

Audeara Pty Ltd

ACN 604 368 443

Annual Financial Report

30 June 2020

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For the year ended 30 June 2020

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Directors' report

For the year ended 30 June 2020

The directors present their report together with the financial statements of Audeara Pty Ltd (the Company) for the financial year ended 30 June 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 year are:

<i>Name</i>	<i>Date of appointment/resignation</i>
J Fielding Director	Appointed 23/02/2015
D Trimboli Director	Appointed 27/08/2015
C Jeffery Director	Appointed 23/02/2015 Resigned 30/04/2019

2. Principal activities

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

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

3. Operating and financial review

The Company posted a loss during the financial year ended 30 June 2020 of \$453,998 (2019: \$1,500,095).

4. Significant changes in state of affairs

In the opinion of the directors there were no significant changes in the state of affairs of the Company that occurred during the financial year under review.

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 year. No recommendation for payment of dividends has been proposed.

Directors' report

For the year ended 30 June 2020

7. Events subsequent to reporting date

Post year-end, the Company issued Convertible Notes (Notes) at the below dates which have a Maturity Date of one year after the issue date.

- \$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 at 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.

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).

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

No other matter or circumstance has occurred subsequent to 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 grow into the hearing health sector by focussing on audiology clinics and reduce focus on direct to consumer sales.

Further information about likely developments in the operations of the Company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

Directors' report

For the year ended 30 June 2020

9. Indemnification and insurance of officers and auditors

Indemnification

During the 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 year, the Company has not paid premiums in respect of auditor's, directors' and officers' liability and legal expenses insurance contracts for the year ended 30 June 2020. Since the end of the financial 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

As at 30 June 2020

	Note	2020 \$	2019 \$
Assets			
Current assets			
Cash and cash equivalents	10	8,138	177,799
Trade and other receivables	11	331,823	404,615
Other assets		68,968	35,750
Inventories	12	56,310	297,315
Total current assets		465,239	915,479
Non-current assets			
Intangibles	13	39,626	25,717
Right-of-use assets	14	56,295	-
Total non-current assets		95,921	25,717
Total assets		561,160	941,196
Liabilities			
Current liabilities			
Bank overdraft	10	260,476	312,231
Trade and other payables	15	161,936	144,336
Convertible note liability	16	810,585	736,895
Loans and borrowings	17	159,910	161,615
Lease liabilities	18	54,181	-
Employee benefits	19	55,425	41,604
Provisions		4,581	3,292
Other payables	20	90,268	130,896
Total current liabilities		1,597,362	1,530,869
Non-current liabilities			
Convertible note derivative	16	37,737	43,465
Lease liabilities	18	8,551	-
Employee benefits	19	10,484	5,838
Total non-current liabilities		56,772	49,303
Total liabilities		1,654,134	1,580,172
Net liabilities		(1,092,974)	(638,976)
Equity			
Share capital	21	1,976,203	1,976,203
Accumulated losses		(3,069,177)	(2,615,179)
Total equity		(1,092,974)	(638,976)

Statement of profit or loss and other comprehensive income

For the year ended 30 June 2020

	Note	2020 \$	2019 \$
Revenue	5	902,761	581,660
Cost of sales		(562,601)	(344,626)
Gross profit		340,160	237,034
Other income	6	546,917	374,231
Administration and selling costs		(41,878)	(297,867)
Depreciation and amortisation		(37,119)	(4,406)
Contractors		(344,174)	(1,003,818)
Personnel expenses	7	(563,059)	(571,983)
Research and development		(18,222)	(24,891)
Foreign exchange (loss)/gain		(6,521)	(5,640)
Other expenses		(194,064)	(159,682)
Results from operating activities		(317,960)	(1,457,022)
Finance income	8	2	11
Finance costs	8	(136,040)	(43,084)
Net finance loss		(136,038)	(43,073)
Loss before income tax		(453,998)	(1,500,095)
Income tax expense	9	-	-
Loss for the year		(453,998)	(1,500,095)
Other comprehensive income		-	-
Total comprehensive loss for the year		(453,998)	(1,500,095)

Statement of changes in equity

For the year ended 30 June 2020

	Note	Share capital \$	Accumulated losses \$	Total \$
Balance at 1 July 2019		1,976,203	(2,615,179)	(638,976)
Total comprehensive loss for the year				
Loss for the year		-	(453,998)	(453,998)
Total comprehensive loss		-	(453,998)	(453,998)
Balance at 30 June 2020		1,976,203	(3,069,177)	(1,092,974)

