Powerhouse Ventures Limited
NZ Company number: 1854396
ARBN 612 076 169
ASX security code: PVL
Date of release: 31 August 2018
Full Year Report (Appendix 4E)

1. Details of the reporting period and the previous corresponding period.

Reporting period	Year Ended	30 June 2018
Previous Corresponding period	Year Ended	30 June 2017

2. Results for announcement to the market.

NZ$'000	Change on previous period	NZ$'000
2.1 Revenue and fair value changes from ordinary activities	Down $4.2m to	(5,126)
2.2 Profit from Ordinary activities after tax	Up $0.8m to	(10,434)
2.3 Net profit (loss) for the period attributable to members	Up $0.8m to	(10,434)

2.4 It is not proposed to pay dividends.
2.5 Date for determining entitlements to the dividends - not applicable see 2.4 above.
2.6 A brief explanation of the figures in 2.1 to 2.4 For the profit commentary and any other significant information needed by an investor to make an informed assessment of Powerhouse's results please refer to the accompanying audited Financial Statements for the Year Ended 30 June 2018 and the accompanying Media release.
3. Income Statement - refer attached.
4. Balance Sheet - refer attached.
5. Statement of Cashflows - refer attached.
6. Statement of changes in equity - refer attached.
7. Details of individual dividends and payment dates - not applicable see 2.4 above.
8. Details of any dividend or distribution reinvestment plans in operation - not applicable see 2.4 above.

	Current period	Previous period
	NZ$	NZ$
9. Net tangible asset backing per ordinary security	0.32	0.68

10. Details of material entities over which control has been gained or lost - nil.

11.1 & 11.2 Details of associates and joint venture entities - refer attached, Note 25.

11.3 Profits and losses of associates are not consolidated into aggregate results as investee companies are measured at fair value through profit and loss in accordance with NZ IAS 39. This is described in detail in Note 1(a) and Note 1(e) of the attached Financial Statements.

12. Any other significant information - refer Media release attached.

13. 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 International Financial Reporting Standards (“IFRS”).

14. A commentary on the results for the period - refer Media release attached which includes discussion of the following:

14.1 The earnings per security and the nature of any dilution aspects.
14.2 Returns to shareholders including distributions and buy backs.
14.3 Significant features of operating performance.
14.4 The results of segments.
14.5 A discussion of trends in performance.
14.6 Any other factors.

15. This report is based on a financial report which has been audited.

16. The attached financial report includes an audit report that has not been qualified or modified and does not include an emphasis of matter.

17. Description of the modified opinion or emphasis of matter - not applicable.

Russell Yardley
Chairman
Date: 31 August 2018

For more information, please contact:

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About Powerhouse Ventures Limited

Powerhouse is a leading intellectual property commercialisation company which focuses on developing brilliant research from New Zealand and Australian universities into world changing businesses. It has developed a unique approach to develop these innovations and businesses by providing access to business building expertise, capital, networks, recruitment and ongoing business support. Powerhouse has a successful track record with an existing active portfolio of 23 early stage to mature businesses across four main sectors: clean-tech and engineering, medical and healthcare, agritech and environmental and digital and ICT.

Powerhouse Ventures Limited

Financial Statements

For the year ended 30 June 2018

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Financial Statements
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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
Date: 31 August 2018

Director
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.

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.

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.

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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.

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

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.

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(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.

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(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.

EY

(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.

(h) Employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in accrued expenses in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled on an undiscounted basis.

The Company recognises a liability and an expense for bonuses where it is contractually obliged to pay them, or where there is a past practice that has created a constructive obligation.

Obligations for contributions to defined contribution pension plans (including KiwiSaver) are recognised as an expense in profit or loss when they are due.

(i) Share-based payments

The Company engages in equity-settled share-based payment transactions in respect of services receivable from employees, by granting employees conditional awards of ordinary shares subject to certain vesting conditions.

Conditional awards of shares are made pursuant to the Company's Long-Term Incentive Plan ("LTIP") awards. The fair value of the shares is determined at grant date.

The fair value at the date of grant is recognised as an expense over the period that the employee provides services, generally the period between the start of the performance period and the vesting date of the shares. The corresponding credit is recognised in reserves within total equity. The fair value of services is calculated using the market value on the date of award and is adjusted for expected and actual levels of vesting. Where conditional awards of shares lapse the expense recognised to date is credited to the statement of comprehensive income in the year in which they lapse.

Where the terms for an equity-settled award are modified, and the modification increases the total fair value of the share-based payment, or is otherwise beneficial to the employee at the date of modification, the incremental fair value is amortised over the vesting period.

(j) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease. Lease incentives received are recognised in profit or loss over the lease term as an integral part of the total lease expense.

(k) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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(k) Taxation (continued)

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from 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.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(l) Property, plant and equipment and intangible assets

Items of property, plant and equipment and finite life intangible assets are measured at cost less accumulated depreciation/amortisation and accumulated impairment losses.

Assets are depreciated/amortised over their useful economic lives on the following basis:

Office equipment	1.5 years straight line
Website costs	2 years straight line
Furniture and fittings	3.3 years straight line
Computer equipment	2 years straight line

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

Intangible assets include trademarks carried at cost less accumulated impairment losses.

(m) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets with a finite useful life to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Recoverable amount is the higher of value in use and fair value less costs of disposal.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

(n) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(o) Statement of cash flows

The statement of cash flows is prepared exclusive of GST, which is consistent with the method used in the profit or loss.

Definitions of the terms used in the statement of cash flows are as follows:
• "Cash and cash equivalents" includes coins and notes, demand deposits and other highly liquid investments readily convertible into cash;
• "Operating activities" includes all transaction and other events that are not investing or financing activities;
• "Investing activities" are those activities relating to the acquisition and disposal of current and non-current investments and other similar activities; and
• "Financing activities" are those activities relating to changes in the equity and debt capital structure of the Company and those activities relating to the cost of servicing the Company's equity capital.

(p) Foreign Currency Translation

Functional and presentation currency

The financial statements of the Company and each of its subsidiary entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency") which is New Zealand.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the reporting date. Non- monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss.

(q) Segment reporting

The Company's operating segments are identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

EY

(r) Treasury stock

Treasury stock held consists of the following:

(i) shares which have been distributed to the Company as part of the restructuring undertaken in prior years. These shares were distributed to the Company to ensure that the Company received a return of the equivalent value in shares to the carried interest return it would have received if the counter-parties in the restructurings had received cash for the sale of their assets rather than shares. These distributed shares are held in trust for the benefit of certain employees who the Board of the Company may determine from time to time are entitled to a portion of such shares pursuant to the Company's remuneration policy. An expense is recorded for the fair value of the shares in the profit or loss in the period in which the shares are distributed.

