demonstrable, and ready to be implemented without any pre-development or research funding. The business case that sits behind this solution is compelling.

Our statements above have been validated by the announcements we plan to make shortly as described in our response to Question 1.

c. Tamper Evident Break on Removal Tags:

The statement “KKL ‘does not see any significant turnaround in the foreseeable future’ for the RFID tag business (see sub-paragraph J(i) above)” has been taken out of context.

The statement by the Chairman was a matter of fact, that at the time of writing we did not have any tag opportunities in our pipeline apart from Malaysia, Myanmar, and then Thailand. This had been stated previously to shareholders and the Chairman was explaining again to shareholders why our focus on CertainID and Waste Conversion was so important. There continues to be expectations placed on the Tag business that are unrealistic, and the Chairman wanted to ensure false expectations were not set.

Shortly after the release of the Chairman’s letter, Kollakorn was contacted by our Malaysian and Myanmar partners. In Malaysia we met with our partner, where we agreed in principle, the terms of any sale of tags once our partner has received confirmation from the Malaysian Government that the project would commence. At the same time that Malaysia again gained traction, we were informed that the Government of Myanmar had chosen their technical consultant for the development of a tender process for the rollout of a tagging solution for the country. This has been a delay of more than 12 months. We reengaged with our Myanmar partner and with Kollakorn Co. Ltd (Kollakorn Thailand) and will be continuing to support the development of our solution to the Government throughout 2020. We don't expect any significant developments until the second half of 2020. We then expect that there should be a resurgence of interest in Thailand once the Border and general Registration Projects in Malaysia and Myanmar are announced.

The Company continues to pursue contracts which will eliminate any uncertainty.

For many years the Company has seen an erosion of sales in our tags business. This has been magnified in the last 3 to 5 years by a number of factors that have been explained on many occasions to the market and shareholders. They are:

1. The opportunity to provide tags in Thailand, which fundamentally saw the creation of Kollakorn Thailand, has had continual delays. We do remain confident we will gain a sale in Thailand through their Border Crossing Projects, as explained in our response to Question 5. The reason for the delays is:
 - i. Constant changes in Government forcing the project to be consistently stalled;
 - ii. Corruption charges levelled against key Government officials responsible for the project;
 - iii. The death of the King, impacting government process for lengthy periods;
 - iv. Changes in policy as they affect vehicle management.

2. Breaches of our patents resulting in loss of income:
 - i. A number of patent breaches have been brought to our attention. We have been unable to fully pursue them due to the extensive cost associated with patent defence, particularly in the USA.
3. Sale of 3M's RFID business to Neology:
 - i. The business was sold by 3M Company on 30th June 2017 to Neology Incorporated, which included a transfer of our License. Since that day we have received no royalties from Neology. We are aware they are breaching our License Agreement. We have placed them on notice. Our legal advice is that pursuing Neology through the USA legal system will be extraordinarily expensive and difficult;
 - ii. We have received no response from Neology to our notice.
4. Pipeline of Opportunities:
 - i. We have explained to the market that the opportunities in Argentina, West Africa, and other smaller countries did not proceed;
 - ii. We have explained to the market that the opportunity in Myanmar was progressing extremely slowly;
 - iii. The time frame for opportunity in Malaysia continued to be pushed out.

Based on these unambiguous facts, which have been brought to the attention of shareholders and the market, the Board flagged, as it has done over the last 3 years, that as at July 2019 the Company did not see any foreseeable change in circumstances for the Tag business.

In the last six weeks, the CEO has undertaken trips to Singapore, Malaysia and India to attempt to bring value to the Tag Business.

In Malaysia, progress over the year has been slow but is moving forward. Meetings between our partner and the Government of Malaysia have continued. Our partner is confident that a pilot project should commence in early 2020 and that a full rollout should occur from mid-2020. The Directors are very aware that shareholders have heard this many times before. In the last month, I travelled to Malaysia to meet with our partner, where we agreed in principle, the terms of any sale of tags once our partner has received confirmation from the Malaysian Government.

At the same time that Malaysia again gained traction, we were informed that the Government of Myanmar had chosen their technical consultant for the development of a tender process for the rollout of a tagging solution for the country. This has been a delay of more than 12 months. We have reengaged with our Myanmar partner and with Kollakorn Co. Ltd (Kollakorn Thailand) and will be continuing to support the development of our solution to the Government throughout 2020. We don't expect any significant developments until the second half of 2020.

We do expect that there should be a resurgence of interest in Thailand once the Border and general Registration Projects in Malaysia and Myanmar are announced. Again, we are unable to put a timeframe on this.

- d. Whilst generating \$12,615 from Tag sales in FY2019, the Company has outlined in our detailed response to this question our plan for generating further income in FY2020 and beyond.

12. *Please provide a copy of the following agreements (not for release to the market):*

(a) the agreement(s) with Data61 and the CSIRO Kick-Start Program;

(b) the collaboration agreement with Infinity Optics Pte Ltd;

(c) the agreements with Bio Carbon Fuels LLC, including the licensing and services agreement referred to in the Annual Report and the Heads of Terms referred to in the Half Year Report;

(d) the services agreement with BCF Global Pty Ltd; and

(e) the Letter of Intent 'with the financier of a significant development in Victoria for the application of our waste conversion technology'.

All documents have been provided to the ASX .