		Share capital \$	Accumulated losses \$	Total \$
Balance at 1 July 2018		1,826,203	(1,115,084)	711,119
Total comprehensive loss for the year				
Loss for the year		-	(1,500,095)	(1,500,095)
Total comprehensive loss		-	(1,500,095)	(1,500,095)
Contributions by and distributions to owners of the Company				
Issue of share capital	21	150,000	-	150,000
Total contributions by and distributions to owners of the Company		150,000	-	150,000
Balance at 30 June 2019		1,976,203	(2,615,179)	(638,976)

Statement of cash flows

For the year ended 30 June 2020

	Note	2020 \$	2019 \$
Cash flows from operating activities			
Cash receipts from customers		1,318,693	700,715
Cash paid to suppliers and employees		(1,613,765)	(2,415,856)
Cash used in operating activities		(295,072)	(1,715,141)
Interest received	8	2	11
Interest paid		(12,711)	(17,175)
Research and development tax incentive		242,250	250,873
Net cash used in operating activities	24	(65,531)	(1,481,432)
Cash flows from investing activities			
Acquisition of property, plant and equipment		(1,458)	(3,210)
Acquisition of intangible assets	13	(15,793)	(12,416)
Net cash used in investing activities		(17,251)	(15,626)
Cash flows from financing activities			
Proceeds from issue of share capital	21	-	150,000
Repayment of borrowings	17	(705)	-
Proceeds from borrowings	17	-	705
Repayment of lease liabilities	18	(29,167)	-
Issue of convertible notes	16	-	754,451
Loan to related parties		(5,252)	(8,446)
Loan from related parties	17	-	160,910
Net cash (used in)/provided by financing activities		(35,124)	1,057,620
Net decrease in cash held		(117,906)	(439,438)
Cash and cash equivalents at the beginning of the year		(134,432)	305,006
Cash and cash equivalents at the end of the year	10	(252,338)	(134,432)

Notes to the financial statements

1 Reporting entity

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.

2 Basis of preparation

(a) Statement of compliance

These financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB).

This is the first set of the Company's financial statements in which AASB 16 *Leases* has been applied. Changes to significant accounting policies are described in Note 4.

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

(b) Functional and presentation currency

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

(c) Use of estimates and judgements

In preparing these 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 particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect of the amount recognised in the financial statements are described in the following notes:

- Note 3(c) – Convertible Notes
- Note 3(f) – Lease liabilities

(d) Going concern

For the year ended 30 June 2020, the Company has incurred a loss before income tax of \$453,998 (2019: \$1,500,095) and had negative cashflow from operating activities of \$65,531 (2019: \$1,481,432) for the period. As at 30 June 2020, the Company has a net current asset deficiency of \$1,132,123 and a deficiency of net assets of \$1,092,974.

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.

Notes to the financial statements

2 Basis of preparation (continued)

(d) Going concern (continued)

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 12 months from the date this report is issued. 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 12 months from the date this report is issued 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 16 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

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Financial instruments

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Subsequent measurement and gains and losses

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

Notes to the financial statements

3 Significant accounting policies (continued)

(a) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Subsequent measurement and gains and losses (continued)

Financial assets (continued)

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss. Liabilities for trade and other payables are carried at amortised cost and represent liabilities for goods or services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of these goods and services.

(iii) Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

Notes to the financial statements

3 Significant accounting policies (continued)

(a) Financial instruments (continued)

(iii) Derecognition (continued)

Financial liabilities (continued)

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(b) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(c) Convertible notes

The Company has issued convertible notes denominated in Australian dollars that can be converted to ordinary shares at the option of the holder or upon a conversion event (refer to Note 16).

Convertible Note Liability

The liability component of a convertible note is recognised initially at the fair value of a similar liability that does not have an equity conversion option.

Subsequent to initial recognition, the convertible note is measured at amortised cost using the effective interest method.

Interest related to the financial liability is recognised in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognised.

Convertible Note Derivative

Derivative financial instruments are stated at fair value. The fair value of the derivative has been valued using a valuation technique including inputs that include reference to similar instruments and option pricing models which is updated each period. Gains and losses arising out of changes in fair value of these instruments together with settlements in the period are accounted for through the Statement of Profit or Loss and Other Comprehensive Income through finance costs.