(ii) shares held in trust for certain employees of the Company in anticipation of allocation under the employee Long Term Incentive Plan. An expense will be recorded for the fair value of the shares in the profit or loss in the period in which the shares are distributed.

(s) Standards and interpretations in issue not yet effective

A number of new standards and interpretations have been issued or amended but are not yet effective. None of these standards are expected to have a significant impact on the Company's financial statements except for the following:

IFRS 9 *Financial Instruments*. The final version of IFRS 9 *Financial Instruments* brings together the classification and measurement, impairment and hedge accounting phases of the International Accounting Standards Board's project. The standard has replaced IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of NZ IFRS 9 for reporting periods commencing on or after 1 January 2018. The standard will therefore be applied for the reporting period commencing 1 July 2018 for the Company. The Company has reviewed the standard and no significant impact will occur given that the majority of its financial assets are currently measured at fair value through profit or loss.

IFRS 15 *Revenue from Contracts with Customers*. The standard provides a single comprehensive standard on revenue recognition and replaces existing revenue recognition standards including IAS 18 *Revenue*. The standard is effective for reporting periods commencing on or after 1 January 2018 and will therefore be applied for the reporting period commencing 1 July 2018 for the Company. A comprehensive review has determined that the recognition of certain government grants will be impacted.

The Company receives grants from government to determine whether technology developed by universities and other research institutes is viable for commercialisation. Under IAS 18 the Company recognised these grants at the date the grant was received as this was determined to be a reasonable proxy for approval date. IFRS 15 requires that income is recognised over the performance period and therefore a change in accounting policy is required to ensure that such government grant income is recognised over the performance period, which is usually 180 days.

No adjustments will be required to the December 2018 interim or June 2019 financial statements comparatives as no material grants were received in those comparative periods.

IFRS 16 *Leases*. This standard prescribes the recognition, measurement, presentation and disclosure of leases. The standard is effective for reporting periods commencing on or after 1 January 2019 and will therefore be applied for the reporting period commencing 1 July 2019 for the Company. The standard requires all lessees to account for all leases in excess of one year, both operating and finance, under a single on-balance sheet model. Initial review has determined that this new standard will have some impact on the financial statements of the Company given the Company's use of operating leases but the profit impact is considered to be negligible.

(t) Adoption of new and revised standards and interpretations

No new standards, interpretations or amendments effective for the first time from 1 July 2017 have had a material effect on the Company's financial statements.

2 Going Concern

In considering the appropriateness of the going concern assumption used as the basis of preparation of these financial statements, the Directors have considered cashflow forecasts for 12 months from August 2018, which include the ongoing operational costs and revenues of the Company, the ongoing investment program and other cashflows.

As reported in the Statement of Cash Flows, the Company has experienced negative operating cashflows and these are forecast to continue. Furthermore, as described in Note 17, the Company is obligated to pay up to $2.2m of Convertible Notes on 31 March 2019 should those Notes remain unconverted by that date. As a listed company Powerhouse has the potential to raise capital at any time and at short notice. Cashflow contingency plans include the possibility of new capital being introduced which is consistent with the Company's operating model. Further funds are able to be generated from the disposal of off-model or other portfolio companies as recently demonstrated. Uncertainty exists in the timing and level of funding that investment disposals or potential new capital introductions will generate.

Cashflow forecasts are uncertain by their very nature but the Directors consider contingency plans in place are sufficient to enable the Company to meet its financial obligations and continue as a going concern. Therefore the Directors consider these financial statements are appropriately prepared on a going concern basis.

3 Revenue from services and other income

	2018 $	2017 $
Government grant funding	430,000	1,555,000
Revenue from services	372,095	851,010
Total Revenue from services and other income	**802,095**	**2,406,010**

Revenue from services in both the current and prior year are largely derived from incubation services provided to investee companies such as accounting, business support, directorships and transaction fees for capital raisings.

4 Net changes in fair value of investments at fair value through profit or loss

	2018 $	2017 $
Revaluation gains on investments at fair value through profit or loss	1,477,095	2,496,449
Revaluation losses on investments at fair value through profit or loss	(7,783,325)	(7,028,595)
Net gain/(loss) on investments at fair value through profit or loss	**(6,306,230)**	**(4,532,146)**

Revaluation gains in the current year include a realised $0.4m profit on the sale of ArcActive Limited.

Revaluation losses in the current year include $3.0m relating to the fall in market price of listed portfolio company Croplogic Limited. Revaluation losses in the prior year include $4.3m relating to Hydroworks Limited.

5 Impairment of financial assets classified as loans and receivables

	2018 $	2017 $
Provision for/(reversal of) impairment of short term loans to portfolio companies (Note 14)	685,296	2,620,697
Provision for/(reversal of) impairment of cash held as a guarantee (Note 12)	(180,036)	1,000,000
Provision for doubtful debts (Note 13)	93,192	177,603
Other	9,187	-
Total impairment of financial assets expense	**607,639**	**3,798,300**

The current year impairment charge includes $0.86m pertaining to Solar Bright (2017: $0.04m) and $0.27m pertaining to Hydroworks (2017: $3.40m).

6 Employee benefits expense

	2018 $	2017 $
Salaries	2,067,993	3,065,211
Share-based payments (Note 11)	(8,872)	125,422
Bonuses	123,279	124,651
Kiwisaver defined contribution plans	57,770	81,675
Directors' fees	189,529	203,289
Investment Committee fees	9,583	5,073
Total employee benefits expense	**2,439,282**	**3,605,321**

Bonuses in the current and previous financial years represent cash awards to employees. Refer to note 11 for further details on share-based payments.

