

Audeara Limited

ACN 604 368 443

Interim Financial Report

For the half-year ended 31 December 2020

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For the half-year ended 31 December 2020

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Audeara Limited

Directors' report

For the half-year ended 31 December 2020

The directors present their report together with the interim financial statements of Audeara Limited (formerly Audeara Pty Ltd) (the Company) for the financial half-year ended 31 December 2020 and the auditor's report thereon.

1. Directors

The directors of the Company at any time during or since the end of the financial half-year were:

Name	Date of appointment
J Fielding Director	Appointed 23/02/2015
D Trimboli Director	Appointed 27/08/2015

2. Principal activities

The principal activities of the Company during the course of the financial half-year were the development of hearing health technology.

There were no significant changes in the nature of the activities of the Company during the half-year.

3. Operating and financial review

The Company posted a loss during the financial half-year ended 31 December 2020 of \$283,019 (2019: \$461,396).

4. Significant changes in state of affairs

On 29 October 2020, the Company changed its status from a proprietary limited company to a public company, limited by shares

In the opinion of the directors there were no other significant changes in the state of affairs of the Company that occurred during the financial half-year under review not otherwise disclosed in this report.

5. Environmental regulations

The Company is not subject to any significant environmental regulation under a law of the Commonwealth or of a state or territory of Australia.

6. Dividends

No dividends were paid or declared since the start of the financial half-year. No recommendation for payment of dividends has been proposed.

Directors' report

For the half-year ended 31 December 2020

7. Events subsequent to reporting date

No matter or circumstance has occurred subsequent to half-year end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company or economic entity in subsequent financial years.

8. Likely developments

The Company will maintain focus on the audiology and hearing health market by providing high quality products and services to audiology clinics. The Company will continue to serve the National Disability insurance Scheme as a registered provider.

9. Indemnification and insurance of officers and auditors

Indemnification

Since the end of the previous financial year, the Company has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been an officer or auditor of the Company.

Insurance premiums

During the financial half-year, the Company has not paid premiums in respect of directors' and officers' liability and legal expenses insurance contracts for the half-year ended 31 December 2020. Since the end of the financial half-year the Company has paid an insurance premium to insure certain officers of the Company, including the Directors named in this report. The insurance premiums relate to management liability. The insurance policy does not contain details of the premiums paid in respect of individual officers of the Company.

This report is made with a resolution of the directors:



James Fielding

Director

Dated at Perth this 15th day of March 2021

Statement of financial position

	Note	31 December 2020 \$	30 June 2020 \$
Assets			
Current assets			
Cash and cash equivalents		274,131	8,138
Trade and other receivables		114,452	331,823
Other assets		219,853	68,968
Inventories		88,611	56,310
Total current assets		697,047	465,239
Non-current assets			
Trade and other receivables		13,750	-
Property, plant and equipment		1,861	-
Intangibles		38,526	39,626
Right-of-use assets		33,777	56,295
Total non-current assets		87,914	95,921
Total assets		784,961	561,160
Liabilities			
Current liabilities			
Bank overdraft		-	260,476
Convertible note liability	4	876,524	810,585
Trade and other payables		108,118	161,936
Loans and borrowings		178,660	159,910
Lease liabilities		38,147	54,181
Employee benefits		72,986	55,425
Provisions		4,581	4,581
Other payables		65,841	90,268
Total current liabilities		1,344,857	1,597,362
Non-current liabilities			
Convertible note liability	4	765,511	-
Convertible note derivative	4	36,540	37,737
Lease liabilities		-	8,551
Employee benefits		14,046	10,484
Total non-current liabilities		816,097	56,772
Total liabilities		2,160,954	1,654,134
Net liabilities		(1,375,993)	(1,092,974)
Equity			
Share capital		1,976,203	1,976,203
Accumulated losses		(3,352,196)	(3,069,177)
Total equity		(1,375,993)	(1,092,974)