The convertible note liability and derivative are removed from the Statement of Financial Position when the obligations specified in the contract are discharged, this can occur upon the option holder exercising their option or the option period lapses requiring the company to discharge the obligation. The convertible note liability and the derivative are classified as current liabilities when they are due and payable within twelve months of this financial report.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Notes to the financial statements

3 Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the component will flow to the Company. Ongoing repairs and maintenance is expensed as incurred.

Items of property, plant and equipment are depreciated on a straight-line and/or diminishing basis in profit or loss over the estimated useful lives of each component.

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use.

(iii) Depreciation

The Company expenses all costs attributable to the acquisition of assets immediately where the total costs are below AUD \$5,000.

Depreciation methods, useful lives and residual values are reviewed at each financial reporting date and adjusted if appropriate.

(e) Intangible assets

(i) Research and development

Expenditure on research activities is recognised in profit or loss as incurred.

Development expenditure is capitalised only if expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise it is recognised in profit or loss as incurred.

Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

(ii) Patents

Intangible assets that are acquired by the Company and have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Notes to the financial statements

3 Significant accounting policies (continued)

(f) Leases

The Company has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117 and AASB Interpretation 4. The details of accounting policies under AASB 117 and AASB Interpretation 4 are disclosed separately.

Policy applicable from 1 July 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in AASB 16.

This policy is applied to contracts entered into, on or after 1 July 2019.

(i) *As a lessee*

At commencement or on modification of a contract that contains a lease component, the Company allocated the consideration in the contract of each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises an equal right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site of which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lessor transfers ownership of the underlying asset to the Company by the end of the lease term. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources.

Notes to the financial statements

3 Significant accounting policies (continued)

(f) Leases (continued)

Policy applicable from 1 July 2019 (continued)

(i) *As a lessee (continued)*

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate at the commencement date.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if the Company changes its assessment of whether it will exercise a extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the varying value of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Policy applicable before 1 July 2019

(i) *Leased assets*

Leased assets are operating leases and are not recognised on the Company's statement of financial position.

(ii) *Lease payments*

Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on weighted average cost using the first in first out method. Deposits paid for manufactured inventory are recorded as Other Assets until the units are shipped.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Notes to the financial statements

3 Significant accounting policies (continued)

(h) Impairment

(i) Non-derivative financial assets

Financial instruments and contract assets

The Company recognises loss allowances for ECLs (expected credit losses) on:

- financial assets measured at amortised cost; and
- contract assets.

The Company measures loss allowances at an amount equal to lifetime ECLs.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery.

(ii) Non- financial assets

The carrying amounts of the Company's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite useful life intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or its related cash generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Notes to the financial statements

3 Significant accounting policies (continued)

(h) Impairment (continued)

(ii) Non- financial assets (continued)

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Employee benefits

(i) Long-term employee benefits

The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(j) Revenue

(i) Goods sold

Revenue recognition under AASB 15

Revenue is measured based on the consideration specified in a contract with a customer and excludes any amounts collected on behalf of third parties. The Company recognises revenue when it satisfies its performance obligation by transferring control over a product to a customer when the product is shipped. Invoices are generated at the point of sale and payment terms vary from customer to customer.

Revenue from the sale of hearing health technology products is recognised at a point in time when control of the asset is transferred which is on shipment of the goods. For contracts that permit the customer to return an item, revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Therefore, the amount of revenue recognised is adjusted for expected returns, which are estimated based on the historical data for specific product types. In these circumstances, a refund liability and a right to recover returned goods asset are recognised.

(ii) Other income

Other income includes research and development tax incentive and government grants. Research and development tax incentive is recognised in the period in which the related expenses were incurred. Government grants are recognised when there is reasonable assurance that the Company will comply with the conditions attached to it and that the grant will be received.

Notes to the financial statements

3 Significant accounting policies (continued)

(j) Revenue (continued)

(iii) Accrued income

Accrued income includes government assistance not yet received where entitlement has been determined to be in the period.

(k) Finance income and finance costs

Finance income comprises interest income on funds invested, in addition to realised and unrealised gains on foreign currency. Interest income is recognised as it accrues in profit or loss.

Finance costs comprise interest expense on borrowings and bank charges.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(l) Income tax

Tax expense comprises current tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Notes to the financial statements

3 Significant accounting policies (continued)

(l) Income tax (continued)

Deferred tax (continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(m) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Where GST is charged receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(n) Provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Warranties

A provision for warranties is recognised when the underlying products or services are sold, based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(o) 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.

Notes to the financial statements

3 Significant accounting policies (continued)

(o) Segment reporting (continued)

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

(p) New standards currently effective

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 July 2019.

