

HearMeOut Ltd.

**Financial Statements
As of June 30, 2016**

Financial Statements as of June 30, 2016

Contents

	<u>Page</u>
Auditors' Report	2
Statements of Financial Position	3
Statements of Loss	4
Statements of Changes in Equity	5
Statements of Cash Flow	6
Notes to the Financial Statements	7-10



Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 6100601, Israel
+ 972 3 684 8000

Auditors' Report to the Shareholders of HearMeOut Ltd.

We have audited the accompanying statements of financial position of HearMeOut Ltd. (hereinafter "the Company") as of June 30, 2016 and the related income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows, for the six months ended June 30, 2016. These financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance) - 1973. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statement do not include comparative financial information as of June 30, 2015 and for the six-month period ended June 30, 2015.

In our opinion, except non-inclusion of the information mentioned above, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2016 and its results of operations, changes in shareholder equity and cash flows, for the six months ended on June 30, 2016, in accordance with International Financial Reporting Standards (IFRS).

We draw attention to Note 1 of the financial statement. The Company has limited capital resources and a loss from operations, all of which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters include continued development and marketing as well as seeking additional financing arrangements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Somekh Chaikin

Somekh Chaikin
Certified Public Accountants (Isr.)

August 22, 2016

Statements of Financial Position

		June 30 2016	December 31 2015
	Note	US\$ thousands	US\$ thousands
Assets			
Current assets			
Cash and cash equivalents		3	8
Short-term deposits		-	8
Other receivable		6	3
Total current assets		9	19
Non-current assets			
Fixed Assets		1	1
Total assets		10	20
Liabilities and Shareholders' Equity			
Current liabilities			
Trade payables		26	7
Other payables		76	49
Total current liabilities		102	56
Non-current liabilities			
Convertible loan	9	382	322
Total liabilities		484	378
Shareholders' equity			
Ordinary shares	5	3	3
Preferred shares (Series A)		1	1
Share premium		496	496
Accumulated deficit		(974)	(858)
Total shareholders' equity (deficit)		(474)	(358)
Total liabilities and shareholders' equity		10	20



Moran Chamsi
Director



Yitzchak Livian
Director

Date of approval of the financial statements: August 22, 2016

The accompanying notes are an integral part of these financial statements.

Statements of Loss

		For the six months ended June 30 2016	For the year ended December 31 2015
	Note	US\$ thousands	US\$ thousands
Research and development expenses	4	(30)	(105)
General, administrative and marketing expenses	8	(53)	(261)
Operating loss		(83)	(366)
Financing expenses, net	9	(33)	(60)
Loss for the period		(116)	(426)
Loss per share			
Basic loss per share (in USD)*		0.07	0.24
Diluted loss per share (in USD)		0.07	0.24

* Adjusted for issue of warrants after the balance sheet, see Note 5c.

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Equity

	Ordinary Shares	Preferred A Shares	Premium	Deficit	Total
	<u>US\$ thousands</u>	<u>US\$ thousands</u>	<u>US\$ thousands</u>	<u>US\$ thousands</u>	<u>US\$ thousands</u>
Balance as of January 1, 2015	3	1	496	(432)	68
Loss for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>(426)</u>	<u>(426)</u>
Balance as of December 31, 2015	3	1	496	(858)	(358)
Loss for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>(116)</u>	<u>(116)</u>
Balance as of June 30, 2016	<u>3</u>	<u>1</u>	<u>496</u>	<u>(974)</u>	<u>(474)</u>

The accompanying notes are an integral part of these financial statements.