13. *Please provide a link to or a copy of the following:*

a) the patent(s) which relate to CertainID;

b) Bio Carbon Fuels LLC's patent(s) which relate to its agreements with KKL; and

c) the patents which relate to KKL's RFID tags technology.

All Patents have been provided to the ASX.

14. *Does KKL still expect to receive \$122,105 of other receivables (see sub-paragraph J(viii) above)?*

This amount is still outstanding. It relates to interest owed to Kollakorn Corporation Limited by Kollakorn Thailand associated with transactions that occurred during the initial establishment of Kollakorn Thailand . Kollakorn Corporation Limited expects to receive payment for this when the Company resolves outstanding matters with Kollakorn Thailand.

Kollakorn is exploring how best to extract value from the investment in Kollakorn Thailand. This includes the commercial arrangements for the tag opportunity in Myanmar. We have yet to determine the most appropriate structure to enable Kollakorn to receive greatest benefit. These deliberations by the Board of Kollakorn are strictly confidential. The opportunities in Malaysia, Myanmar and then Thailand will provide alternatives with respect to our investment.

15. *Please confirm whether the amounts owing to related parties (see sub-paragraph J(xii)(c) above) are current payables or non-current payables or a combination thereof?*

Kollakorn can confirm that the amounts owing to related parties are accounted for as non-current payables. This has been incorrectly stated as current.

16. Was the loan from Mitchell Asset Management Innovation Finance Fund repaid on 31 October 2019 (see sub-paragraph J(xiii) above)?

The Research and Development Loan from Mitchell Asset Management has been fully repaid.

17. ASX notes that:

- Based on the information in the Attachment 4C (see paragraph M above), it is possible to conclude that if KKL were to continue to expend cash at the rate indicated by the Attachment 4C, KKL may not have sufficient cash to continue funding its operations.
- The independent auditor included disclaimers of opinion in its audit reports on KKL's financial statements for five financial years (see paragraphs A to E above), and included a qualified opinion in the Auditor's Report.
- KKL had total liabilities of \$3,252,889 and net assets of \$582,277 at 30 June 2019.

In light of the above, does KKL consider that its financial condition 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 your conclusion.

Yes, Kollakorn Corporation Limited does consider that its financial position is sufficient to warrant continued listing. The Company remains solvent. Our net asset position is after liabilities. The Company is solvent and will continue to be so based on the following expected cash flows in 2020:

- a. Revenue from the Tamper Evident Break on Removal Tag Business. We have completed a small sale to Dero Bike Racks in the USA). This is an ongoing yearly sale. We also expect to receive an order for tags from our Malaysian partner as the test sample for a role out of tags in Malaysia as per our response to Question 11;
- b. CertainID R&D support. As explained in our response to Question 11, further to the completion of our recent development project with CSIRO/Data61, Kollakorn will be entering into funding agreements with CSIRO/Data61 and AustCyber as part of our project to build out the capability of CertainID. In concert with relevant R&D tax incentives, this funding will support the continued development of CertainID without the Company relying on capital raising or other forms of debt;
- c. Waste Conversion. Kollakorn commenced a detailed program in July for the development of our Waste Conversion Technology. This is explained in detail in our response to Questions 1 and 11.

18. ASX notes that the CGS states that 'the Board's representations in relation to financial reports are supported by representations made by the Manager.'

a) Who is the 'Manager' and what representations did they make to the board in relation to the financial statements in KKL's Annual Report?

b) Did the 'Manager' make the declaration described in Recommendation 4.2 of the CG Principles and Recommendations?

c) If the answer to b) above is 'yes':

i) Why didn't the CFO and CEO make the declaration?

ii) Why did KKL's Attachment 4G disclose that it had followed Recommendation 4.2?

iii) Please provide a copy of the declaration by the Manager (not for release to the market).

d) If the answer to b) above is 'no', why does the CGS refer to the 'Manager' rather than the CFO and CEO having made the declaration?

This is a typographical error. The reference should be to the CEO. The CEO makes representations to the Board on all financial matters.

19. What enquiries did the Board make of management to satisfy itself that the financial records of KKL 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 KKL?

The CEO reports directly to the Board. The Board formally meets each month and a standing agenda item is a review of the Company's financial performance. The CEO also regularly discusses with each Board member matters, including company finances, during the month. Also, Nicholas Aston, in addition to his Director duties, is acting Chief Financial Officer of Kollakorn. He and the CEO discuss matters regarding Kollakorn's finances numerous times per week. Therefore, the Board is very aware of the financial position and performance of the Company, and its management of financial records and adherence to all accounting standards.

The financial position of the Company is independently audited by RSM Australia. During the FY19 Audit, the Directors, including the Chairman, had numerous face to face and telephone meetings with RSM, where the adherence to accounting standards and review of properly maintained records was reviewed.

Compared to many other companies, Kollakorn performs minimal financial transactions per year, and these transactions are completely transparent and fully understood by management, and explained to the Board.

20. Commenting specifically on the qualified opinion, does the board consider that KKL has a sound system of risk management and internal control which is operating effectively? If so, please explain these systems.

As per our response to Question 19, the Board considers that there are effective risk management and internal controls in place, and that they operate effectively. The financial management of the Company is directly monitored by the Board, through the role played by the acting CFO, and the fact that the Company's financial performance is reviewed at every Board Meeting.