- AASB 16 *Leases*

Refer to Note 4 (change in significant accounting policies) for a summary of the nature and effects of the changes on the financial statements of the Company.

Notes to the financial statements

4 Changes in significant accounting policies

AASB 16 Leases

The Company initially applied AASB 16 *Leases* from 1 July 2019.

The Company applied AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. The details of the changes in accounting policies are described below. Additionally, the disclosure requirements in AASB 16 have not generally been applied to comparative information.

(a) Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under AASB Interpretation 4 *Determining whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3(f).

On transition to AASB 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 and AASB Interpretation 4 were not reassessed for whether there is a lease under AASB 16. Therefore, the definition of a lease under AASB 16 was applied only to contracts entered into or changed on or after 1 July 2019. The Company also elected on transition to AASB 16 to apply the practical expedient for short term leases of properties, being those that had less than 12 months left in the lease term as at 1 July 2019.

(b) As a lessee

As a lessee, the Company leases office premises. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under AASB 16, the Company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component of the basis of its relative stand-alone price.

However, for leases of property, the Company has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

On transition, lease liabilities were measured at the present value of the remaining lease payments and discounted at the Company's incremental borrowing rate as at 1 July 2019. Right-of-use assets are measured at an amount equal to the lease liability on transition, adjusted by the amount of any prepaid or accrued lease payments.

The Company used practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117. In particular, the Company;

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application; and
- excluded initial direct costs from the measurement of the right-of-use assets at the date of initial application.

Notes to the financial statements

4 Changes in significant accounting policies (continued)

AASB 16 Leases (continued)

(c) As a lessor

The Company is not required to make any adjustments on transition to AASB 16 for leases in which it acts as a lessor, except for a sub-lease. The Company has a sub-lease which is classified as an operating lease under AASB 16 and ceased before year-end. Therefore there is no impact as a result of applying AASB 16.

(d) Impact on financial statements

On transition to AASB 16, the Company recognised additional right-of-use assets and lease liabilities. The impact on transition is summarised below.

	1 July 2019
	\$
Right-of-use assets - buildings	90,072
Lease liabilities	(90,072)

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted-average rate applied is 3%.

	1 July 2019
	\$
Measurement of lease liabilities	
Operating lease commitments disclosed as at 30 June 2019	112,500
Discounted using incremental borrowing rate at 1 July 2019	(9,928)
Finance lease liabilities recognised as at 30 June 2019	102,572
Less:	
- Recognition exemption for leases less than 12 months of lease term at transition	12,500
Lease liabilities recognised at 1 July 2019	90,072

Notes to the financial statements

5 Revenue

The Company generates revenue from the sale of hearing health technology products to its customers. There are no other sources of revenue.

	2020	2019
	\$	\$
Sale of goods - Wholesale	827,550	387,856
Sale of goods - Retail	75,211	193,804
	902,761	581,660

Revenue from the sale of goods is recognised when control of the products is transferred to the customer. Control of the good is considered transferred to the customer depending on the individual trade terms of the contract of sale.

Disaggregation of revenue from contracts with customers

	2020	2019
	\$	\$
Primary geographical markets		
Australia	820,199	230,205
Asia Pacific	78,279	247,760
Europe	425	720
North America	3,858	102,975
	902,761	581,660

Major customer

Revenues from one customer of Sale of goods - Wholesale represented approximately \$593,000 or 65% (2019: 74,000 or 13%) of the Company's total revenue.

6 Other income

	2020	2019
	\$	\$
Government grants*	239,796	56,870
Research and development tax incentive	218,623	242,250
Gain on modification of convertible notes	47,812	-
Movement in fair value of convertible note derivative	5,728	-
Other income	34,958	75,111
	546,917	374,231

*Government grants include the following:

	2020	2019
	\$	\$
EMDG	134,996	56,870
Jobkeeper	42,300	-
Cashboost	62,500	-
	239,796	56,870

Notes to the financial statements

7 Personnel expenses

	2020 \$	2019 \$
Wages and salaries	497,997	514,735
Superannuation	46,595	45,669
Long service leave	4,646	3,097
Annual leave	13,821	8,482
	563,059	571,983

8 Finance income and finance costs

	2020 \$	2019 \$
Interest income	2	11
Finance income	2	11
Interest expense on financial liabilities measured at amortised cost	(136,040)	(43,084)
Finance costs	(136,040)	(43,084)
Net finance loss recognised in profit or loss	(136,038)	(43,073)

