Powerhouse Ventures Limited

Financial Statements

For the year ended 30 June 2018

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Financial Statements
For the year ended 30 June 2018

Contents **Page**

Company Directory	3
Directors' Responsibility Statement	4
Statement of Comprehensive Income	5
Statement of Changes in Equity	6
Statement of Financial Position	7
Statement of Cash Flows	8
Notes to the Financial Statements	9 - 35
Independent audit report to the shareholders	36 - 38

Powerhouse Ventures Limited
Company Directory
As at 30 June 2018

Postal Address	PO Box 29519 Riccarton Christchurch 8440 New Zealand
Registered Office	Level 7 Press Building 158 Gloucester Street Christchurch 8011 New Zealand
Business Locations	Level 7 Press Building, 158 Gloucester Street, Christchurch Central, Christchurch 8011 Gracefield Innovation Precinct, 69 Gracefield Road, Lower Hutt 5012 Level 19, HWT Tower, 40 City Road, Southbank, VIC 3006, Australia
Company Number	CH1854396
Australian Foreign Company Registration	ARBN 612076169
Solicitors	Andrew Lewis Law, Auckland, New Zealand Buddle Findlay, Christchurch, New Zealand HWL Ebsworth, Sydney, Australia K&L Gates, Sydney, Australia
Auditors	Ernst & Young, Christchurch
Date of Formation	17 August 2006

Powerhouse Ventures Limited
Financial Statements
For the year ended 30 June 2018

Directors' Responsibility Statement

The Directors of Powerhouse Ventures Limited ("the Company") hereby present to the shareholders the financial statements of the Company for the year ended 30 June 2018.

The Directors are responsible for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which give a true and fair view of the financial position of the Company as at 30 June 2018 and the results of its operations and cash flows for the year ended on that date.

The Directors consider the financial statements of the Company have been prepared using accounting policies which have been consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable with reasonable accuracy the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 2013.

The Directors consider that they have taken adequate steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide reasonable assurance to the integrity and reliability of the financial statements.

The Financial Statements are signed on behalf of the Board by:

Chairman	Director
Date: 31 August 2018	Date: 31 August 2018

Powerhouse Ventures Limited
Statement of Comprehensive Income
For the year ended 30 June 2018

	Notes	2018 $	2017 $
Income			
Net changes in fair value of investments at fair value through profit or loss	4	(6,306,230)	(4,532,146)
Revenue from services and other income	3	802,095	2,406,010
Finance income		378,471	1,218,373
Total income and fair value changes		**(5,125,664)**	**(907,763)**
Expenses			
Employee benefits expense	6	2,439,282	3,605,321
Marketing and events		528,604	302,235
Legal and professional costs		768,762	765,861
Travel		185,128	342,917
IPO costs expensed through profit and loss		-	931,271
Interest expense		87,269	145,430
Other expenses	7	692,146	1,779,017
Impairment of financial assets	5	607,639	3,798,300
Total expenses		**5,308,830**	**11,670,352**
Profit/(loss) before income tax		**(10,434,494)**	**(12,578,115)**
Income tax expense/(credit)	8 (a)	-	(1,358,345)
Profit/(loss) after tax for the year		**(10,434,494)**	**(11,219,770)**
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year attributable to equity holders of the Company		**(10,434,494)**	**(11,219,770)**
Earnings per share:			
Basic (cents per share)	9	(36)	(43)
Diluted (cents per share)	9	(36)	(43)

The accompanying accounting policies and notes to the financial statements form an integral part of these financial statements.

EY

Powerhouse Ventures Limited
Statement of Changes in Equity
For the year ended 30 June 2018

	Notes	Share capital	Equity-settled share based payment reserve	Retained earnings	Total equity
		$	$	$	$
Balance at 1 July 2017		**30,446,388**	**252,088**	**(10,874,812)**	**19,823,664**
Increase in share capital	**10,11**	209,750	(175,000)	-	34,750
Equity-settled share-based payments	**11**	-	(8,872)	-	(8,872)
Total comprehensive income/(loss) for the year		-	-	(10,434,494)	(10,434,494)
Balance at 30 June 2018		**30,656,138**	**68,216**	**(21,309,306)**	**9,415,048**
Balance at 1 July 2016		**19,184,099**	**126,666**	**344,958**	**19,655,723**
Increase in share capital	**10**	11,262,289	-	-	11,262,289
Equity-settled share-based payments	**11**	-	125,422	-	125,422
Total comprehensive income/(loss) for the year		-	-	(11,219,770)	(11,219,770)
Balance at 30 June 2017		**30,446,388**	**252,088**	**(10,874,812)**	**19,823,664**

The accompanying accounting policies and notes to the financial statements form an integral part of these financial statements.

