



26 March 2019

Attention: Penelope Reid  
Adviser, Listing Compliance  
Level 40, Central Park  
152-158 St Georges Terrace  
Perth WA 6000

(By email – [Penelope.Reid@asx.com.au](mailto:Penelope.Reid@asx.com.au))

### Response to ASX query regarding Accounts

STEMify Limited (ASX: SF1, “SF1”, “STEMify”, or the “Company”) provides this response in reference to the ASX’s letter dated 14 March 2019 regarding the Company’s half year accounts ended 31 December 2018.

In response to the questions detailed in the ASX’s letter the Company provides the following responses:

1. *Is SF1 able to confirm that, in the Directors’ Opinion, the Half Year Accounts:*
  - a. *comply with the relevant Accounting Standards; and*
  - b. *give a true and fair view of SF1’s financial performance and position?*

The Company confirms that, in the Director’s Opinion, the Half Year accounts:

- a. Comply with the relevant Accounting Standards; and
  - b. That the financial report provides a true and fair view of SF1’s financial performance and position.
2. *The basis for the qualified conclusion, as expressed in the Auditor’s Review Report, is that SF1 has not undertaken an appropriate process to identify the assets acquired and liabilities assumed as part of its acquisition of MyStemKits (‘Business Combination’), as to enable the Auditor to determine the fair value of the net assets acquired as required by AASB 3 Business Combinations (‘AASB 3’). Please explain the basis on which SF1 has identified a value for goodwill in relation to the acquisition of the MyStemKits business when it has not undertaken an appropriate process to identify the assets acquired and liabilities assumed as part of the business combination.*

During the process of the Half-Year review the Company had several discussions with its auditors in relation to the fair value accounting for the acquisition of the assets of the MyStemKits business (“MyStemKits”) and had indicatively determined that the Company would “provisionally” account for the acquisition under AASB 3 paragraph 45.

The auditors of the Company advised there was a problem with the above proposed approach to dealing with the accounting treatment of the acquisition as provisional late in the review process. A position paper was provided by the Company to the auditors late in the review process to further explain the Company’s position.

The Company’s assessment of AASB 3 *Business Combinations*, in particular AASB 3 paragraph 11 (Table 1), was that the identifiable assets and liabilities on acquisition must meet the definitions of assets and liabilities as identified in AASB 1048 *Interpretation of Standards*. The acquisition of the MyStemKits business was completed on a cash free and debt free basis during the half-year period to 31 December 2018. According to the signed Bill of Sale, the following categories of assets were transferred on the acquisition date: product moulds, domain names, intangible assets (including source code, .STL files, document library), computers, printers, network devices, furniture fixtures

and equipment. At the date of acquisition, the seller of the MyStemKits business did not have these assets independently valued. Further, given no identifiable liabilities were transferring as part of the transaction structure, no liabilities were included on the Bill of Sale.

The Board notes that AASB 3 does not provide specific guidance on determining provisional amounts. Those amounts are determined based on the available information at the date of acquisition, consistent with the recognition and measurement requirements of the Accounting Standards.

The Board assessed that the tangible assets described on the Bill of Sale did not hold any fair value on the date of transfer due to the useful lives. Commonly in the technology sector, tangible assets have short life span. The Board believes these assets did not have any fair value on the date of acquisition.

From the date of acquisition to 28 February 2019, the Company did not have sufficient financial information to assess the value of the intangible assets. Therefore, it does not satisfy the recognition condition under AASB 3, as the fair value of these intangible assets could not be reliably measured.

The Board believes provisional accounting as disclosed in Note 10 of the 31 December 2018 Half Year Report is in accordance with AASB 3. Management intends to finalise the acquisition accounting by no later than June 2019 (as allowed under AASB 3 paragraph 45) given further evidence of sales performance will be known. The Board will be better positioned to reliably measure the identifiable intangible assets and the contingent consideration within the remaining months of the initial 12 month term.

As a result, the fair value of the consideration paid for the assets of MyStemKits was recorded as *Goodwill* in accordance with AASB 3 as at 31 December 2018.

- 3. *If the Directors of SF1 are satisfied that the basis for the qualified conclusion is appropriate, please explain why the Directors of SF1 have not undertaken a process to classify or designate the identifiable assets acquired and liabilities assumed as part of the Business Combination, as required by AASB 3, given failure to do so is a departure from Australian Accounting Standards?***

At the time of the Half Year Report the Board believed that the intangible assets acquired were not capable of being reliably measured.

Upon receiving notice from the Company's auditor of the qualified conclusion on 28 February 2019, the Company moved to appoint an independent consultant to undertake this process, which commenced prior to receiving this query.