21. Please explain why KKL has not disclosed the matters detailed in sub-paragraph J(xiv) above in recommendation 2.3(b) in the CGS.

Is the board of the opinion that these matters and Mr Tayeh's length of service do not compromise the independence of the respective directors? If the answer to this question is 'yes', please explain why the board is of this opinion.

These matters have been disclosed in the 2019 Annual Report as related party transactions. They are explained as Accounting Services provided to the Company by Brentnalls NSW Pty Ltd (the Company's corporate accountants) and Triangul8 Pty Ltd that provided R&D services in respect to the development work undertaken between Kollakorn and the CSIRO/Data61 for our CertainID technology. The latter required providing detailed technical expertise and data to support the development of CertainID.

Mr Tayeh's length of service is directly related to the fact that no other suitable candidate has been identified to undertake the role at this time, and the Boards need to utilise Mr Tayeh's corporate skills as the Company shifts its strategic focus. The Board has at no time dissuaded any person from either joining the Board or undertaking the role of Chairman and continues to discuss the make-up of the Board on a regular basis. The Board and Mr Tayeh acknowledge his length of service however remain comfortable that this tenure does not interfere with his capacity to bring an independent judgement to bear on issues before the board and to act in the best interests of the Company.

The Directors will update the CGS if required. The involvement of related parties in FY2019 was explicitly stated in our financial statements.

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

Kollakorn confirms that it is complying with Listing Rules, including Listing Rule 3.1.

23. Please confirm that KKL'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 KKL with delegated authority from the board to respond to ASX on disclosure matters.

Kollakorn's responses to all the questions above have been authorised and approved under its published Continuous Disclosure Policy and by the Board of Directors of the Company.

Sincerely,



David Matthews

Chief Executive Officer
Kollakorn Corporation Limited



12 November 2019

Reference: 10476

Mr Tom Bloomfield
Company Secretary
Kollakorn Corporation Limited
Level 9
65 York Street
Sydney NSW 2000

By email

Dear Mr Bloomfield

Kollakorn Corporation Limited ('KKL'): Query letter

ASX Limited ('ASX') refers to the following:

- A. KKL's annual report for the financial year ended 30 June 2014 released on the ASX Market Announcements Platform ('MAP') on 30 September 2014, including the independent auditor's report which contained a disclaimer of opinion on the following bases: (1) going concern, (2) the carrying value of KKL's associate, Kollakorn Co. Ltd ('Kollakorn Co'), and (3) the share of loss of Kollakorn Co.
- B. KKL's annual report for the financial year ended 30 June 2015 released on MAP on 30 September 2015, including the independent auditor's report which contained a disclaimer of opinion on the following bases: (1) going concern, (2) the carrying value of Kollakorn Co, and (3) the share of loss of Kollakorn Co.
- C. KKL's annual report for the financial year ended 30 June 2016 released on MAP on 3 October 2016, including the independent auditor's report which contained a disclaimer of opinion on the following bases: (1) going concern, (2) the carrying value of Kollakorn Co, and (3) the share of loss of Kollakorn Co.
- D. KKL's annual report for the financial year ended 30 June 2017 released on MAP on 2 October 2017, including the independent auditor's report which contained a disclaimer of opinion on the following bases: (1) going concern, (2) the carrying value of Kollakorn Co, and (3) the share of loss of Kollakorn Co.
- E. KKL's annual report for the financial year ended 30 June 2018 released on MAP on 1 October 2018, including the independent auditor's report which contained a disclaimer of opinion on the following bases: (1) going concern, (2) the carrying value of Kollakorn Co, (3) the share of loss of Kollakorn Co, and the following matter (emphasis added):

'Carrying value of goodwill

In addition, as disclosed in Note 10, Kollakorn Corporation Limited acquired Isity Global Pte Limited and Isity Global (Shanghai) Co., Ltd during the year, resulting in goodwill of \$2,106,622 being recognised in the consolidated statement of financial position at 30 June 2018. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of Kollakorn Corporation Limited's goodwill as at 30 June 2018 because we were unable to obtain an adequate impairment assessment. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.'

- F. KKL's Appendix 3B released on MAP on 13 February 2019, which disclosed that KKL had issued 20,000,000 unlisted options with an exercise price of \$0.01 per option and an expiry date of 15 December 2021 for the following purpose:

'Issue of 10,000,000 unlisted options to Mr Matthew Ross and 10,000,000 unlisted options to Mr Steve Racoosin. This forms part of an arrangement between Mr Ross, Mr Racoosin, their company

BCF Global Pty Ltd and Kollakorn Corporation Limited ("Company") and is subject to BCF Global Pty Limited entering into an Executive Services Agreement, on terms satisfactory to the Company.'

G. KKL's half year accounts for the half year ended 31 December 2018 released on MAP on 1 March 2019 ('Half Year Accounts'), which included:

(i) The following statements on pages 1-2:

'Our focus during the first half of the year was establishing the foundations of our Waste Conversion Strategy. At the Annual General Meeting ("AGM") held in November 2018, the company explained the efforts made in leveraging our smart cities strategy as the entry point to waste conversion. In particular, we focused on the development of our relationship with Bio Carbon Fuels (BCF) and our success in gaining access to their cutting-edge technologies in waste conversion. BCF granted Kollakorn the exclusive Australian license (and Asia Pacific first right of refusal) to the core patented technology that produces solid engineered fuel from carbon-based feedstocks ...