Audeara Limited

Statement of profit or loss and other comprehensive income

For the half-year ended

	31 December 2020	31 December 2019
	\$	\$
Revenue	526,369	463,655
Cost of sales	(286,100)	(311,066)
Gross profit	240,269	152,589
Other income	221,346	27,957
Administration and selling costs	(34,510)	(15,514)
Depreciation and amortisation	(29,567)	(11,768)
Contractors	(59,737)	(176,871)
Personnel expenses	(349,885)	(266,815)
Research and development	(3,948)	(21,976)
Foreign exchange gain/(loss)	10,845	(2,073)
Other expenses	(187,164)	(78,824)
Results from operating activities	(192,351)	(393,295)
Finance income	10	2
Finance costs	(90,678)	(68,103)
Net finance loss	(90,668)	(68,101)
Loss before income tax	(283,019)	(461,396)
Income tax expense	-	-
Loss for the period	(283,019)	(461,396)
Other comprehensive income	-	-
Total comprehensive loss for the period	(283,019)	(461,396)

Statement of changes in equity

For the half-year ended

	Share capital \$	Accumulated losses \$	Total \$
Balance at 1 July 2020	1,976,203	(3,069,177)	(1,092,974)
Total comprehensive loss for the period			
Loss for the period	-	(283,019)	(283,019)
Total comprehensive loss	-	(283,019)	(283,019)
Balance at 31 December 2020	1,976,203	(3,352,196)	(1,375,993)

	Share capital \$	Accumulated losses \$	Total \$
Balance at 1 July 2019	1,976,203	(2,615,179)	(638,976)
Total comprehensive loss for the period			
Loss for the period	-	(461,396)	(461,396)
Total comprehensive loss	-	(461,396)	(461,396)
Balance at 31 December 2019	1,976,203	(3,076,575)	(1,100,372)

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Statement of cash flows

For the half-year ended

	31 December 2020 \$	31 December 2019 \$
Cash flows from operating activities		
Cash receipts from customers	785,004	548,160
Cash paid to suppliers and employees	(1,185,925)	(779,365)
Cash used in operating activities	(400,921)	(231,205)
Interest received	10	2
Interest paid	(2,020)	(7,490)
Research and development tax incentive	218,623	242,250
Net cash (used in)/from operating activities	(184,308)	3,557
Cash flows from investing activities		
Acquisition of property, plant and equipment	(2,294)	(777)
Acquisition of intangibles	(5,516)	(9,835)
Net cash used in investing activities	(7,810)	(10,612)
Cash flows from financing activities		
Repayment of borrowings	-	4,888
Issue of convertible notes	743,961	-
Loan to related parties	-	(584)
Payment of lease liabilities	(25,374)	(4,168)
Net cash from financing activities	718,587	136
Net increase/(decrease) in cash held	526,469	(6,919)
Cash and cash equivalents at the beginning of the period	(252,338)	(134,432)
Cash and cash equivalents at the end of the period	274,131	(141,351)

Notes to the interim financial statements

1 Reporting entity

Audeara Limited (formerly Audeara Pty Ltd) ("the Company") is a Company domiciled in Australia. The address of the Company's registered office is 13/76 Doggett St, Newstead, QLD, 4006.

The Company is a for-profit entity.

The annual financial report of the Company as at and for the year ended 30 June 2020 is available on request from the Company's registered office.

2 Basis of preparation

(a) Statement of compliance

In the opinion of the directors, the Company is not publicly accountable. These interim financial statements are general purpose financial statements that have been prepared in accordance with the requirements of applicable accounting standards including AASB 134 'Interim Financial Reporting', Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

These interim financial statements do not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as complete an understanding of the financial performance, financial position and cash flows of the Company as the annual financial report.

It is recommended that these interim financial statements be read in conjunction with the annual financial report for the year ended 30 June 2020.

The interim financial statements were approved by the Board of Directors on 15 March 2021.

(b) Functional and presentation currency

These interim financial statements are presented in Australian dollars, which is the Company's functional currency.

(c) Use of estimates and judgements

In preparing these interim financial statements, management has made judgements, estimates and assumptions that affect the application of the accounting policies and the reportable amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

In preparing these interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial report as at and for the year ended 30 June 2020.