EY

7 Other Expenses

Other expenses in the Statement of Comprehensive Income include the following:

	2018	2017
	$	$
Accounting, assurance and tax advisory	128,930	175,248
Insurance	227,046	96,316
Office costs and rent	404,484	361,380
Impairment of intangible assets	-	151,380
Broker research costs	-	318,924
Provision expense/(release)	(208,253)	493,253
Miscellaneous expenses	139,939	182,516
Total Other Expenses	**692,146**	**1,779,017**

8 Income taxes

(a) Tax expense recognised in the statement of comprehensive income

	2018	2017
	$	$
Tax expense/(credit) comprises:		
Current tax expense/(credit):		
Current year	-	-
Adjustment for prior years	-	-
Total current tax expense/(credit)	-	-
Deferred tax expense/(credit):		
(Increase)/decrease in deferred tax assets (Note 8(c))	-	212,217
Increase/(decrease) in deferred tax liabilities (Note 8(d))	-	(1,570,562)
Origination and reversal of temporary differences	-	-
Adjustment for prior years	-	-
Total deferred tax expense/(credit)	-	(1,358,345)
Total tax expense/(credit)	**-**	**(1,358,345)**

The prima facie tax expense on pre-tax accounting profit from operations reconciles to the tax expense in the financial statements as follows:

	2018	2017
	$	$
Profit/(loss) before tax expense	(10,434,494)	(12,578,115)
Expected tax charge using tax rate applicable for the year (28%)	**(2,921,658)**	**(3,521,872)**
(Non-assessable income)/non-deductible expenses	2,281,739	3,117,080
Unrecognised current year tax losses	639,919	404,792
Reversal of prior year deferred tax movements (see below note 8(d))	-	(1,358,345)
Total tax expense/(credit)	**-**	**(1,358,345)**

(b) Current tax assets and liabilities

	2018	2017
	$	$
Current tax assets:		
Current tax refundable	-	-
Current tax liabilities:		
Current tax payable	-	-

EY

8 Income taxes (continued)

(c) Deferred tax assets

Deferred tax assets comprise temporary differences attributable to:	2018 $	2017 $
Employee benefits	-	-
Deferred tax assets	-	-

Movements in the deferred tax asset account:	2018 $	2017 $
Opening balance	-	212,217
(Charged)/credited to profit or loss	-	(212,217)
Closing balance	-	-

The Company has unused tax losses and credits amounting to $4,578,757 (2017: $2,293,332) for which no deferred tax asset has been recognised in the statement of financial position. Deferred tax assets for losses or for other temporary differences have not been recognised as it is not considered probable that there will be sufficient taxable profits against which to utilise the benefits of the losses and temporary differences in the foreseeable future.

(d) Deferred tax liabilities

Deferred tax liabilities comprise temporary differences attributable to:	2018 $	2017 $
Net value of investments at fair value through profit or loss	-	-
Deferred tax liabilities	-	-

Movements in the deferred tax liability account	2018 $	2017 $
Opening balance	-	1,570,562
Charged/(credited) to profit or loss	-	(1,570,562)
Closing balance	-	-

(e) Imputation credits

	2018 $	2017 $
Imputation credits available for use	-	-

9 Earnings per share calculation

Basic earnings per share (refer to Statement of Comprehensive Income and note 10)

	2018	2017
Basic earnings/(loss) per share (cents)	(36)	(43)
Earnings used in the calculation of total basic earnings per share	($10,434,494)	$(11,219,770)
Weighted average number of ordinary shares for the purposes of basic earnings per share	28,986,363	25,958,843

Diluted earnings per share (refer to Statement of Comprehensive Income and note 10)

	2018	2017
Diluted earnings/(loss) per share (cents)	(36)	(43)
Earnings used in the calculation of total diluted earnings per share	($10,364,931)	$(11,219,770)
Weighted average number of ordinary shares for the purposes of diluted earnings per share	43,244,804	26,477,122

Diluted earnings per share inputs are affected by the outstanding convertible notes issued (refer note 17) and related interest payments.

10 Share capital

At 30 June 2018, share capital comprised 28,986,363 authorised and issued ordinary shares (2017: 28,986,363). All issued shares are fully paid and have no par value.

Share capital comprises:	**2018**	**2017**
	$	**$**
Authorised, issued and fully paid in capital	32,803,403	32,935,635
Treasury stock	(631,548)	(973,530)
Issuance costs	(1,515,717)	(1,515,717)
Total share capital	**30,656,138**	**30,446,388**

Movements in share capital

	2018	**2017**
	$	**$**
Opening balance	30,446,388	19,184,099
Shares issued during the period for cash	-	12,037,687
Issuance costs incurred	-	(775,398)
Treasury stock movement	341,982	-
Other movements	(132,232)	-
Closing balance	**30,656,138**	**30,446,388**

Treasury stock and other movements relate to the transfer of shares from treasury stock to certain employees who were granted shares as a result of achieving KPIs in relation to the IPO Retention Scheme, and also to the transfer of shares from treasury stock to directors in lieu of director fees payable for the period 1 January 2018 to 31 March 2018.

Subsequent to balance date a further 164,848 shares at a total value of $197,818 were transferred from treasury stock to directors in lieu of director fees payable for the period 1 April 2018 to 30 June 2018..

Number of ordinary shares authorised, issued and fully paid

	2018	**2017**
	shares	**shares**
Opening balance	28,986,363	17,824,296
Shares issued during the period for cash	-	10,747,765
Shares issued during the period in respect of non-cash transactions	-	414,302
Closing balance	**28,986,363**	**28,986,363**

10 Share capital (continued)

Treasury stock

In the current and prior year the Company dealt in treasury shares as detailed below:

	2018		2017	
	Number of shares	Value of shares ($)	Number of shares	Value of shares ($)
Opening balance	811,275	973,530	811,275	973,530
Distributed to Executives as ESOP	(153,508)	(184,210)	-	-
Distributed to directors for director fees	(131,477)	(157,772)	-	-
Closing balance	**526,290**	**631,548**	**811,275**	**973,530**

Components of treasury stock as at reporting date:

	2018		2017	
	Number of shares	Value of shares ($)	Number of shares	Value of shares ($)
Acquired for the employee ESOP	407,642	489,170	561,150	673,380
Balance of shares acquired during restructuring	118,648	142,378	250,125	300,150
	526,290	**631,548**	**811,275**	**973,530**

The Company acquired treasury stock in 2015 as part of the restructuring undertaken in that year and to meet the estimated future obligations under the long-term incentive plan for employees. The fair value of the shares acquired and distributed above is $1.20 per share.

During the year to 30 June 2018, shares were distributed to Executives under the IPO Retention ESOP Scheme. See note 10 below for further details. Shares were also distributed to directors for director fees payable for the period January to March 2018.

Shares distributed into trust for employees are held by Powerhouse Ventures Managers Limited as custodian.

The Company owns 118,430 shares directly with the balance of 407,860 shares held in trust for the Company by Powerhouse Ventures Managers Limited.

11 Share-based payments

As at 30 June 2017, the Company operated two equity-settled incentive schemes for senior executives. Details of how the schemes operated during the year to 30 June 2018 are set out below:

(i) Executive Performance Rights Scheme

During 2016, Powerhouse implemented a long-term equity settled incentive plan for certain senior executives.