In addition, we signed a Services Agreement with BCF Global Pty Ltd for them to provide consulting services to us over the next 36 plus months in developing and managing Projects for in-building and utility-scale waste conversion and their associated technologies. We have set very aggressive performance targets directly linked to the issuance to the principles of Share Options. These performance targets focus on the development, contracting, construction, commissioning, and operations of a number of in building and utility-scale waste conversion opportunities over the next 3 years.

Kollakorn also signed with BCF, a Heads of Terms for securing the Australian and first right of refusal APAC rights to an 'at source' on-site waste conversion technology that stops the production of Municipal Solid Waste where it is created – in the home and office. This then enables the company to further develop solutions to support our strategy of managing waste streams along the complete waste management spectrum, from the source right through to large industrial scale disposal facilities.

The Board agreed the focus for these technologies in the short term would be large regional councils in Queensland, and a specific project in Victoria that would apply our waste conversion technology to meeting their key project requirements. As we explained in the AGM, these projects require significant time in their development.'

(ii) The following statements in Note 3 - Investment in Associates (emphasis added):

'Kollakorn Corporation Ltd acquired a 19.9% interest in Kollakorn Co Ltd ("Kollakorn Thailand") on 30 June 2011, and purchased an additional 8.8% in 2012, 2.49% in 2013 and 2.04% in 2014. Kollakorn Thailand offered all shareholders a pro rata rights issue in December 2015, however KKL elected not to participate. All other shareholders in Kollakorn Thailand have participated and the shares so issued have been called as to 25%. The effect was to reduce the Group's shareholding in Kollakorn Thailand to 26.67%.

The total purchase price for the 26.67% interest in this company to date has been \$6,461,652 (30 June 2018: \$6,461,652). The carrying amount in the statement of financial position of the Group's equity interest in Kollakorn Thailand at 31 December 2018 is \$4,994,159 (30 June 2018: \$4,486,841). The Group's share of accumulated losses in Kollakorn Thailand at 31 December 2018 is \$1,467,493 (30 June 2018: \$1,974,811).

As the Group holds 26.67% of the equity shares of Kollakorn Thailand, the directors of the Company have adopted Australian Accounting Standard AASB 128 – Investments in Associates and Joint Ventures for the investment in Kollakorn Thailand.'

- (iii) The independent auditor's review report, which contained a disclaimer of conclusion on the following bases: (i) going concern, (ii) the carrying value of Kollakorn Co, (iii) the share of loss of Kollakorn Co, and the following matter (emphasis added):

'Carrying value of goodwill

In addition, as disclosed in Note 4, the consolidated entity has recognised goodwill of \$2,106,622 in relation to the acquisition of Isity Global Pte Limited and Isity Global (Shanghai) Co., Ltd at 31 December 2018. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of Kollakorn Corporation Limited's goodwill as at 31 December 2018. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.'

- H. KKL's Appendix 4E and Preliminary Final Report released on MAP on 2 September 2019, which disclosed (amongst other things) the change in KKL's ownership interest in Kollakorn Co together with the related implications for the financial statements, as detailed in sub-paragraph J(x) below.
- I. KKL's announcement titled 'Report on CertainID released and Infinity Optics Agreement' released on MAP on 23 September 2019, which included the following statements (emphasis added):

'CertainID™ is technology patented by Kollakorn Corporation Ltd that enables biometric authentication for individuals sending information over the internet, and other potential digital and peer to peer platforms while ensuring the security and privacy of the user's biometric signature.

... the Company engaged CSIRO's Data61, the digital and data science arm of Australia's national science agency to assist Kollakorn in developing a proof of concept and demonstration unit for CertainID™. The work undertaken by Data61 was cofunded through the CSIRO Kick-Start Program, which helps Australian start-ups and SMEs (small and medium-sized enterprises) access facilitation and dollar-matched funding to conduct research and development activities with CSIRO ...

In collaboration with Kollakorn, Data61 has developed the software package and demonstration unit for CertainID™ ...

Also, the Directors would like to announce that the Company has formalised a Collaboration Agreement with Infinity Optics Pte Ltd (Infinity), a Singapore based Australian Company that develops advanced Biometric Cryptography and Biometric Solutions. Kollakorn initially engaged with Infinity Optics to leverage their Iris Scanning technology as the input technology for CertainID™ ...

We will continue to keep shareholders informed as we further develop our approach to commercialising this exciting new product.

- J. KKL's annual report for the financial year ended 30 June 2019 (FY2019) released on MAP on 23 October 2019 ('Annual Report'), which included the following disclosures (emphasis added):

- (i) In the letter from the Chairman (on page 4):

'... This was the year that we were able to commence development of CertainID™. Through our engagement with CSIRO subsidiary Data61, we have been able to take our first meaningful steps in developing this technology. The Company will continue to work with our partners to bring the technology to the marketplace.

It was also the year where our commitment to a waste conversion in the local Australian market began to gather pace. This strategy will not take shape overnight, and will require significant effort from ourselves and our technology partner, Bio Carbon Fuels. We do believe the foundations laid in 2019 will enable Kollakorn to commence entering the market with demonstration technology in 2020.