Accordingly, as described above, the Company intends to finalise the acquisition accounting by no later than June 2019 as allowed for under AASB 3 paragraph 45. The board notes that the acquisition of MyStemKits was completed on 27 August 2018.

- 4. *Does SF1 consider that its financial condition is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? If the answer to Question 4 is "Yes", please explain the basis on which SF1 has formed the conclusion that the financial condition of SF1 is sufficient to warrant continued listing on ASX in accordance with the requirements of Listing Rule 12.2. In your response, please address the potential impact on the financial condition of SF1 if SF1 is not able to meet its debts***

*if and when they fall due. We note SF1's current working capital position, with total current assets of \$844,688 and total current liabilities of \$3,504,397.*

Yes, the Directors consider the financial condition of the Company is sufficient to warrant continued listing on ASX under Listing Rule 12.2. As noted in the ASX query letter which the Company responded to on 22 February 2019, the Company has continued discussions with its existing secured lender in relation to a further variation of which will be finalised contemporaneous with the further equity finance. As also advised, SF1 has been in discussions with other potential equity financiers and will provide further information once those discussions are finalised which is expected imminently. In addition, as advised in the Company's latest update to ASX on 6 March 2019, the previously announced operational restructuring is expected to deliver total annualised costs savings of US\$3.0 million by the end of March 2019.

The cost-cutting measures were part of a broader restructuring of the existing Robo 3D, Inc operating subsidiary in the USA as the Company shifted its core focus away from the design and manufacture of desktop 3D printers for the global market, to the delivery (via the acquired MyStemKits assets) of an integrated STEM education content and curriculum solution into North America.

In response to the query regarding the Company's working capital position, the Company notes the following:

- (a) Included in the current liabilities is \$896,135 for borrowings relating to the Company's secured lender and \$74,699 in respect of other amounts also owed to this party. Discussions have commenced with the Company's secured lender in relation to potential extensions of the repayment date which will result in this liability ceasing to be a current asset, further details will be announced once confirmed;
- (b) director and advisors who are owed collectively \$256,322 with whom the Company has in principle standstill arrangements until sufficient working capital is available; and
- (c) \$1,486,407 of this amount relates to historical long-term creditors of the 3D printer manufacturing subsidiary Robo 3D, Inc., the Company has received preliminary legal advice from the Company's USA-based legal advisors regarding some of the major liabilities and believes that no other members of the Company group would be responsible for these liabilities other than Robo 3D, Inc.,. Currently, these liabilities remain on the balance sheet of Robo 3D, Inc. and will do so while the Company continues to work through the restructuring alternatives in relation to these historical long term creditors.

5. *If the answer to Question 4 is "No", please explain what steps SF1 has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rule 12.2.*

Not applicable.

6. *We also note SF1's Appendix 4C Query Response, in which SF1 states it has been in discussions with its existing secured lender and that a drawdown facility is available with the ability to drawdown a further \$250,000 subject to the terms of that agreement and that SF1 is in discussion with a number of parties who have expressed interest in providing equity or debt to the Company. Please provide an update on these discussions.*

As detailed above the Company is in the process of finalising these discussions and expects to have terms agreed shortly.

7. *In relation to the Half Year Accounts, did the Board receive the MD and CFO declaration, as confirmed in SF1's Corporate Governance Disclosure, that in the opinion of the MD and CFO, the financial records of SF1 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 SF1 and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?*

No, the Company did not receive a declaration from the MD and CFO in the form required by principle 4.2 of the Corporate Governance Council recommendation. The Company notes that it has never had a CFO. The Company did have management representation letters addressed to the auditor and signed by the two Executive Directors, Mr Ryan Legudi and Mr Tim Grice which confirmed customary matters including that the financial statements comply with appropriate accounting standards, that the financial report gives a true and fair view and that they are responsible for designing and implementing and maintaining adequate internal control structure to prevent and detect fraud and error and to facilitate the preparation of reliable financial statements.

The Company employs a finance team in the USA where its main operating businesses are located, led by a financial controller. The board with the assistance of the company secretary prepare the financial information for reporting of the Australian entities including the consolidation of all group accounts for STEMify. As part of the operational restructuring being completed (as advised to ASX in several releases), the Company is also reviewing the composition of its global finance team including adding CFO and corporate finance capability following the acquisition of MyStemKits.

8. *If the answer to Question 7 is "No", why did the Board not receive the MD and CFO declaration as confirmed in SF1's Corporate Governance Disclosure? What enquiries did the Board make of management to satisfy itself that the financial records of SF1 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 SF1?*

See the answer to question 7. In addition, the Board reviewed management's accounting memorandums and calculations and satisfied themselves that the relevant accounting standards have been followed and that the financial report provides a true and fair view of the financial position and performance.