9 Income tax expense

	2020 \$	2019 \$
A. Amounts recognised in profit or loss		
Current tax		
Current year	-	-
Adjustment for prior periods	-	-
Deferred tax		
Origination and reversal of temporary differences	-	-
	-	-
Total income tax expense	-	-
B. Amounts recognised in Other Comprehensive Income		
Effective portion of changes in fair value	-	-
	-	-
Reconciliation of tax		
Loss for the year	(453,998)	(1,500,095)
Loss excluding income tax	(453,998)	(1,500,095)
Income tax using the Company's domestic tax rate of 27.5%	(124,849)	(412,526)
Non-deductible expenses	3,551	4,573
Non-deductible R&D expenses	138,210	153,146
Non-assessable income	(89,740)	(66,619)
Change in tax rates	3,472	-
Deferred tax assets not brought to account	69,356	321,426
Total income tax expense/(benefit)	-	-

Notes to the financial statements

9 Income tax expense (continued)

Unrecognised deferred tax assets and liabilities

Deferred tax assets (comprising temporary allowed and unused tax losses) of \$69,356 (2019: \$321,426) have not been recognised because at the reporting date, the Company is unable to demonstrate the applicable recognition criteria.

Movement in deferred tax balances

	Balance at 30 June 2020					
	Net balance at 1 July \$	Adjustment due to change in tax rate	Recognised in profit or loss \$	Net \$	Deferred tax assets \$	Deferred tax liabilities \$
Convertible notes	-	-	(1,489)	(1,489)	-	1,489
Right-of-use assets/lease liabilities	-	-	1,674	1,674	1,674	-
Employee benefits	13,047	(712)	4,801	17,136	17,136	-
Tax losses	457,395	(24,948)	62,248	494,695	494,695	-
Foreign exchange	-	-	2,122	2,122	2,122	-
Tax (assets)/liabilities recognised	-	-	-	-	(1,489)	1,489
Tax (assets)/liabilities not recognised	(470,442)	25,660	(69,356)	(514,138)	(514,138)	-
Net deferred tax balance	-	-	-	-	-	-

Movement in deferred tax balances

	Balance at 30 June 2019					
	Net balance at 1 July \$	Adjustment due to change in tax rate	Recognised in profit or loss \$	Net \$	Deferred tax assets \$	Deferred tax liabilities \$
Employee benefits	9,862	-	3,185	13,047	13,047	-
Tax losses	139,154	-	318,241	457,395	457,395	-
Tax (assets)/liabilities not recognised	(149,016)	-	(321,426)	(470,442)	(470,442)	-
Net deferred tax balance	-	-	-	-	-	-

10 Cash and cash equivalents

	2020 \$	2019 \$
Cash on hand	1,201	1,602
Bank balances	6,937	176,197
	8,138	177,799
Bank overdraft*	(260,476)	(312,231)
Cash and cash equivalents in the statement of cash flows	(252,338)	(134,432)

*As at 30 June 2020, the Company had drawn \$260,476 (2019: \$312,231) of a \$350,000 facility. The overdraft is guaranteed in full by a director of the Company.

Notes to the financial statements

11 Trade and other receivables

	2020	2019
	\$	\$
Accrued income	18,800	-
Trade receivables	75,851	126,856
Expected credit losses	(3,964)	-
Research and development tax incentive	218,623	242,250
Prepayments	8,763	12,110
Other receivables	-	1,203
Loan - Audeara HK Limited*	-	8,446
Rent bond	13,750	13,750
	331,823	404,615

*During the 2020 financial year the Company loaned a related party (100% controlled by a mutual director) Audeara HK Limited \$4,252 in addition to the existing balance as at 30 June 2019. As at 30 June 2020 the Company did not expect to recover the outstanding balance and the loan receivable from related party Audeara HK Limited of \$12,698 was written off in full.

12 Inventories

	2020	2019
	\$	\$
Inventory on hand	56,310	297,315
	56,310	297,315

13 Intangibles

	Patents	Total
	\$	\$
Cost		
Balance at 1 July 2018	14,878	14,878
Additions	12,416	12,416
Balance at 30 June 2019	27,294	27,294
Balance at 1 July 2019	27,294	27,294
Additions	15,793	15,793
Balance at 30 June 2020	43,087	43,087
Accumulated amortisation		
Balance at 1 July 2018	(381)	(381)
Amortisation for the year	(1,196)	(1,196)
Balance at 30 June 2019	(1,577)	(1,577)
Balance at 1 July 2019	(1,577)	(1,577)
Amortisation for the year	(1,884)	(1,884)
Balance at 30 June 2020	(3,461)	(3,461)
Carrying amounts		
At 1 July 2018	14,497	14,497
At 30 June 2019	25,717	25,717
At 1 July 2019	25,717	25,717
At 30 June 2020	39,626	39,626