As in previous years we continue to experience challenges in our Tamper Evident Break on Removal RFID Tag business, reflecting the extremely competitive market we are in. Tags once again failed to meet expectations. The Board does not see any significant turnaround in the foreseeable future, again confirming the correctness of our focus on waste conversion opportunities.

(ii) In the Chief Executive Officer's Report (on page 5):

(a) **'Financial Results**

Operating revenue this financial year decreased by 82.4% to \$12,615 (2018: \$71,830).

Expenses increased by 65% to \$4,505,378 (2018: \$2,715,450) with the single largest contributor being revaluation of \$2,829,004 as a result of a change in accounting policy from equity accounting to fair value through other comprehensive income of investment in Kollakorn Thailand.

Net loss from ordinary activities was up 58.5% to \$4,195,099 (2018: \$2,646,618).'

(b) *'Our most significant activity during the year was our continued focus on developing our Waste Conversion capability ... in 2017 the Company acquired Isity Global to leverage a smart cities' strategy as an entry point to waste to energy conversion in Asia Pacific. Through the foundation work Isity had done in North Eastern China, we were able to access cutting edge technology in waste conversion that was being developed for a number of projects in that region. That technology was developed by Bio Carbon Fuels LLC (BCF). BCF is a Californian based, venture-backed, privately held Limited Liability company developing renewable energy and fuel projects, especially in the bioenergy space ... In late 2018 Kollakorn signed a Licensing and Services Agreement with BCF where Kollakorn has the exclusive Australian license (and Asia Pacific first right of refusal) to the core with patented technology that produces solid engineered fuel from carbon-based feedstocks, and where BCG will provide consulting services to Kollakorn to establish the technology firstly in Australia and then through Asia Pacific. ... In late 2018 BCF established an entity in Australia, Bio Carbon Fuels Pty Ltd.*

... the announcement we made at the AGM that the Company had signed a Letter of Intent with the financier of a significant development in Victoria for the application of our waste conversion technology to meet a specific projects [sic] core objective ...

It is important that shareholders understand that projects of the nature of Waste Conversion, particularly those requiring significant Local Government and state Regulatory approval, take time ...

During the year the company leveraged R&D rebates provided by AusIndustry for the development of our CertainID™ and Waste Conversions technologies. We expect to continue this with Waste Conversion into 2020 as we further develop our technology, and add the production of hydrogen to our process ...'

(iii) On page 8: *'The principal activities of the Group during the year consisted of the development, marketing and commercialisation of security oriented identification, authentication and information storage technologies, and Sustainable Building Infrastructure and Waste to Energy technologies.'*

(iv) In the consolidated statement of financial position as at 30 June 2019 (on page 18):

(a) Cash and cash equivalents of \$9,558.

(b) Total assets of \$3,835,166.

-
- (c) Total liabilities of \$3,252,889.
- (d) Net assets of \$582,277.
- (v) In 'Significant accounting policies' under 'Going Concern' (on page 23):
'As at the date of approving the financial statements, the directors believe no asset is likely to be realised for an amount less than the amount at which it is recorded. Accordingly, the financial statements do not include any adjustments relating to recoverability or classification of recorded assets nor to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.'
- (vi) In Note 4 - Operating segments (on page 31):
- (a) The Automated Vehicle Identification ('AVI') segment recorded sales to external customers of \$12,615 in FY2019. These sales were in Thailand (per the geographic information on page 34).
- (b) *'There was no revenue reported in Waste to Energy segment, CertainID, the consolidated entity's bio-authentication technology, earned no revenue in the period as this technology is still in a developmental stage.'*
- (vii) The following revenue figures for FY2019 in Note 5 – Revenue (on page 34):
- (a) sale of goods of \$12,615;
- (b) royalty and licence revenue of nil;
- (c) research and development tax incentive of \$297,644; and
- (d) interest of \$20.
- (viii) Other receivables of \$122,106 (in Note 9 on page 35), and the disclosure that this amount was over 120 days overdue (on page 36).
- (ix) Goodwill of \$2,106,622 (in Note 10 on page 36) in relation to the acquisition of Isity Global Pte Limited and Isity Global (Shanghai) Co., Ltd ('Isity'), and the following statements in relation to the Isity acquisition (in Note 16 on page 39):
'On 19 July 2017 the Group gained control of Isity Global Pte Limited and Isity Global (Shanghai) Co., Ltd by acquiring of 100% of the issued share capital of Isity Global Pte Limited which owns 100% of the issued share capital of Isity Global (Shanghai) Co., Ltd. The acquisition brings two potentially very powerful new technologies to the Group along with the ability to fund and operate projects generated from these technologies. Goodwill represents the reciprocal synergistic applications of the Isity Global technologies with the Group's existing businesses which the directors believe will enhance the value and market image of the Group.'
- (x) Note 11 (on pages 36-37), which disclosed the following:
- (a) KKL's ownership interest in Kollakorn Co had decreased from 26.67% at 30 June 2018 to 16.75% at 30 June 2019.
- (b) *'The Company acquired a 19.9% interest in Kollakorn Co., Ltd ("Kollakorn Thailand") on 30 June 2011, and purchased an additional 8.8% in 2012, 2.49% in 2013 and 2.04% in 2014. Kollakorn Thailand offered all shareholders a pro-rata rights issued in December 2015, however KKL elected not to participate. All other shareholders in Kollakorn Thailand elected to participate and the shares so issued were called as to 25%. The effect on the Company's*

interest in Kollakorn Thailand was to reduce it to 26.67%. In July 2018 Kollakorn Thailand offered all shareholders another pro-rata rights issue, however Kollakorn didn't elect to participate. The effect on the Company's interest in Kollakorn Thailand was to reduce it to 16.75%. Kollakorn Thailand is no longer an associate, the investment as at 30 June 2019 has now been accounted for at fair value through other comprehensive income as per Note 12.'