In addition to external finance and accounting advisers (including an experienced company secretary with significant financial accounting expertise assisting listed companies with financial reporting), STEMify executive director Ryan Legudi (Bachelor of Commerce - Finance & Accounting) who has previously qualified as a member of the Chartered Accountants of Australia and New Zealand with previous experience in Australia and the United Kingdom at KPMG, Goldman Sachs, and Nomura Securities has relevant experience regards the operation of accounting standards.

9. *Commenting specifically on the qualified conclusion, does the board consider that SF1 has a sound system of risk management and internal control which is operating effectively?*

Yes, the Board does consider that SF1 has a sound system of risk management and internal controls which is operating effectively. The systems of risk management and internal control are appropriate.

The Directors formed their opinion on the accounting standards based on accounting position papers provided to them by its internal accountants, and advisors, which differed from the view of

the auditor as described in the answer to question 2 above. The Board believes provisional accounting as disclosed in Note 10 of the 31 December 2018 Half Year Report is in accordance with AASB 3.

**10. What steps does SF1 intend to take to obtain an unqualified audit opinion with regards to its future financial statements?**

The Company intends to complete the fair value process and accounting for the business combination in accordance with AASB 3 within 12 months of the acquisition in the Company's annual report of the financial year 2019. To this end the Company has already engaged the services of an external accountant in the United States to carry out an independent valuation on the MyStemKits business and to assist with the allocation of intangible assets in order to obtain an unqualified audit opinion.

As indicated in answer to Q3 above, the Company intends to finalise this acquisition accounting such that it is included in the financial statements for the financial year ending 30 June 2019 which is within the 12 month period post completion of the acquisition under AASB 3.

**11. Please confirm that SF1 is complying with the Listing Rules and, in particular, Listing Rule 3.1.**

The Company confirms that it is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

**12. Please confirm that SF1's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of SF1 with delegated authority from the board to respond to ASX on disclosure matters.**

These responses to the ASX's questions have been authorised by the Board of the Company.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'Tim Grice', with a long horizontal line extending to the right.

Tim Grice  
Executive Chairman



14 March 2019

Mr Justin Mouchacha  
Company Secretary  
STEMify Limited  
C/- Leydin Freyer Corp Pty Ltd  
Level 4, 100 Albert Road  
SOUTH MELBOURNE VIC 3205

By email: [jmouchacca@leydinfreyer.com.au](mailto:jmouchacca@leydinfreyer.com.au)

Dear Mr Mouchacha

**STEMify Limited ('SF1'): Queries regarding Accounts**

ASX refers to:

- A. SF1's half year accounts for the half year ended 31 December 2018 released on the ASX Market Announcements Platform ('MAP') on 1 March 2019 ('Half Year Accounts').
- B. ASX notes that the Independent Auditor's Review Report attached to the Half Year Accounts ('Auditor's Review Report') contains a qualified conclusion with the following basis for the qualified conclusion:

*"On 24 August 2018 the Group completed the acquisition of the MyStemKits business for consideration of \$2,754,657 as set out in note 10. In addition goodwill of \$2,342,569 has been recognised in the statement of financial position at 31 December 2018. At the date of this report, the Group have not undertaken an appropriate process to classify or designate the identifiable assets acquired and liabilities assumed as part of the business combination in order to determine the fair value of net assets acquired in accordance with AASB 3 Business Combinations which constitutes a departure from Australian Accounting Standards. We were unable to assess the fair value of the net assets acquired and therefore unable to determine whether any adjustments to these amounts were necessary."*

- C. Note 2 to the Financial Statements contained in pages 12 to 13 of the Half Year Accounts and the following "Emphasis of matter – Material uncertainty relating to going concern" paragraph ('Emphasis of Matter Paragraph') contained in the Auditor's Report on page 24 of the Half Year Accounts:

*"We draw attention to Note 2 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter."*

- D. SF1's December 2018 Appendix 4C and commentary that was released on MAP on 31 January 2019 ('Appendix 4C') and SF1's response to ASX's Appendix 4C Query that was released on MAP on 22 February 2019 ('Appendix 4C Query Response'). SF1's Appendix 4C Query Response states, amongst other things, that:

*"Notwithstanding the improving cashflow trend per paragraph 1, the Company expects to complete a further capital raising to fund operations. As noted in the Company's release to ASX on 31 January 2019 "December 2018 Appendix 4C and commentary" the Company has been in discussions with its existing secured lender and that a drawdown facility is available with the ability to drawdown a further \$250,000 (\$750,000 drawn down to date) subject to the terms of that agreement."*

*In addition, the Company notes that it has been in discussion with a number of parties who have expressed interest in providing equity or debt to the Company. These discussions are progressing and further details will be announced once confirmed."*