Notes to the financial statements

14 Right-of-use assets

(i) Right-of-use assets

	30 June 2020
	\$
<i>Buildings</i>	
Balance at 1 July	90,072
Depreciation	(33,777)
Balance at 30 June	<u>56,295</u>

(ii) Amounts recognised in profit and loss

	Leases under AASB 16 2020 \$	Operating leases under AASB 117 2019 \$
Interest on lease liabilities	1,827	-
Depreciation of right-of-use assets	33,777	-
Expenses relating to short-term leases	12,500	-
Lease expense	-	47,289
	<u>48,104</u>	<u>47,289</u>

15 Trade and other payables

	2020 \$	2019 \$
Trade payables	161,936	144,336
	<u>161,936</u>	<u>144,336</u>

Notes to the financial statements

16 Convertible notes

	2020 \$	2019 \$
Current		
Convertible note liability	810,585	736,895
	810,585	736,895
Non-current		
Convertible note derivative	37,737	43,465
	37,737	43,465

The Convertible Notes (Notes) were issued 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.

- \$300,000 on 7 March 2019;
- \$311,307 on 2 May 2019; and
- \$143,144 on 3 May 2019;

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 at 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.

Following conversion (excluding conversion as a result of a liquidity event), there is a two year period under which is shares are issued to a third party at a value that is lower than the market value used in the conversion of the notes, additional shares shall be issued to the Holder equal to the difference between the number of shares issued at conversion and the number of shares that would have been issued at the lower market price.

Convertible Note modification

During the year, the 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).

17 Loans and borrowings

	2020 \$	2019 \$
Loan - James Fielding	159,910	160,910
Insurance funding	-	718
Less unexpired interest	-	(13)
	159,910	161,615

As at 30 June 2020 the Company held a loan with related party James Fielding for \$159,910 (2019: \$160,910). The loan is interest free and repayable on demand.

Notes to the financial statements

18 Lease liabilities

	2020 \$
<i>Right-of-use liabilities</i>	
Balance at 1 July	90,072
Payment of right-of-use liabilities	(29,167)
Interest	1,827
Balance at 30 June	<u>62,732</u>
Current right-of-use liabilities	54,181
Non-current right-of-use liabilities	8,551
Balance at 30 June	<u>62,732</u>

19 Employee benefits

	2020 \$	2019 \$
Current		
Liability for annual leave	55,425	41,604
	<u>55,425</u>	<u>41,604</u>
Non-current		
Liability for long-service leave	10,484	5,838
	<u>10,484</u>	<u>5,838</u>

20 Other payables

	2020 \$	2019 \$
Accrued expenses	48,387	57,489
Wages payable	18,772	18,772
Goods and services tax payable	1,713	12,306
PAYG withholdings payable	12,424	34,412
Superannuation payable	380	-
Rent bond	7,917	7,917
Other payables	675	-
	<u>90,268</u>	<u>130,896</u>

Notes to the financial statements

21 Share capital

	Ordinary shares		Number of shares	
	2020	2019	2020	2019
	\$	\$		
On issue at 1 July	1,976,203	1,826,203	4,051	3,765
Issued	-	150,000	-	286
On issue at 30 June	1,976,203	1,976,203	4,051	4,051

(i) Ordinary Shares

The Company does not have authorised capital or par value in respect of its issued shares. All shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. In the event of the winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

(ii) Issue of ordinary shares

During the prior reporting period, the general meeting of shareholders decided on the issue of 286 ordinary shares at an issue price of \$524 per share.

22 Auditors' remuneration

	2020	2019
	\$	\$
Audit services		
<i>KPMG Australia</i>		
Audit of financial reports	25,000	17,000
Other services		
<i>KPMG Australia</i>		
Accounting services	5,000	5,000
	30,000	22,000

Notes to the financial statements

23 Financial instruments – fair value and risk management

The following table shows the carrying amounts per category of financial assets and liabilities. Risk management is disclosed in Note 26.