This plan was cancelled during the year ended 30 June 2018 in favour of a new long-term incentive scheme, details of which are set out in item (iii) below. All performance rights outstanding under the old scheme were cancelled.

(ii) Executive IPO Retention Scheme

During 2016, the Company implemented an equity-settled incentive plan for certain senior Executives in respect of the planned IPO.

Under the plan, Executives were granted Performance Rights, which were subject to a nine month vesting period, and a number of Performance Conditions. These rights enabled participating Executives to acquire Powerhouse shares upon vesting at a price of $nil.

During the year to 30 June 2018, all Performance Rights outstanding as at 30 June 2017 vested and shares were issued to eligible Executives.

11 Share-based payments (continued)

Reconciliation of performance rights for Executive IPO Retention Scheme

	2018 number	2017 number
Opening balance	153,508	-
Granted during the reporting period	-	175,438
Cancelled due to non-performance of vesting conditions	-	(21,930)
Vested as a result of KPI achievement	(153,508)	-
Closing balance	**-**	**153,508**

(iii) Staff Performance Rights Scheme

During 2017 the Company implemented a long-term equity-settled incentive plan for all employees including senior executives.

Under the plan, employees are granted Performance Rights, which are subject to a three year vesting period and a number of Performance Conditions. These rights enable participating employees to acquire Powerhouse shares upon vesting at a price of $nil. The Directors have considered the terms of the share-based payment agreement and consider the performance rights are granted in annual instalments allocated evenly to each financial year the overall arrangement covers.

The fair value of the outstanding Performance Rights is yet to be determined as aspects of the agreement are yet to be finalised.

Reconciliation of performance rights for Staff Performance Rights Scheme

	2018 number	2017 number
Opening balance	-	-
Granted during the reporting period	4,003,629	-
Cancelled due to non-performance of vesting conditions	(238,938)	-
Closing balance	**3,764,691**	**-**

(iv) Executive Retention Scheme

During 2017 the Company implemented a long-term equity-settled incentive plan for senior Executives.

Under the plan, Executives are granted Performance rights, which are subject to a 22 month vesting period, and a number of Performance Conditions. These rights enable participating Executives to acquire Powerhouse shares upon vesting at a price of $nil.

Reconciliation of performance rights for Executive Retention Performance Rights Scheme

	2018 number	2017 number
Opening balance	-	-
Granted during the reporting period	1,400,000	-
Closing balance	**1,400,000**	**-**

Share-based payments, measurement and recognition

The fair value of equity settled Performance Rights at the grant date is recognised as an expense, together with a corresponding increase to the Performance Rights reserve within equity, over the vesting period in which the performance and/or service conditions are fulfilled. The total amount to be expensed is based on the initial fair value of each Performance Right along with the best estimate of the number of equity instruments that will ultimately vest which includes an assessment of the likelihood that service conditions will be met.

Total expenses arising from share-based payment transactions were recognised during the period as part of employee benefit expense.

Equity-settled share-based payment reserve

	2018 $	2017 $
Opening balance	252,088	126,666
Expense for equity settled share based payment transactions	68,216	125,422
Reversal for cancellation of Exec ESOP (see 11(i) above)	(77,088)	-
Transfer to share capital for IPO Retention Scheme achievement	(175,000)	-
Closing balance	**68,216**	**252,088**

12 Cash and cash equivalents

	2018	2017
	$	$
Cash at bank available on demand	1,052,690	1,320,416
Restricted cash	-	1,000,000
Financial guarantee	-	(1,000,000)
Total cash and cash equivalents	**1,052,690**	**1,320,416**

$820k of restricted cash as at 30 June 2017 was claimed by the bankers of Hydroworks. The remaining $180k was returned to funds available for use by Powerhouse. A corresponding reversal of $180k of the $1m provision was recorded in the statement of comprehensive income.

13 Trade and other receivables and prepayments

	2018	2017
	$	$
Trade debtors	523,407	621,272
Provision for doubtful debts	(270,795)	(177,603)
Prepayments	142,874	122,000
Accrued income	-	315,000
GST receivable	-	89,017
Total trade and other receivables and prepayments	**395,486**	**969,686**

The provision for doubtful debts is based on estimated non-recoverable amounts determined by reference to customer circumstances and past default experience. In the current year, the Company has recognised an expense of $93,192 in respect of bad and doubtful debts (2017: $177,603).

Ageing of impaired trade and other receivables

	2018	2017
	$	$
Current	-	15,972
30-60 days	-	57,516
60-90 days	-	32,597
90 days +	270,795	71,518
Total	**270,795**	**177,603**

Trade and other receivables which are past due and not impaired are as follows:

	2018	2017
	$	$
30-60 days	10,844	56,680
60-90 days	6,888	28,348
90 days +	80,622	191,929
Total	**98,354**	**276,957**

14 Short-term loans receivable

These short term loans are unsecured and are normally of a duration of four to six weeks. Interest is normally charged on these receivables at rates of 10-15% p.a. In some circumstances interest is charged at a rate of 4% per month. An additional rate of 10% per annum, or in some cases 10% per month, is applied to loans that are in default. Short-term loans are provided to assist investee companies with immediate cash flow needs. These loans have been issued to the following entities:

	2018	2017
	$	$
Croplogic Limited	-	102,564
Hydroworks Limited	-	2,256,460
Koti Technologies Limited	-	57,700
Motim Technologies Limited	-	364,237
Solar Bright Limited	803,865	739,958
Veritide Limited	-	104,031
	803,865	3,624,950
Less provision for impairment	(803,865)	(2,620,697)
Total short term loan receivable	**-**	**1,004,253**

All short term loans as at 30 June 2017 were either repaid, converted to Convertible Notes or equity in portfolio companies, or fully impaired.

EY

15 Trade and other payables

	2018	2017
	$	$
Trade payables	945,170	230,376
Employee entitlements	110,899	335,840
Other accruals	423,055	207,170
Short term loans	134,961	17,071
Other short-term creditors	150,000	-
GST payable	23,797	-
Total trade and other payables	**1,787,882**	**790,457**

16 Provisions

	2018	2017
	$	$
Provisions	-	493,253
Total provisions	**-**	**493,253**

As at 30 June 2017 a provision was made for a potential claim arising through one of the Company's portfolio investments relating to monies owed under short term loans. The provision was partly reversed during the reporting period following resolution of the matter with the final liability transferred to trade and other payables.