- (c) A loss on discontinuing equity accounting of Kollakorn Co of \$2,829,004.
- (d) 'Investment transferred to financial assets at fair value' of \$1,500,000.
- (xi) The inclusion of KKL's 16.75% interest in Kollakorn Co in financial assets at fair value through other comprehensive income at a carrying value of \$1,500,000 (in Note 12 on page 37), and its fair value measurement as 'Level 3: Unobservable inputs for the asset or liability' in Note 29 - Fair Value measurement (on page 47), together with the following note:
- 'Unquoted investments have been valued using a discounted cash flow model for amounts shown under Level 3, as disclosed at Note 12.'*
- (xii) Trade and other payables totalling \$3,026,384, which comprised \$973,116 of current payables and \$2,053,268 of non-current payables (in Note 13 on pages 37-38), and included:
- (a) Other current payables to Sealy Consulting Pty Ltd of \$417,739 together with the following note: *'Sealy Consulting Pty Ltd is an Australian private company controlled by Mr Richard Sealy, the Company's former Management Director. The amount payable to Sealy Consulting Pty Ltd represents unpaid consulting fees and bears interest at a rate of 7% per annum.'*
- (b) The following note regarding non-current payables: *'Non-Current payables not due within 12 months to related parties or as agreed under contracts.'*
- (c) The following amounts totalling \$1,370,063 disclosed as 'current payables' to related parties (in Note 23 on page 45):
- Brentnalls NSW Pty Ltd (Director related entity, Nicholas Aston): \$421,666
 - Charles Hunting (Director): \$185,441
 - David Matthews (Chief Executive Officer): \$625,456
 - De Vries Tayeh (Director related entity, Riad Tayeh): \$137,500
- (xiii) A loan from Mitchell Asset Management Innovation Finance Fund of \$126,000 (in Note 15 on page 38) together with the following note: *'Mitchell Asset Management Innovation Finance Fund are a non-related company. Borrowing [sic] bear interest at a rate of 30% per annum and are repayable on 31 October 2019.'*
- (xiv) The following transactions with related parties during FY2018 and FY2019 (in Note 23 on page 45):
- (a) Accounting services from Brentnalls NSW Pty Ltd (Director related entity, Nicholas Aston) for \$144,000 in both FY2018 and FY2019.
- (b) Research & Development from Triangul8 Pty Ltd (Director related entity, Charles Hunting) for \$85,250 in FY2018.
- (xv) The independent auditor's report attached to the Annual Report ('Auditor's Report'), which contained:
- (a) A qualified opinion together with the following basis for the qualified opinion:

'Carrying value of goodwill

As disclosed in Note 10, the consolidated entity's goodwill is carried at \$2,106,622 in the consolidated statement of financial position at 30 June 2019. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of Kollakorn Corporation Limited's goodwill as at 30 June 2019 because the forecast on which the impairment model is based includes assumptions for future revenue streams for which no signed contracts exist, and over which we were unable to gain other appropriate audit evidence. Consequently, we were unable to determine whether any adjustments to this amount was necessary.

'Carrying value of financial assets at fair value through other comprehensive income

As disclosed in Note 12, the consolidated entity's investment in Kollakorn Co. Limited (Thailand) is carried at \$1,500,000 in the consolidated statement of financial position at 30 June 2019. As disclosed in Note 11, the consolidated entity lost significant influence over Kollakorn Co. Limited (Thailand) in July 2018, and it was classified as a financial asset at fair value through other comprehensive income at this time. We were unable to obtain sufficient appropriate audit evidence about the initial fair value of the investment in July 2018, or about the carrying amount of the investment as at 30 June 2019, because discounted cash flow on which fair value has been determined includes assumptions for future revenue which are not contractual or committed and cannot be verified. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.'

- (b) The following material uncertainty related to going concern paragraph:

'Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial report, which indicates that the consolidated entity incurred a net loss of \$4,195,099 and net cash outflows from operating activities of \$258,219 during the year ended 30 June 2019. As at that date the Group's current liabilities exceeded its current assets by \$971,372. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, 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 further modified in respect of this matter.'

- K. KKL's Appendix 4G for the financial year ended 30 June 2019 (released together with KKL's Corporate Governance Statement (see paragraph L below)) on MAP on 23 October 2019, which provided confirmation that KKL complies with recommendations 2.3(b), 2.5 and 4.2 of the ASX Corporate Governance Principles and Recommendations ('CG Principles and Recommendations'), which state:

- (i) Recommendation 2.3(b): *'A listed entity should disclose if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion.'*
- (ii) Recommendation 2.5: *'The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.'*
- (iii) Recommendation 4.2: *'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.'*

'Box 2.3: Factors relevant to assessing the independence of a director' in the commentary to Recommendation 2.3 of the CG Principles and Recommendations states:

'Examples of interests, positions, associations and relationships that might cause doubts about the independence of a director include if the director: ...