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Powerhouse Ventures Limited
Statement of Financial Position
As at 30 June 2018

	Notes	2018 $	2017 $
ASSETS			
Cash and cash equivalents	12	1,052,690	1,320,416
Trade and other receivables and prepayments	13	395,486	969,686
Unsecured short-term loans receivable	14	-	1,004,253
Convertible notes in portfolio companies		437,263	302,000
Investments in portfolio companies	25, 26, 27	11,549,973	17,469,782
Property, plant and equipment		20,334	28,435
Intangible assets		-	12,802
Total assets		**13,455,746**	**21,107,374**
LIABILITIES			
Trade and other payables	15	1,787,882	790,457
Provisions	16	-	493,253
Convertible notes	17	2,252,816	-
Total liabilities		**4,040,698**	**1,283,710**
Net assets		**9,415,048**	**19,823,664**
EQUITY			
Share capital	10	30,656,138	30,446,388
Equity-settled share-based payments reserve	11	68,216	252,088
Retained earnings		(21,309,306)	(10,874,812)
Total equity		**9,415,048**	**19,823,664**

Russell Yardley, Chairman
For and on behalf of the Board
Date: 31 August 2018

John Hunter, Director
For and on behalf of the Board
Date: 31 August 2018

The accompanying accounting policies and notes to the financial statements form an integral part of these financial statements.

Powerhouse Ventures Limited
Statement of Cash Flows
For the year ended 30 June 2018

	Notes	2018 $	2017 $
Cash flows from operating activities			
Receipts from customers		1,106,229	1,797,457
Payments to suppliers and employees		(4,727,467)	(7,706,283)
Finance income		37,214	72,834
Income taxes paid		-	(22,329)
Interest paid		(84,886)	(145,430)
Net cash inflow/(outflow) from operating activities	18	**(3,668,910)**	**(6,003,751)**
Cash flows from investing activities			
Purchase of investments and convertible notes		(1,156,431)	(2,325,318)
Sale of investments		1,904,094	1,097,900
Recovery of/(Transfer to) restricted cash	12	180,036	(1,000,000)
Purchase of property plant and equipment		(4,496)	(28,592)
Proceeds from sale of property plant and equipment		2,250	-
Receipts from/(payments for) short term loans to investee companies		105,025	(1,865,000)
Net cash inflow/(outflow) from investing activities		**1,030,478**	**(4,121,010)**
Cash flows from financing activities			
Proceeds from issuance of shares		-	10,787,687
Proceeds from issuance of convertible notes		2,252,816	1,250,000
Equity issuance costs		-	(504,008)
Proceeds from borrowings		315,033	-
Repayments of borrowings		(197,143)	(553,679)
Net cash inflow/(outflow) from financing activities		**2,370,706**	**10,980,000**
Net increase/(decrease) in cash and cash equivalents		**(267,726)**	**855,239**
Cash and cash equivalents at the beginning of the year		1,320,416	465,177
Cash and cash equivalents at the end of the year	12	**1,052,690**	**1,320,416**

The accompanying accounting policies and notes to the financial statements form an integral part of these financial statements.

1 Summary of accounting policies

Statement of compliance

Powerhouse Ventures Limited (the 'Company') and its subsidiaries are profit-oriented companies incorporated and domiciled in New Zealand under the Companies Act 1993, except for its dormant subsidiary Powerhouse Ventures Australia Pty Limited which was incorporated in Australia under the Corporations Act 2001. The Company is an investment company whose targeted asset-class is research-backed intellectual property. The Company was formed in Christchurch in 2006 to commercialise scientific and technical innovation developed at New Zealand's universities and government-owned research institutes.

The Company is listed on the Australian Stock Exchange.

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable reporting standards as appropriate for profit-oriented entities. For the purpose of applying NZ GAAP the Company is a for-profit entity.