17 Convertible Notes

The Company issued 9,093,750 Convertible Notes during the year to 30 June 2018 resulting in cash proceeds of NZ$2,252,816.

Date of issue	Price per note (A$)	Number of Notes	Total A$ value	Total NZ$ value
Dec-17	0.32	2,343,750	750,000	818,118
May-18	0.20	2,000,000	400,000	420,190
Jun-18	0.20	4,750,000	950,000	1,014,508
		9,093,750	2,100,000	**2,252,816**

Subsequent to the reporting date, all convertible notes issued in December 2017 have been re-issued at a strike price of A$0.20 per note, increasing the total number of convertible notes issued at the date of this report to 10,500,000. All Convertible Notes accrue a coupon rate of 12% per annum and may convert into ordinary shares at a ratio of 1:1 at the earlier of 31 March 2019 and note holder election. If unconverted, the notes are repayable on 31 March 2019.

18 Reconciliation of profit/(loss) after taxation to net cash inflows/(outflows) from operating activities

	2018	2017
	$	$
Profit/(loss) for the year	(10,434,494)	(11,219,770)
(Less)/plus non cash items		
Depreciation	10,347	12,372
Amortisation	12,802	21,849
Net changes in fair value of investments at fair value through profit or loss	6,306,230	4,532,146
Expense converted to investments	(167,732)	(12,000)
Deferred tax movement	-	(1,358,345)
Trademark impairment	-	151,380
Share-based payment expense/(credit)	(8,871)	125,422
Unpaid interest receivable	(358,625)	(1,145,542)
Director fees paid in shares	72,550	-
Impairment of financial assets	575,261	3,620,697
Provisions	(343,253)	493,253
(Less)/plus changes in working capital		
Decrease/(increase) in trade and other receivables	(14,371)	58,432
Decrease/(increase) in accrued income	245,000	(288,750)
Decrease/(increase) in current tax receivable	-	22,329
(Decrease)/increase in trade and other payables	436,246	(1,017,224)
Net cash inflow/(outflow) from operating activities	**(3,668,910)**	**(6,003,751)**

19 Remuneration of Auditors

	2018	2017
	$	$
Audit of the financial statements	55,000	59,000
Review of interim financial statements	39,000	29,400
Other assurance services	-	20,000
Total remuneration paid to auditors	**94,000**	**108,400**

20 Segment Information

Reportable segments

Under NZ IFRS 8, as at 30 June 2018, the Company operates in one geographical segment, New Zealand. This segment is reported on internally for the chief operating decision maker. Material operations in Australia had not commenced as at 30 June 2018. The Company has one operating segment: investment in and incubation of start-up companies using IP developed in tertiary institutions.

21 Related party transactions

(a) Subsidiaries

The results of portfolio companies, including subsidiaries and associates, have not been consolidated due to the Company's Investment Entity exemption. Refer to accounting policies for further details.

As at the reporting date the Company owned over 50% of ordinary share capital in a number of portfolio companies. All such companies have independent Boards and as such all transactions conducted with these companies are considered to be at arm's length.

Transactions with portfolio companies include accounting services, business advisory services and capital raising management services.

EY

21 Related party transactions (continued)

(b) Other related parties

The Company had transactions with the following entities, who were shareholders of the Company during the reporting period (other than Directors):
- CRIS Limited and its parent Canterbury Development Corporation
- University of Canterbury

(c) Transactions with related parties:

For the year ended 30 June 2018

Name	Revenues	Expenses	Trade and other receivables	Trade and other payables
	$	$	$	$
Subsidiary and associate portfolio companies	362,023	20,000	188,220	-
University of Canterbury	-	21,000	-	-

For the year ended 30 June 2017

Name	Revenues	Expenses	Trade and other receivables	Trade and other payables
	$	$	$	$
Subsidiary and associate portfolio companies	772,787	70,000	246,140	-
Canterbury Development Corporation	180,000	-	51,750	-
University of Canterbury	-	36,000	-	9,000

At balance date, $102k (2017: $178k) of related party receivables had been provided for in full and are not included in the figures in the table above.

(d) Key management personnel compensation

The key management personnel of the Company consists of the executive management team.

	2018	2017
	$	$
Short-term employee benefits	961,768	892,708
Equity-settled share-based payments	(8,870)	125,422
Total key management personnel compensation	**952,898**	**1,018,130**

(e) Convertible Notes

250,000 Convertible Notes were issued to Mr Paul Viney, the Company's CEO, with a face value of A$50,000 during the reporting period. 500,000 Convertible Notes were also issued to Mr Russell Yardley, the Company's Board Chair, with a face value of A$100,000 during the reporting period.

EY

22 Commitments

Investments

The Company was committed to investing a total of $563,500 into new and existing investee companies as at 30 June 2018 (2017: $330,300) as a result of contractual agreements with the following companies:

	2018	2017
	$	$
2.2 GForce Limited	100,000	25,000
Avalia Immunotherapies Limited	-	80,000
Cirrus Materials Science Limited	-	37,500
Deliveon Health Limited	137,500	-
Ferronova Pty Limited	-	137,800
Hapai Transfer Systems Limited	100,000	-
Hot Lime Labs Limited	80,000	-
Inhibit Coatings Limited	50,000	50,000
Orbis Diagnostics Limited	16,000	-
Silventum Limited	80,000	-
	563,500	**330,300**

The cashflows associated with the above commitments are uncertain in timing and are dependent on the above named companies achieving certain milestones. Should agreed-upon milestones not be met, the Company is not obligated to invest.

Operating lease commitments

The operating lease commitments relate to certain property lease agreements and IT equipment leases, with lease terms of between one to three years with options to extend for a further one to two years.

Non-cancellable operating lease payments

	2018	2017
	$	$
Less than one year	134,321	136,144
Between one and five years	144,208	175,255
More than five years	-	-
Total non-cancellable operating lease payments	**278,529**	**311,399**

23 Contingencies

Contingent assets

There were no contingent assets as at 30 June 2018 (2017: nil).

Contingent liabilities

There were no contingent liabilities as at 30 June 2018 (2017: nil).

24 Subsequent Events

As described in recent announcements to the ASX, the Company has proceeded with the sale of a portion of its portfolio company Invert Robotics Limited. As at the date of this report the company has received $0.9m cash proceeds for 53,563 shares reducing its shareholding in Invert to 16.0%.

The Board is continuing to restructure the Company in order to optimise the Company's performance. The terms and conditions within each Employment Contract will determine the short term costs associated with such activity, noting the long term gains arising.