(d) Going concern

For the half year ended 31 December 2020, the Company has incurred a loss before income tax of \$283,019 (31 December 2019: \$461,396) and had negative cashflow from operating activities of \$184,308 (31 December 2019: positive cashflow of \$3,557) for the period. As at 31 December 2020, the Company has a net current asset deficiency of \$647,810 and a deficiency of net assets of \$1,375,993.

Notes to the interim financial statements

2 Basis of preparation (continued)

(d) Going concern (continued)

The Company has significantly invested over time in development of its A-O1 headphones and has created a range of sales channels to market. Management anticipates continuing increases in revenue from further consolidation in the Australia market and establishment of overseas markets. Management has also re-structured the cost base of the entity throughout the year to better meet the needs of the organisation.

Despite the improvement in financial performance, the Company requires additional capital for its continued sales growth, re-structure of its current funding arrangements and on-going investment in products and sales channels.

As such the board and management are actively pursuing an initial public offering (IPO) which is planned to be completed before 30 June 2021 and which Directors consider sufficient to meet working capital requirements for at least the next 12 months. A corporate advisor has been engaged, a due diligence committee has been formed and discussions with both ASIC and the ASX are advanced. The proceeds from an ASX listing will provide the Company with significant working capital to fund its expansion and trigger a mandatory conversion event for the convertible notes.

Directors have prepared a cash flow forecast for the next 12 months which indicates that the Company will have sufficient funds available to it to continue as a going concern. The cash flow forecast is underpinned by a successful IPO and settlement of convertible notes and accrued interest through their conversion to shares rather than settlement in cash. Whilst Directors are confident that the IPO can be completed in the timeframe set out above, the IPO is not yet completed and remains subject to regulatory approvals and successful fundraising arrangements.

In the event that the Company is unable to complete its IPO as planned, the Company does not currently have sufficient funds available to settle the convertible notes detailed in note 4 and meet anticipated working capital requirements. In such a circumstance, Directors will need to seek to renew and/or extend the maturity date of its existing convertible notes or raise additional capital through private debt or equity raisings, or do both. Whilst no arrangements exist, Directors expect that, if required, arrangements could be put in place with respect to these measures.

However, at this time the achievement of a successful IPO remains uncertain which in addition to the matters detailed above, indicates a material uncertainty exists that may cast doubt on the Company's ability to continue as a going concern and therefore whether it will realise its assets and discharge its liabilities in the normal course of business and at the amount stated in the financial report.

3 Significant accounting policies

Except as described below, the accounting policies applied by the Company in the interim financial statements are the same as those applied by the Company in its financial statements as at and for the year ended 30 June 2020.

(a) New standards and interpretations applicable for the half-year ended 31 December 2020

In the period ended 31 December 2020, the Company has reviewed all of the new and revised standards and interpretations issued by the AASB that are relevant to the Company and effective for the current reporting period. As a result of this review, the Company has determined that there is no material impact of the new and revised standards and interpretations on the Company and, therefore, no material change is necessary to the Company's accounting policies.

Notes to the interim financial statements

3 Significant accounting policies (continued)

(b) Segment reporting

The Company determines and presents operating segments based on the information that internally is provided to the Board of directors ("the Board"), who is the Company's chief operating decision maker.

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are regularly reviewed by the Company's Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

All significant operating decisions are based upon analysis of the Company as one segment. The financial results of this segment are equivalent to the financial statements of the Company as a whole.

The accounting policies applied for internal reporting purposes are consistent with those applied in preparation of the financial statements.

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Notes to the interim financial statements

4 Convertible notes

	31 December 2020 \$	30 June 2020 \$
Current		
Convertible note liability	876,524	810,585
	876,524	810,585
Non-current		
Convertible note liability	765,511	-
Convertible note derivative	36,540	37,737
	802,051	37,737

During the period, the Company issued additional Convertible Notes (Notes) on the below dates with a Maturity Date of one year after the issue date. As outlined below the convertible notes were modified during the year and the maturity date was extended.