The financial statements comply with International Financial Reporting Standards ("IFRS").

Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for certain financial assets held at fair values as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2018 and the comparative information presented in these financial statements for the year ended 30 June 2017.

The financial statements are presented in New Zealand dollars, being the Company's functional and presentation currency, rounded to the nearest dollar.

Critical judgements in applying accounting policies

In preparing these financial statements, the Company has made estimates and assumptions concerning the future in order to determine certain balances at reporting date. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key estimates and assumptions in the preparation of these financial statements are the assessment of investment fair values (Notes 25-27), the investment entity designation (note 1 (a)), impairment of financial assets (Note 5), recognition of deferred tax assets and liabilities (note 8) and the going concern assumption (note 2).

Summary of significant accounting policies

The following specific accounting policies have been adopted in the preparation and presentation of the financial statements.

(a) Basis of consolidation

NZ IFRS 10 provides an exemption to investment entities from consolidating subsidiaries. The Company qualifies for this exemption as it:

- obtains funds from one or more investors for the purpose of providing those investors with investment management services;
- commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- measures and evaluates the performance of substantially all of its investments on a fair value basis.

In addition, there are four typical characteristics of an investment entity provided in NZ IFRS 10 being:

- it has more than one investment;
- it has more than one investor;
- it has investors that are not related parties of the entity; and
- it has ownership interests in the form of equity or similar interests.

The Directors have assessed that the Company meets these requirements. The Company has applied this NZ IFRS 10 investment entity exemption since 1 July 2014.

Under NZ IFRS 10, investments in subsidiaries are measured at fair value through profit or loss in accordance with NZ IAS 39, rather than being consolidated to form group accounts. As such, these separate financial statements are the Company's only financial statements.

Subsidiaries are those entities controlled directly or indirectly by the Company. Control is achieved where the Company has power over the entity, exposure to variable returns from its involvement in the entity and the ability to use its power to affect the amount of the returns.

In addition, a venture capital organisation may measure its investments in associated entities at fair value through profit or loss in accordance with NZ IAS 39, or by applying the equity method as per NZ IAS 28. The Company has elected to account for investments in associates at fair value through profit or loss. Associate entities are those over which the Company has significant influence, but does not have control.

References to "portfolio companies" in this report include all companies in which the Company has invested for the purpose of commercialising technology from universities and other research institutions.

(b) Revenue recognition

Government grant funding:

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions are likely to be met. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate. Revenue is otherwise deferred until the conditions of the grant have been met. Government grants that are receivable as compensation for expenses or losses already incurred, or for the purpose of giving immediate financial support to the Company with no future related costs, are recognised in profit or loss in the period in which they become receivable.

Revenue from services:

Revenue is measured at the fair value of the consideration received or receivable, net of goods and services tax. This is recognised as income when contractual terms have been met.

Interest income:

Revenue is recognised as interest accrues, using the effective interest method.

Dividend income:

Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably).

(c) Goods and service tax

With the exception of trade payables and receivables, all items are stated exclusive of goods and services tax.

(d) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

(e) Investments

The Company is an Investment Entity and accordingly values its financial assets comprising the investment portfolio at Fair Value.

The Company classifies financial assets using a fair value hierarchy that reflects the significance of the inputs used in making the related fair value measurements. The level in the fair value hierarchy, within which a financial asset is classified, is determined on the basis of the lowest level input that is significant to that asset's fair value measurement. The fair value hierarchy has the following levels:

Level 1 — Quoted prices in active markets.
Level 2 — Inputs other than quoted prices that are observable, such as prices from market transactions. These are mainly based on prices determined from recent investments in the last twelve months.
Level 3 — One or more inputs that are not based on observable market data.

The Company seeks to value its assets in a way that uses methods that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. Accordingly, the Company assesses fair value of unlisted securities using International Private Equity and Venture Capital Valuation Guidelines (IPEVCVG).

The valuation methodology used most commonly by the Company is the 'price of recent investment' or a 'milestone analysis' approach. Given the nature of the Company's investments in seed, start-up and early-stage companies, where there are often no current and no short-term future earnings or positive cash flows, it can be difficult to gauge the probability and financial impact of the success or failure of development or research activities and to make reliable cash flow forecasts. Consequently, the most appropriate approach to determine fair value is a methodology that is based on market data, that being the price of a recent investment. The Company considers that fair value estimates that are based entirely on observable market data will be of greater reliability than those based on assumptions and accordingly where there has been any recent investment by third parties, the price of that investment will generally provide a basis of the valuation. The Company considers the sophistication of such third party investment when assessing fair value.