25 Investments in portfolio subsidiaries and associates held at fair value through profit or loss

Name of subsidiary or associate	Ownership interest	Valuation methodology applied	Nature of operations
2.2 GForce Limited	100.0%	Price of recent investment	Delivers certified preventative, predictive and aftershock enduring solutions.
Motim Technologies Limited	74.7%	Price of recent investment	Delivers innovative mobile marketing capability through interactive cell phone applications.
Koti Technologies Limited	65.0%	Price of recent investment	Uses ceramic thin-film coating technology to coat complex shapes and surfaces.
Deliveon Health Limited	58.3%	Price of recent investment	Develops personalised nutritional solutions based on high quality nutritional science and technology.
Silventum Limited	41.2%	Price of recent investment	Novel nanochemistry technology conferring dental filling materials with resistance to bacterial infection.
CertusBio Limited	30.9%	Price of recent investment	Development of biosensor solutions for dairy and other industries.
Tiro Medical Limited	30.1%	Price of recent investment	Develops physiological modelling systems using digital sensor technologies.
Photonic Innovations Limited	29.9%	Price of recent investment	Develops a laser spectroscopy-based gas detection system to identify gas leaks.
Hi-Aspect Limited	29.5%	Price of recent investment	Develops protein-based materials and products for the medical and lifesciences markets.
Ferronova Pty Limited	27.2%	Price of recent investment	Develops a medical device that helps in easier detection of cancers using magnetic tracers.
Hapai Transfer Systems Limited	25.0%	Price of recent investment	Developed a range of low force lift and transfer devices to improve the mobility of frail patients.
Veritide Limited	22.6%	Price of recent investment	Uses optical fluorescent techniques for detection and identification of hazardous organisms.
Inhibit Coatings Limited	21.3%	Price of recent investment	Uses nanotechnology for environmentally friendly marine antifouling and antimicrobial coatings.
EdPotential Limited	20.7%	Price of recent investment	Provides software for schools to inquire into assessment data and improve achievement.
Fluent Scientific Limited	20.1%	Price of recent investment	Uses facial and verbal micro-expression analysis to enhance verbal and visual communication.
Invert Robotics Limited	20.0%	Price of recent investment	Designs and manufactures mobile robotic systems and delivers inspection services.

Fair value has been determined by reference to price of recent investment adjusted for impairment or qualitative factors that indicate price of recent investment is not suitable. For example, fair value has been adjusted for impairment due to lack of milestone achievement or where recent investment does not include sufficient third party validation.

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25 Investments in subsidiaries and associates (continued)

All subsidiaries or associates listed above have their principal place of business in New Zealand except for Ferronova Pty Limited which is based in Australia.

The above portfolio subsidiaries are held as part of the Company's investment portfolio. They are measured at fair value using IPEV principles outlined in the accounting policies in note 1 (e). See note 27 (h) below for further information on how fair value has been determined.

The Company is required to apply the investment entity exception to consolidation under NZ IFRS 10 to account for its subsidiary investments at fair value through profit or loss because the parent entity is an investment entity as defined in that standard.

The Company has elected to hold investments in associates at fair value through profit or loss in accordance with the provisions made available under NZ IAS 28. The ownership percentages represent the equity interest in the entities at the measurement date.

26 Investments in other entities held at fair value through profit or loss

Name of other entity	Ownership interest	Valuation methodology applied	Nature of operations
Auramer Bio Limited	18.2%	Price of recent investment	Provides novel chemical sensing technologies for small molecule and protein detection.
Objective Acuity Limited	15.8%	Price of recent investment	Developed a vision testing system to accurately and reliably detect visual function.
CropLogic Limited	14.9%	Mark to market	Provider of yield-predicting decision-support software for the agriculture sector.
Upstream Medical Technologies Limited	13.4%	Price of recent investment	Front line biomarker testing for heart disease and associated clinical complications.
Avalia Immunotherapies Limited	13.2%	Price of recent investment	Develops vaccine and adjuvant technologies for the treatment of cancer, allergy and disease.
Modlar Limited	9.9%	Price of recent investment	Creator and distributor of Building Information Models (BIM) for use by architects and designers.
Cirrus Materials Science Limited	8.7%	Price of recent investment	Develops and licenses chemistry technologies and IP for novel coatings and surface finishing solutions.
MARS Bioimaging Limited	8.4%	Price of recent investment	Provides in-vivo colour x-ray imaging to drug research companies.
Hot Lime Labs	5.8%	Price of recent investment	Developing CO2 capture systems for biomass boilers in order to supply commercial greenhouse growers with low-cost, renewable CO2.
Orbis Diagnostics Limited	3.9%	Price of recent investment	Developing in-line milking measurement for protein, fat, somatic cell and progesterone.

All investments in other entities carry on their business in New Zealand only.

27 Financial Instruments

(a) Financial risk management objectives

The Company has approved detailed capital and liquidity management policies. In accordance with the policies, when capital and liquidity balances dictate, the orderly and efficient management of working capital, cash and near cash assets will enable the Company to:

- meet its own operating expenses;
- invest in existing portfolio companies and new investment opportunities as they arise and are recommended for approval;
- avoid forced asset sale situations;
- avoid stressed negotiations for debt limits and pricing;
- take full advantage of favourable market conditions for equity capital raising; and
- avoid the need to raise capital under subdued market conditions.

The Company's working capital management includes equity capital management, as this is the primary means for funding the Company's operations during the investment cycle of balance sheet utilisation. The Company has altered its business model to include the recycling of capital from liquidity events.

As the Company is unlikely to be able to fund its operations to a significant degree through borrowings, access to recycled capital from liquidity events and strict operational cost control are central to the Company's capital and liquidity management policy. The Company has adopted an integrated planning capability to ensure that the routine finance tasks come together to establish a strategic view. This integrated approach to capital and liquidity management includes processes that seek to address:

- alignment of strategy and risk (understand risk versus returns);
- considered and strategic allocation of capital;
- increased stakeholder confidence;
- management and board collaboration;
- strategic analysis of new opportunities;
- alignment of management actions and rewards; and
- timely reporting.