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- E. SF1's Appendix 4G and Corporate Governance Statement ('Corporate Governance Disclosure') for 2018 released on MAP on 28 September 2018 which provides confirmation that SF1 complies with recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations which states:

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

- F. Listing Rule 12.2 which states:

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

- G. Listing Rule 19.11A which states:

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

- (a) If the entity controls an entity within the meaning of section 50AA of the Corporations Act or is the holding company of an entity, required by any law, regulation, rule or accounting standard, or if ASX requires, the accounts must be consolidated accounts.*
- (b) The accounts must be prepared to Australian accounting standards. If the entity is a foreign entity the accounts may be prepared to other standards agreed by ASX.*
- (c) If the listing rule requires audited accounts, the audit must be conducted in accordance with Australian auditing standards by a registered company auditor. If the entity is a foreign entity, the audit may be conducted in accordance with other standards agreed by ASX and may be conducted by an overseas equivalent of a registered company auditor.*
- (d) If the listing rule requires accounts to be reviewed, the review must be conducted in accordance with Australian auditing standards. If the entity is a foreign entity, the review may be conducted in accordance with other standards agreed by ASX. Unless the listing rule says an independent accountant may conduct the review, it must be conducted by a registered company auditor (or, if the entity is a foreign entity, an overseas equivalent of a registered company auditor).*
- (e) If there is a directors' declaration that relates to the accounts, the directors' declaration must be given to ASX with the accounts.*
- (f) If there is a directors' report that relates to the period covered by the accounts, the directors' report must be given to ASX with the accounts.*

### **Request for Information**

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

1. Is SF1 able to confirm that, in the Directors' Opinion, the Half Year Accounts:
  - a) comply with the relevant Accounting Standards; and
  - b) give a true and fair view of SF1's financial performance and position?

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2. The basis for the qualified conclusion, as expressed in the Auditor's Review Report, is that SF1 has not undertaken an appropriate process to identify the assets acquired and liabilities assumed as part of its acquisition of MyStemKits ('Business Combination'), as to enable the Auditor to determine the fair value of the net assets acquired as required by AASB 3 *Business Combinations* ('AASB 3'). Please explain the basis on which SF1 has identified a value for goodwill in relation to the acquisition of the MyStemKits business when it has not undertaken an appropriate process to identify the assets acquired and liabilities assumed as part of the business combination.
  3. If the Directors of SF1 are satisfied that the basis for the qualified conclusion is appropriate, please explain why the Directors of SF1 have not undertaken a process to classify or designate the identifiable assets acquired and liabilities assumed as part of the Business Combination, as required by AASB 3, given failure to do so is a departure from Australian Accounting Standards?
  4. Does SF1 consider that its financial condition is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? If the answer to Question 4 is "Yes", please explain the basis on which SF1 has formed the conclusion that the financial condition of SF1 is sufficient to warrant continued listing on ASX in accordance with the requirements of Listing Rule 12.2. In your response, please address the potential impact on the financial condition of SF1 if SF1 is not able to meet its debts if and when they fall due. We note SF1's current working capital position, with total current assets of \$844,688 and total current liabilities of \$3,504,397.
  5. If the answer to Question 4 is "No", please explain what steps SF1 has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rule 12.2.
  6. We also note SF1's Appendix 4C Query Response, in which SF1 states it has been in discussions with its existing secured lender and that a drawdown facility is available with the ability to drawdown a further \$250,000 subject to the terms of that agreement and that SF1 is in discussion with a number of parties who have expressed interest in providing equity or debt to the Company. Please provide an update on these discussions.
  7. In relation to the Half Year Accounts, did the Board receive the MD and CFO declaration, as confirmed in SF1's Corporate Governance Disclosure, that in the opinion of the MD and CFO, the financial records of SF1 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 SF1 and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?
  8. If the answer to Question 7 is "No", why did the Board not receive the MD and CFO declaration as confirmed in SF1's Corporate Governance Disclosure? What enquiries did the Board make of management to satisfy itself that the financial records of SF1 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 SF1?
  9. Commenting specifically on the qualified conclusion, does the board consider that SF1 has a sound system of risk management and internal control which is operating effectively?
  10. What steps does SF1 intend to take to obtain an unqualified audit opinion with regards to its future financial statements?
  11. Please confirm that SF1 is complying with the Listing Rules and, in particular, Listing Rule 3.1.
  12. Please confirm that SF1's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of SF1 with delegated authority from the board to respond to ASX on disclosure matters.

**When and where to send your response**



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Please note that ASX reserves its right under Listing Rule 18.7A to release this letter and SF1's response to the market. Accordingly, SF1'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 **5.00 pm AWST Wednesday, 20 March 2019**.

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

### **Enquiries**

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

Yours sincerely

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**Penelope Reid**  
Adviser, Listings Compliance (Perth)