Where the Company considers that the price of recent investment no longer represents fair value, the Company carries out an enhanced assessment based on milestone analysis and/or industry and sector analysis. In applying the milestone analysis approach to investments in companies in early or development stages the Company seeks to determine whether there is an indication of change in fair value based on a consideration of performance against any milestones that were set at the time of the original investment decision, as well as taking into consideration the key market drivers of the investee company and the overall economic environment. When considered appropriate due to the size of the change or inherent uncertainty, the Company may use external valuers to assess the reasonableness of any change in fair value estimated by management.

(e) Investments (continued)

Where a fair value assessment indicates a deterioration in fair value has occurred, the Company will reduce the carrying value of the asset. Where an enhanced assessment of fair value has occurred and there is evidence of an increase in fair value of an asset, the Company may consider increasing the carrying value of the investment: however, in the absence of additional third party funding rounds or profit generation it can be difficult to determine the value that a purchaser may place on positive developments and accordingly caution is applied.

The above fair value hierarchy translates into the following considerations when calculating the fair value of unquoted securities:

- Where the investment being valued was itself made recently, its cost will generally provide a good indication of fair value unless there is objective evidence that the investment has since been impaired, such as observable data suggesting a deterioration of the financial, technical, or commercial performance of the underlying business;
- Where there has been any recent investment by third parties, the price of that investment will provide a basis for the valuation depending on the sophistication of such investors;
- If there is no readily ascertainable value from following the 'price of recent investment' methodology, the Company considers alternative methodologies in the IPEVCVG guidelines being:
    - o where investments are sufficiently mature, discounted cash flows and price-earnings multiples are used by management requiring assumptions over the timing and nature of future earnings and cash flows when calculating fair value. Multiples applied to such analysis to determine the investment's enterprise value are derived from the appropriate market sector. Due to the inherent risk to businesses in early stages of operations and lack of marketability, a discount of up to 60% is applied against the derived enterprise value;
    - o where investments are not sufficiently mature and the investment exceeds the period for which it remains appropriate to use the price of recent investment (which depends on the specific circumstances of the investment and the stability of the external environment, but 12 months is a default assumption) then the Company considers whether any changes or events subsequent to the transaction would imply a change in the fair value of the investment may be required. Where the Company considers that there is an indication that the fair value has changed, an estimation is made of the required amount of any adjustment from the last price of recent investment. Factors which the Company considers include, inter alia, technical measures such as product development phases and patent approvals, financial measures such as cash burn rate and profitability expectations, and market and sales measures such as testing phases, product launches and market introduction;
- Where the equity structure of a portfolio company involves different class rights in a sale or liquidity event, the Company takes these different rights into account when forming a view of the value of its investment.
- Where a fair value cannot be estimated reliably, the investment is reported at the carrying value at the reporting date unless there is evidence that the investment has since been impaired.

(f) Financial instruments

Non-derivative financial instruments comprise investments in shares, cash and cash equivalents, loans and borrowings, trade and other receivables, trade and other payables and convertible notes.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

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(f) Financial instruments (continued)

Purchases and sales of financial assets are accounted for at trade date, being the date the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

The Company classifies its investments under the category 'financial assets at fair value through profit or loss - designated as such upon initial recognition'. Investments in subsidiaries are required to be held at fair value, as the company has applied the investment entity exemption under NZ IFRS 10. The Company has elected to measure investments in associates at fair value as per the provisions of NZ IAS 28 available to venture capital organisations.

Trade and other receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary assets. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with changes in the carrying amount of the allowance account being recognised within 'other expenses' in the statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

From time to time, the Company elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in the statement of comprehensive income (operating profit).

Trade and other payables

Trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

(g) Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's ordinary shares are classified as equity instruments. This includes the shares which have been issued to employees as part of their bonuses. Equity instruments are recognised at the proceeds received, net of direct issue costs.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Costs incurred to list existing shares on a publicly-traded stock exchange are not attributable to the issue of new shares and therefore are expensed through profit or loss.

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