The Company has set the following balance sheet composition limits which are designed to maximise the financial returns whilst preserving investment flexibility and the ability to meet business critical objectives. The limits apply where cash balances exceed those required to prudently meet the ongoing operations of the business. The limits are as follows:

Asset pool type	Financial asset type	Percentage holding
A1	Cash	At least 30%
A2	Term deposits <= 180 days	At least 30% until financial assets fall to below $5 million
B1	Term deposits > 180 days	Maximum of 20% but reducing to nil when financial assets fall to below $5 million
B2	Investments in other long-dated bank investment products	Maximum of 20% but reducing to nil when financial assets fall to below $5 million

The Company also ensures that particular care is taken to ensure that any B1 or B2 instruments purchased will be able to be held-to-maturity, so as to avoid tainting of held-to-maturity portfolios. Discrete pools of B1 and B2 assets are created to be designated as trading assets (available for sale). These assets are liquidated prior to any held-to-maturity assets with the aim of preserving the accounting integrity of the held-to-maturity portfolios (and thereby enabling their continuing carrying values and isolation from fair value accounting). The financial instruments designated as available for sale comprise 50% of the B1 and B2 financial asset portfolio.

The Company ensures that whenever possible (whilst preserving scale efficiencies), staggered maturity/roll-over dates are employed within the liquid asset portfolio.

To minimise counterparty risk, where practicable, no more than 50% of any category of the liquid asset pool can be invested with any one institution.

27 Financial Instruments (continued)

(b) Market Liquidity Risk

Market liquidity risk is the risk that insufficient liquidity in the market for a security will limit the ability of the security to be sold, resulting in the Company suffering a financial loss. The Company is subject to market liquidity risk if investments are made in relatively illiquid securities. This exposure to market liquidity risk is an unavoidable feature of the Company's operating model. The objective of the Company's market liquidity risk management is to ensure that other assets can be readily liquidated without incurring excessive cost, to enable asset allocation decisions to be implemented or to meet cash flow requirements.

(c) Interest rate risk

Interest rate risk is the risk that the Company could suffer either a capital loss or additional exposure to liquidity risk through adverse movements in interest rates. The objective of the Company's interest rate risk management is to ensure that the Company is not exposed to a level of interest rate risk, outside those limits anticipated through the structured approach envisaged within the Company's risk management policy. The Company manages interest rate risk by ensuring tactical asset allocation which provides for the effective management of interest rate and associated liquidity risk. The approach to managing the investment of funds ensures that there is adequate matching of the duration of assets with the likely cash needs of the business. The Company monitors the effect upon yield and liquidity of probable movements in interest rates and manages its liquid asset holdings accordingly.

(d) Equity price risk

Equity price risk is the risk that the Company's investments in equities are exposed to movements that are not correlated to the general or targeted market. The objective of equity price risk management is to achieve a return equal to or better than the set performance benchmarks for that asset class. The Company manages equity price risk by monitoring and through management of its investments. This risk is limited to the investment portfolio.

Ratings

All B1 and B2 investments must have a S&P (or equivalent) credit rating of A or higher.

Any A1 or A2 investments must be with institutions that have a short term S&P (or equivalent) credit rating of A-2 or higher.

(e) Foreign currency risk management

The Company undertakes certain transactions denominated in Australian dollars, and as such has exposure to exchange rate fluctuations. The Company does not use any derivative financial instruments to manage this foreign currency risk due to the minimal and short-term nature of this exposure.

(f) Credit risk

Credit risk is the risk that a counter party will default on its contractual obligations, resulting in financial loss to the Company. The Company only deals with credit worthy counter-parties and as such does not require collateral to be held. The carrying value of the financial assets recorded in the financial statements, net of any provisions for losses, represents the Company's maximum exposure to credit risk. The Company does not have any significant exposure to any single counter party.

27 Financial Instruments (continued)

(g) Liquidity risk

The following table sets out the contractual, undiscounted cash flows for non-derivative financial assets and liabilities.

	On Demand	Not later than one month	Later than one month and not later than three months	Later than three months and not later than one year	Later than one year	Total
	$	$	$	$	$	$
As at 30 June 2018						
Financial assets						
Cash and cash equivalents	1,052,690	-	-	-	-	1,052,690
Trade and other receivables	-	192,752	59,860	-	-	252,612
Convertible notes in portfolio companies	-	-	-	-	437,263	437,263
Investments	-	-	-	-	11,549,973	11,549,973
Total financial assets	**1,052,690**	**192,752**	**59,860**	-	**11,987,236**	**13,292,538**
Financial liabilities						
Trade and other payables	-	1,003,968	463,054	320,860	-	1,787,882
Convertible notes	-	-	-	2,252,816	-	2,252,816
Total financial liabilities	-	**1,003,968**	**463,054**	**2,573,676**	-	**4,040,698**

	On Demand	Not later than one month	Later than one month and not later than three months	Later than three months and not later than one year	Later than one year	Total
	$	$	$	$	$	$
As at 30 June 2017						
Financial assets						
Cash and cash equivalents	1,320,416	-	-	-	-	1,320,416
Trade and other receivables	-	551,588	296,098	-	-	847,686
Short-term loans receivable	-	-	1,004,253	-	-	1,004,253
Convertible notes in portfolio companies	-	-	-	-	302,000	302,000
Investments	-	-	-	-	17,469,782	17,469,782
Total financial assets	**1,320,416**	**551,588**	**1,300,351**	-	**17,771,782**	**20,944,137**
Financial liabilities						
Trade and other payables	-	230,376	224,241	335,840	-	790,457
Total financial liabilities	-	**230,376**	**224,241**	**335,840**	-	**790,457**

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27 Financial Instruments (continued)

(h) Classification of financial assets and liabilities

	Loans and receivables	Amortised cost	Fair value through profit or loss	Total
	$	$	$	$
As at 30 June 2018				
Financial assets				
Cash and cash equivalents	1,052,690	-	-	1,052,690
Trade and other receivables	252,612	-	-	252,612
Convertible notes in portfolio companies	437,263	-	-	437,263
Investments	-	-	11,549,973	11,549,973
Total financial assets	**1,742,565**	**-**	**11,549,973**	**13,292,538**
Financial liabilities				
Trade and other payables	-	1,787,882	-	1,787,882
Convertible notes	-	2,252,816	-	2,252,816
Total financial liabilities	**-**	**4,040,698**	**-**	**4,040,698**
As at 30 June 2017				
Financial assets				
Cash and cash equivalents	1,320,416	-	-	1,320,416
Trade and other receivables	847,686	-	-	847,686
Short-term loans receivable	1,004,253	-	-	1,004,253
Convertible notes in portfolio companies	302,000	-	-	302,000
Investments	-	-	17,469,782	17,469,782
Total financial assets	**3,474,355**	**-**	**17,469,782**	**20,944,137**
Financial liabilities				
Trade and other payables	-	790,457	-	790,457
Total financial liabilities	**-**	**790,457**	**-**	**790,457**

The fair value of cash and cash equivalents, trade and other receivables, short-term loan receivables, trade and other payables and convertible notes have been determined to be their carrying value. This is due to these items being short term in nature.