2020	Note	Total
Financial assets not measured at fair value		
Trade and other receivables	11	323,060
Cash and cash equivalents	10	8,138
		331,198
Financial liabilities measured at amortised cost		
Convertible notes liability	16	810,585
		810,585
Financial liabilities measured at fair value		
Convertible notes derivative	16	37,737
		37,737
Financial liabilities not measured at fair value		
Bank overdraft	10	260,476
Trade payables	15	161,936
Loans and borrowings	17	159,910
Other payables	20	90,268
		672,590
2019	Note	Total
Financial assets not measured at fair value		
Trade and other receivables	11	392,505
Cash and cash equivalents	10	177,799
		570,304
Financial liabilities measured at amortised cost		
Convertible notes liability	16	736,895
		736,895
Financial liabilities measured at fair value		
Convertible notes derivative	16	43,465
		43,465
Financial liabilities not measured at fair value		
Bank overdraft	10	312,231
Trade payables	15	144,336
Loans and borrowings	17	161,615
Other payables	20	130,896
		749,078

Notes to the financial statements

24 Cash flow reconciliation

	Note	2020 \$	2019 \$
Loss for the period		(453,998)	(1,500,095)
Adjustments for:			
Gain on modification of convertible notes		(47,812)	-
Movement in fair value of convertible note derivative		(5,728)	-
Depreciation and amortisation		37,119	4,406
Warranty provision		1,289	(4,474)
Unrealised foreign exchange gain		1,521	785
Net finance loss	8	136,038	43,073
		(331,571)	(1,456,305)
Change in trade and other receivables		42,305	(97,948)
Change in inventories		241,005	(91,674)
Change in trade payables and other payables		(23,028)	170,080
Change in provisions and employee entitlements		18,467	11,579
Cash used in operating activities		(52,822)	(1,464,268)
Interest received		2	11
Interest paid		(12,711)	(17,175)
Net cash used in operating activities		(65,531)	(1,481,432)

25 Related party

(a) Transactions with key management personnel

(i) Key management personnel compensation

Key management personnel compensation comprised the following.

	2020 \$	2019 \$
Short-term employee benefits	217,200	217,200
Post-employment benefits	22,800	22,800
Other long-term benefits	3,704	2,669
	243,704	242,669

(b) Other related party transactions

During the 2020 financial year the Company loaned related party Audeara HK Limited \$4,252 in addition to the existing balance at 30 June 2019. Audeara HK Limited is 100% controlled by a mutual director.

As at 30 June 2020 the Company did not expect to recover the outstanding balance and the loan receivable from related party Audeara HK Limited of \$12,698 was written off in full.

Notes to the financial statements

26 Financial instruments – risk management

The Company has exposure to a variety of risks arising from its use of financial instruments. This note presents information about the Company's exposure to the specific risks, and the policies and processes for measuring and managing those risks and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Company has exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from transactions with customers and investments.

The carrying amounts of financial assets represent the maximum credit exposure.

Cash and cash equivalents

The Company has cash and cash equivalents of \$8,138 at 30 June 2020 (2019: \$177,799) that are held with financial institution counter-parties that are rated AA- based on S&P Global rating.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. The receivables that the Company does experience through its normal course of business are short term and the risk of recovery of no recovery of receivables is considered to be negligible. The Company limits its exposure to credit risk from trade receivables by establishing a maximum payment period of 14 days for the majority of customers.

The Company uses an allowance matrix to measure the ECLs of trade receivables, which comprises of a large number of small balances. Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on age of the customer relationship and type of revenue/customer. Based on this matrix, management have determined an allowance of \$3,964 as at 30 June 2020. Management also provide specifically for individual debtors when information obtained indicates the debt will be bad. As at 30 June 2020 the Company did not expect to recover the outstanding balance and the loan receivable from related party Audeara HK Limited of \$12,698 was written off in full.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company aims to maintain the level of its cash and cash equivalents at an amount in excess of expected cash outflows on financial liabilities.

Notes to the financial statements

26 Financial instruments – risk management (continued)

(b) Liquidity risk (continued)

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted; and include contractual interest payments.