- *is, or has within the last three years been, a partner, director or senior employee of a provider of material professional services to the entity or any of its child entities;*
- *is, or has been within the last three years, in a material business relationship (eg as a supplier or customer) with the entity or any of its child entities, or an officer of, or otherwise associated with, someone with such a relationship' ...*
- *has a material contractual relationship with the entity or its child entities other than as a director; ...*
- *has been a director of the entity for such a period that his or her independence may have been compromised.'*

The commentary to Recommendation 2.3 also states that *'the board should regularly assess whether [he or she has become too close to management to be considered independent] might be the case for any director who has served in that position for more than 10 years.'*

- L. KKL's Corporate Governance Statement for the financial year ended 30 June 2019 ('CGS') released together with KKL's Appendix 4G (see paragraph K above) on MAP on 23 October 2019, which included the following disclosures:
- (i) Mr Tayeh was appointed as a director on 23 March 2009.
 - (ii) *'The Board believes that the best interests of the Company will be served if a majority of the Directors are independent, as defined in the ASX Principles. All of the directors are considered to be independent directors and free from any business or other relationship that could (or could reasonably be perceived to) materially interfere with the exercise of their unfettered and independent judgment.'*
 - (iii) *'The Chair of the Board is an independent Director and is not the same person as the CEO.'*
 - (iv) **'CEO Declaration**
The Board's representations in relation to financial reports are supported by representations made by the Manager.'
- M. KKL's Appendix 4C for the quarter ended 30 September 2019 released on MAP on 31 October 2019 ('Appendix 4C'), which disclosed the following:
- (i) Receipts from customers of nil for the September 2019 quarter.
 - (ii) Net cash used in operating activities of \$182,485 for the September 2019 quarter.
 - (iii) Cash and cash equivalents of \$121,620 at 30 September 2019.
 - (iv) Estimated cash outflows of \$266,257 for the December 2019 quarter.
- N. Listing Rule 3.1, which requires a listed entity to immediately give ASX any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities.

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- O. The definition of 'aware' in Chapter 19 of the Listing Rules, which states that:
- 'an entity becomes aware of information if, and as soon as, an officer of the entity (or, in the case of a trust, an officer of the responsible entity) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as an officer of that entity' and section 4.4 in Guidance Note 8 Continuous Disclosure: Listing Rules 3.1 – 3.1B 'When does an entity become aware of information.'*
- P. Listing Rule 4.3A which states:
- 'Following the end of the financial year of an entity ... the entity (in the case of a trust, the responsible entity) must give ASX the information set out in Appendix 4E ... The information and the accounts upon which it is based must use the same accounting policies. The information must comply with all relevant accounting standards.'*
- Q. Listing Rule 4.10.3 which includes the following statements:
- 'The corporate governance statement must disclose the extent to which the entity has followed the recommendations set by the ASX Corporate Governance Council during the reporting period. If the entity has not followed a recommendation for any part of the reporting period, its corporate governance statement must separately identify that recommendation and the period during which it was not followed and state its reasons for not following the recommendation and what (if any) alternative governance practices it adopted in lieu of the recommendation during that period.'*
- R. Listing Rule 12.1 which states:
- '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.'*
- S. Listing Rule 12.2 which states:
- '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.'*
- T. Listing Rule 12.5 which states:
- 'An entity's structure and operations must be appropriate for a listed entity.'*
- U. 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 ...*
 - (c) If the listing rule requires audited accounts, the audit must be conducted in accordance with Australian auditing standards by 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 ...*
 - (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.'*

Questions and Request for Information

Having regard to the above, ASX asks KKL to respond separately to each of the following questions and requests for information.

1. Please explain how the directors satisfied themselves that the carrying value of \$2,106,622 for Isity is appropriate and adheres 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 valuation for Isity.
2. Please provide a copy of any independent valuation of Isity (not for release to the market).
If no independent valuation of Isity has been prepared, please explain why not.
3. Is Isity still pursuing any projects or opportunities in China?
If the answer to this question is 'yes', please provide details.
4. Noting that the qualified opinion in the Auditor's Report relates, in part, to the Auditor's inability to obtain sufficient appropriate audit evidence to support the carrying value of KKL's goodwill, please provide a detailed explanation why the Auditor has been unable to obtain sufficient appropriate audit evidence to verify the carrying value of KKL's goodwill.
5. Please explain how the directors satisfied themselves that the fair value of \$1,500,000 for KKL's investment in Kollakorn Co is appropriate and adheres 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 valuation of Kollakorn Co.
6. Please provide a copy of any independent valuation of Kollakorn Co (not for release to the market).
If no independent valuation of Kollakorn Co has been prepared, please explain why not.
7. ASX notes that KKL did not participate in the rights issue offered by Kollakorn Co to its shareholders in July 2018 ('Rights Issue'). This resulted in the dilution of KKL's ownership interest in Kollakorn Co to 16.75% and had implications for KKL's financial statements (see paragraph J(x) above).
 - (a) When did KKL decide that it would not participate in the Rights Issue?
 - (b) When was the Rights Issue completed?
 - (c) If KKL first decided that it would not participate in the Rights Issue prior to 2 September 2019, please explain why this information was not released to the market at an earlier time, commenting specifically on when you believe KKL was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps KKL took to ensure that the information was released promptly and without delay.
 - (d) When did KKL first become aware of the implications for KKL's financial statements of its non-participation in the Rights Issue?
 - (e) If KKL first became aware of the implications for the financial statements of its non-participation in the Rights Issue prior to 2 September 2019, please explain why this information was not released to the market at an earlier time, commenting specifically on when you believe KKL was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps KKL took to ensure that the information was released promptly and without delay.
8. Noting that the qualified opinion relates, in part, to the Auditor's inability to obtain sufficient appropriate audit evidence about the initial fair value of KKL's investment in Kollakorn Co in July 2018 and the carrying value of KKL's investment in Kollakorn Co at 30 June 2019, please provide a detailed explanation why the