Fair value of investments held at fair value through profit or loss

NZ IFRS 13 provides for a three-level fair value hierarchy that requires inputs to valuation techniques used to measure fair value, to be categorised as follows:

- Level 1 Inputs - quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 Inputs - either directly (i.e. as prices) or indirectly (i.e. derived from prices) observable inputs other than quoted prices included in Level 1.
- Level 3 Inputs - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table analyses, within the fair value hierarchy, the Company's financial assets measured at fair value:

As at 30 June 2018

Financial assets designated at fair value through profit or loss

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Available for sale investments	-	-	-	-
Held-to-maturity investments	-	-	-	-
Investments at fair value through profit or loss valued as at last capital raise or liquidity event	-	-	10,928,677	10,928,677
Investments at fair value through profit or loss valued using observable quoted prices	621,296	-	-	621,296
Total financial assets measured at fair value through profit or loss	**621,296**	**-**	**10,928,677**	**11,549,973**

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27 Financial Instruments (continued)

Following the listing of Croplogic on the Australian Securities Exchange (ASX) on 12 September 2017, the Company's investment in Croplogic has been reclassified to Level 1 in the fair value hierarchy as at that date. The fair value of Croplogic Limited is now principally determined by reference to market transactions as disclosed by the ASX.

As at 30 June 2017

Financial assets designated at fair value through profit or loss

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Available for sale investments	-	-	-	-
Held-to-maturity investments	-	-	-	-
Investments at fair value through profit or loss valued as at last capital raise or liquidity event	-	-	17,469,782	17,469,782
Investments at fair value through profit or loss valued using observable quoted prices	-	-	-	-
Total financial assets measured at fair value through profit or loss	-	-	**17,469,782**	**17,469,782**

Fair values of financial assets valued using level one inputs are determined by reference to quoted prices in an active market.

The below table provides information about how the fair values of financial assets valued using level three inputs have been determined.

Valuation methodology	Total value	Key inputs	Unobservable inputs	Sensitivity analysis
Price of recent investment	10,928,677	Price of last round, milestone achievement, impairment assessment, qualitative factors	Management's assessment of performance against milestones, impairment assessment where there are indicators of impairment and market and qualitative factors.	The greater the assessment of impairment, the lower the fair value.

The table below shows a reconciliation of fair value movements in Level 3 financial instruments.

Investments at fair value through profit and loss

	2018	2017
	$	$
Opening balance	17,469,782	20,063,110
Total unrealised fair value gains recognised in profit or loss	1,219,666	1,997,949
Total unrealised fair value losses recognised in profit or loss	(4,894,781)	(7,028,595)
Transfers to investments classified as level one in the fair value hierarchy	(3,659,840)	-
Total fair value of investments purchased	791,431	2,337,318
Total fair value of convertible notes converted to equity	799,238	-
Total fair value of short term loans converted to equity	572,555	100,000
Total fair value of trade debtors converted to equity	127,292	-
Total fair value of investments disposed	(1,496,666)	-
Closing value	**10,928,677**	**17,469,782**

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Independent auditor's report to the shareholders of Powerhouse Ventures Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Powerhouse Ventures Limited ("the company") on pages 5 to 35, which comprise the statement of financial position of the company as at 30 June 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the company, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 5 to 35 present fairly, in all material respects, the financial position of the company as at 30 June 2018 and its financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the company's shareholders, as a body. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders, as a body, for our audit work, for this report, or for the opinions we have formed.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the company in accordance with Professional and Ethical Standard 1 (revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We provide other assurance review services to the company. We have no other relationship with, or interest in, the company.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 to the financial statements, which indicates that the going concern assumption is dependent upon the company disposing of investments or the introduction of new capital and satisfying its obligations in respect of its Convertible Notes. Should the disposals of investments or introduction of new capital not occur or raise sufficient cash, or the Convertible Notes are not converted, material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be the key audit matter to be communicated in our report. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

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Valuation of investments in, and loans to, portfolio companies

Why significant	How our audit addressed the key audit matter
The company's accounting policy for investments in portfolio companies is outlined at Note 1(e) and details of the investments and loans at Note 13, 25 and 26 to the financial statements. The company's investments and convertible notes in, and loans to, portfolio companies represent 89% of total assets as at 30 June 2018. The valuation of these investments is considered a key matter for our audit due to the significant judgement involved and the resultant higher potential risk of error. The investments are carried at fair value, established using the International Private Equity and Venture Capital Valuation Guidelines. Refer to Note 1(e). There is a risk that the recent investments are not at arm's length and therefore are not representative of fair value. There is also the risk that funding rounds were not current and as a result the price of recent investment may no longer represent fair value. For selected investments where the price of recent investment may not have represented fair value, due to the existence of indicators of impairment, the company applied judgement to make an assessment of fair value. Assessments of impairment of the investments and loans are inherently judgmental given the start-up nature of many of the portfolio company investments.	We performed the following procedures in respect of this matter: ▶ For portfolio company funding rounds in the current year, we obtained third party evidence of the round and considered whether the participants in the funding round were sufficiently independent for the transaction price to be deemed arm's length. ▶ Where there were no portfolio company funding rounds in the current year, we assessed whether the price of recent investment in the portfolio company remained representative of fair value and if there were indicators of impairment. In such cases, if impairment indicators existed, we considered other evidence used by management in its assessment of fair value. ▶ We performed checks over new shares issued by portfolio companies to identify if additional funding rounds had occurred but were not recorded or considered for revaluation of the investment in the portfolio company. ▶ We considered whether there were any other indicators of impairment for individual portfolio companies, relevant to the nature and stage of the investment in the portfolio companies. ▶ We assessed the recoverability of loans to the portfolio companies. ▶ We assessed the adequacy of the disclosures made by the directors in the financial statements regarding the valuation of the investments.

Information Other than the Financial Statements and Auditor's Report

The directors of the company are responsible for the Annual Report, which includes information other than the financial statements and auditor's report, which is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and, if uncorrected, to take appropriate action to bring the matter to the attention of users for whom our auditor's report was prepared.

Directors' Responsibilities for the Financial Statements

The directors are responsible, on behalf of the entity, for the preparation and fair presentation of the financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing on behalf of the entity the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and

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using the going concern basis of accounting unless the directors either intend to liquidate the company or cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are 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 International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at External Reporting Board's website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is John Hodge.

Ernst + Young

Christchurch
31 August 2018