30 June 2020	Contractual cash flows				
	Carrying Amount	Total	2 months or less	2-12 months	1-2 years
Non-derivative financial liabilities					
Bank overdraft	260,476	350,000	350,000	-	-
Convertible note liability	810,585	875,149	-	875,149	-
Lease liabilities	62,732	64,000	8,333	42,792	12,875
Trade Payables	161,936	161,936	161,936	-	-
Other Payables	90,268	90,268	90,268	-	-
	1,385,997	1,541,353	610,537	917,941	12,875
Derivative financial liabilities					
Convertible note derivative	37,737	37,737	-	37,737	-
	37,737	37,737	-	37,737	-

30 June 2019	Contractual cash flows				
	Carrying Amount	Total	2 months or less	2-12 months	1-2 years
Non-derivative financial liabilities					
Bank overdraft	312,231	312,231	312,231	-	-
Convertible note liability	736,895	786,757	-	786,757	-
Trade Payables	144,336	144,336	144,336	-	-
Other Payables	130,896	130,896	130,896	-	-
	1,324,358	1,374,220	587,463	786,757	-
Derivative financial liabilities					
Convertible note derivative	43,465	43,465	-	43,465	-
	43,465	43,465	-	43,465	-

Notes to the financial statements

26 Financial instruments – risk management (continued)

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising any return.

Exposure to currency risk

The summary quantitative data about the Company's exposure to currency risk as reported to management of the Company is as follows.

	30 June 2020			
	EUR	USD	HKD	GBP
Trade Receivables	-	7,571	-	200
Trade Payables	75	44,142	4,000	2,825
Net statement of financial position exposure	75	51,713	4,000	3,025

	30 June 2019			
	USD	NZD	CAD	GBP
Trade Receivables	633	1,526	2,220	-
Trade Payables	47,441	-	-	5,574
Net statement of financial position exposure	48,074	1,526	2,220	5,574

Sensitivity Analysis

A reasonably possible strengthening (weakening) of the above currencies at 30 June would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below. This analysis assumes all other variables remain constant.

Effect in AUD	Profit or loss		Equity, net of tax	
	Strengthening	Weakening	Strengthening	Weakening
30 June 2020				
EUR (10% movement)	(41)	41	41	(41)
USD (10% movement)	(6,856)	6,856	6,856	(6,856)
GBP (8% movement)	(375)	375	375	(375)
HKD (5% movement)	(36)	36	36	(36)
30 June 2019				
USD (10% movement)	(6,223)	6,223	6,223	(6,223)
CAD (10% movement)	(219)	219	219	(219)
GBP (8% movement)	(747)	747	747	(747)
NZD (6% movement)	(83)	83	83	(83)

Notes to the financial statements

27 Contingencies

In the opinion of the management, the Company did not have any contingencies at 30 June 2020 (2019: none).

28 Subsequent events

Post year-end, the Company issued Convertible Notes (Notes) at the below dates which have a Maturity Date of one year after the issue date.

- \$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 at 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.

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).

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

No other matter or circumstance has occurred subsequent to 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

Directors' declaration

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

- (a) the Company is a small proprietary company and is not a reporting entity;
- (b) the financial statements and notes, set out on pages 4 to 35, are drawn up 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 30 June 2020 and its performance as represented by the results of its operations, for the financial year ended on that date; and
- (c) as set out in Note 2(d) there are reasonable grounds to believe that the Company will be able to pay its debt 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 Report

To the Directors of Audeara Pty Ltd

Opinion

We have audited the **Financial Report** of Audeara Pty Ltd (*the Company*).

In our opinion, the accompanying Financial Report presents fairly, in all material respects, the financial position of Audeara Pty Ltd as at 30 June 2020, and of its financial performance and its cash flows for the year then ended, in accordance with *Australian Accounting Standards*.

The **Financial Report** comprises:

- Statement of financial position as at 30 June 2020
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the 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 *Financial Report* in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Restriction on use and distribution

The Financial Report has been prepared to assist the Directors of Audeara Pty Ltd for the purpose of fulfilling the Directors' reporting responsibilities in relation to an Initial Public Offering.

As a result, the Financial Report and this Auditor's Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

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

Material uncertainty relating to going concern

We draw attention to Note 2(d), "Going Concern" in the 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 Financial Report. Our opinion is not modified in respect of this matter.

Other Information

Other Information is financial and non-financial information in Audeara Pty Ltd's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. Management are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, the auditor does not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report

Responsibilities of Management for the Financial Report

Management are responsible for:

- the preparation and fair presentation of the Financial Report for the purpose of fulfilling the Directors' reporting responsibilities in relation to an ASX initial public offering
- implementing necessary internal control to enable the preparation of a Financial Report that is free from material misstatement, whether due to fraud or error
- assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in



accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our Auditor's Report.

A handwritten version of the KPMG logo in blue ink, with the letters 'KPMG' in a stylized, cursive-like font.

KPMG

A handwritten signature in blue ink, appearing to read 'M Hingeley', with a stylized, cursive-like font.

Matthew Hingeley

Partner

Perth

15 March 2021