Auditor has been unable to obtain sufficient appropriate audit evidence to verify both the initial fair value and the carrying value of the investment in Kollakorn Co.

9. What steps, if any, has KKL taken since the release of the Annual Report to obtain an unqualified audit opinion in relation to its future financial statements?
10. What steps, if any, does KKL intend to take to obtain an unqualified audit opinion in relation to its future financial statements?
11. ASX notes that:
 - CertainID is in development and that KKL is developing its approach to commercialising the product (see sub-paragraph J(i) above).
 - KKL plans to commence entering the market for waste conversion with demonstration technology in 2020 (see sub-paragraph J(i) above).
 - KKL *'does not see any significant turnaround in the foreseeable future'* for the RFID tag business (see sub-paragraph J(i) above).
 - KKL only generated sales of \$12,615 in FY2019 (all from sales of RFID tags/AVI segment).

In light of the above, does KKL consider that its level of operations is sufficient to warrant the continued quotation of its securities and its continued listing on ASX in accordance with the requirements of listing rule 12.1? In answering this question, please also explain the basis for your conclusion.

12. Please provide a copy of the following agreements (not for release to the market):
 - (a) the agreement(s) with Data61 and the CSIRO Kick-Start Program;
 - (b) the collaboration agreement with Infinity Optics Pte Ltd;
 - (c) the agreements with Bio Carbon Fuels LLC, including the licensing and services agreement referred to in the Annual Report and the Heads of Terms referred to in the Half Year Report;
 - (d) the services agreement with BCF Global Pty Ltd; and
 - (e) the Letter of Intent *'with the financier of a significant development in Victoria for the application of our waste conversion technology'*.
13. Please provide a link to or a copy of the following:
 - a) the patent(s) which relate to CertainID;
 - b) Bio Carbon Fuels LLC's patent(s) which relate to its agreements with KKL; and
 - c) the patents which relate to KKL's RFID tags technology.
14. Does KKL still expect to receive \$122,105 of other receivables (see sub-paragraph J(viii) above)?
15. Please confirm whether the amounts owing to related parties (see sub-paragraph J(xii)(c) above) are current payables or non-current payables or a combination thereof?
16. Was the loan from Mitchell Asset Management Innovation Finance Fund repaid on 31 October 2019 (see sub-paragraph J(xiii) above)?
17. ASX notes that:
 - Based on the information in the Appendix 4C (see paragraph M above), it is possible to conclude that if KKL were to continue to expend cash at the rate indicated by the Appendix 4C, KKL may not have sufficient cash to continue funding its operations.

- The independent auditor included disclaimers of opinion in its audit reports on KKL's financial statements for five financial years (see paragraphs A to E above), and included a qualified opinion in the Auditor's Report.
- KKL had total liabilities of \$3,252,889 and net assets of \$582,277 at 30 June 2019.

In light of the above, does KKL consider that its financial condition 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 your conclusion.

18. ASX notes that the CGS states that *'the Board's representations in relation to financial reports are supported by representations made by the Manager.'*
- Who is the 'Manager' and what representations did they make to the board in relation to the financial statements in KKL's Annual Report?
 - Did the 'Manager' make the declaration described in Recommendation 4.2 of the CG Principles and Recommendations?
 - If the answer to b) above is 'yes':
 - Why didn't the CFO and CEO make the declaration?
 - Why did KKL's Appendix 4G disclose that it had followed Recommendation 4.2?
 - Please provide a copy of the declaration by the Manager (not for release to the market).
 - If the answer to b) above is 'no', why does the CGS refer to the 'Manager' rather than the CFO and CEO having made the declaration?
19. What enquiries did the Board make of management to satisfy itself that the financial records of KKL 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 KKL?
20. Commenting specifically on the qualified opinion, does the board consider that KKL has a sound system of risk management and internal control which is operating effectively? If so, please explain these systems.
21. Please explain why KKL has not disclosed the matters detailed in sub-paragraph J(xiv) above in recommendation 2.3(b) in the CGS.
- Is the board of the opinion that these matters and Mr Tayeh's length of service do not compromise the independence of the respective directors? If the answer to this question is 'yes', please explain why the board is of this opinion.
22. Please confirm that KKL is complying with the Listing Rules and, in particular, Listing Rule 3.1.
23. Please confirm that KKL'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 KKL 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 KKL's response to the market. Accordingly, KKL'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 on Monday 2 December 2019**.

Any response should be sent to me by return email. 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,

Adrian Smythe
Manager, Listings Compliance (Sydney)