- \$25,000 on 31 July 2020;
- \$25,000 on 28 August 2020;
- \$183,961 on 9 September 2020;
- \$10,000 on 11 September 2020; and
- \$500,000 on 17 September 2020.

The Notes are convertible into ordinary shares at Market Value less a 20% discount as a result of the following Liquidity Events where they occur prior to the Maturity Date:

- Initial public offering;
- Reverse takeover;
- Completion of an offer by any person or persons to acquire all of the Shares in the Issuer; or
- The completion of the sale of all, or substantially all, of the business and assets of the Issuer.

If none of the above events occur before the Maturity Date, the Holder may elect to convert the Note into ordinary shares a Market Value less a 20% discount on the Maturity Date. If at the Maturity Date there has been no prior Liquidity Event and no Conversion Notice has been given in respect of a Note by the Holder, the Notes become payable within 30 business days.

Convertible Note modification

In October 2020, the above Notes were varied with the following key changes:

- Convertible note maturity was extended to be two years from the issue date; and
- Interest rate of 10% is to be paid on Increased Application Money (being the original Application Money plus the 10% interest up to the original maturity date).

There have been no changes to the terms and conditions of the convertible notes that were on issue at 30 June 2020.

5 Subsequent events

No matter or circumstance has occurred subsequent to half-year end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company or economic entity in subsequent financial years

Audeara Limited

Directors' declaration

In the opinion of the directors of Audeara Limited, (the "Company"):

- (a) the Company is not publicly accountable and is not a reporting entity;
- (b) the interim financial statements and notes, set out on pages 3 to 10, are in accordance with the basis of accounting described in Notes 1 to 3 so as to present fairly the financial position of the Company as at 31 December 2020 and its performance as represented by the results of its operations for the financial half-year ended on that date; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.



James Fielding

Director

Dated at Perth this 15th day of March 2021



Independent Auditor's Review Report

To the Directors of Audeara Limited

Conclusion

We have reviewed the accompanying **Interim Financial Report** of Audeara Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Audeara Limited does not:

- present fairly the Company's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting*.

The **Interim Financial Report** comprises:

- Statement of financial position as at 31 December 2020
- Statement of profit or loss and other comprehensive income, Statement of changes in equity and Statement of cash flows for the half-year ended on that date
- Notes 1 to 5 comprising a summary of significant accounting policies and other explanatory information.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Company in accordance with the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty related to going concern

We draw attention to Note 2(d), "Going Concern" in the Interim Financial Report. The events or conditions disclosed in Note 2(d), indicate a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the Interim Financial Report. Our conclusion is not modified in respect of this matter.

Other matter

The interim financial report of Audeara Limited for the half-year ended 31 December 2019 was not reviewed.

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Emphasis of matter – basis of preparation and restriction on use and distribution

We draw attention to Notes 1 to 3 to the Interim Financial Report, which describe the basis of preparation.

The Interim Financial Report has been prepared for the purpose of fulfilling the Directors' reporting responsibilities in relation to an ASX initial public offering. As a result, the Interim Financial Report and this Auditor's Report for the review of the Interim Financial Report may not be suitable for another purpose. Our conclusion is not modified in respect of this matter.

Our report is intended solely for the Directors of Audeara Limited and should not be used by parties other than the Directors of Audeara Limited. We disclaim any assumption of responsibility for any reliance on this report, or on the Interim Financial Report to which it relates, to any person other than the Directors of Audeara Limited or for any other purpose than that for which it was prepared.

Responsibilities of the Management for the Interim Financial Report

Management of the Company are responsible for:

- the preparation of the Interim Financial Report that presents fairly in accordance with *Australian Accounting Standards*
- such internal control as Management determine is necessary to enable the preparation of the Interim Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not present fairly the Company's financial position as at 31 December 2021 and its performance for the half-year ended on that date, and comply with *Australian Accounting Standard AASB 134 Interim Financial Reporting*.

A review of a Half-year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.


KPMG



Matthew Hingeley
Partner
Perth
15 March 2021