Statements of Cash flows

	For the six months ended June 30 2016 <u>US\$ thousands</u>	For the year ended December 31 2015 <u>US\$ thousands</u>
Cash flows from operating activities		
Loss for the period	(116)	(426)
Adjustments for:		
Interest, net	45	60
Change in trade and other receivables	(3)	3
Change in trade and other payables	46	27
Net cash provided by operating activities	<u>(28)</u>	<u>(336)</u>
Cash flows from investment activities		
Acquisition of fixed assets	-	-
Decrease (increase) in short-term deposit	8	-
Net cash provided by investment activities	<u>8</u>	<u>-</u>
Cash flows from financing activities		
Issue of Preferred A shares	-	-
Convertible loans	15	260
Net cash provided by financing activities	<u>15</u>	<u>260</u>
Net decrease in cash and cash equivalents	(5)	(76)
Cash and cash equivalents at the beginning of the period	8	82
Cash and cash equivalents at the end of the period	<u>3</u>	<u>8</u>

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

Note 1 - General

HearMeOut Ltd. (hereinafter – the "Company") is an Israeli resident company incorporated in Israel on January 2014. The Company has developed an application for sharing and listening to short audio posts.

The Company future results of operations involve a number of risks and uncertainties. Factors that could affect the Company future operating results and cause actual results to vary materially from expectations include, but are not limited to, rapid technological change, uncertainty of market acceptance of products and services, competition from substitute products and larger companies, protection of proprietary technology, strategic relationships and dependence on key individuals.

The Company has a limited operating history, negative operating cash flow and incurred losses from operations since inception. The Company's ability to continue as a going concern depends on its ability to generate revenues and raise additional funds.

Note 2 - Basis of Preparation**A. Statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

B. Functional and presentation currency

These financial statements are presented in US\$, which is the Company's functional currency, and have been rounded to the nearest thousand except when otherwise indicated. The US\$ is the currency that represents the principal economic environment in which the Company operates.

C. Use of estimates and judgments

The preparation of the financial statements in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB") requires management to make judgments, estimates and assumptions that affect the implementation of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The Company estimated the date of an upcoming fundraising which meets the requirements of the convertible loan, as described in Note 9.

The Company used estimates for examining whether the Company should capitalized research and development costs or recognize in profit or loss as incurred, as described in Note 4.

Notes to the Financial Statements

Note 3 - Significant Accounting Policies

The accounting policies set out below have been applied consistently for all periods presented in these financial statements, and have been applied consistently by the Company:

A. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

B. Financial instruments

Non-derivative financial liabilities

Non-derivative financial liabilities include convertible loan, trade and other payables.

Initial recognition of financial liabilities

Financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contract creating the obligation.

Financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, financial liabilities are measured at amortized cost using the effective interest method.

Derecognition of financial liabilities

Financial liabilities are derecognized when the obligation of the Company, as specified in the agreement, expires or when the obligation is discharged or cancelled.

Note 4 - Research and Development Expenses

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group has the intention and sufficient resources to complete development and to use or sell the asset.

As of June 30, 2016 the Company doesn't meet the conditions to capitalize any development expenditure, therefore all expenditure was recognized in profit or loss as incurred.

Notes to the Financial Statements

Note 5 - Capital and Reserves

- A.** Upon inception, the Company issued 1,075,000 ordinary shares, NIS 0.01 par value each, to its founders.
- B.** On January 21, 2014, the Company entered into a Share Purchase Agreement (“SPA”) with an investor. According to the SPA, the Company issued to the Investors 500,000 Preferred A shares of NIS 0.01 par value each, at a price per share of \$1.00, in two portions:
- (1) In January 2014, the Company issued 350,000 Preferred A shares for an aggregate amount of US\$350,000;
 - (2) In June 2014, the Company issued 150,000 Preferred A shares for an aggregate amount of US\$150,000.

Each share of Series A Preferred shall be convertible, without payment of additional consideration, by the holder at any time, into such number of fully paid and non-assessable Ordinary Shares as is determined by dividing the Original Series A Issue Price by the Conversion Price. The conversion price per share shall initially be equal to the Original Series A Issue Price; provided, however, that the Series A Conversion Price shall be subject to adjustment in accordance with any recapitalization event and pursuant to anti-dilution provisions.

Each share of Series A Preferred shall automatically be converted into fully paid non assessable Ordinary Shares upon the earlier of: (i) the closing of an underwritten public offering with gross proceeds to the Company of at least \$10,000,000 at a Company pre-money valuation of at least \$70,000,000; or (ii) the date set forth in a written consent of the majority of the outstanding Series A Preferred or by approval of a majority of the outstanding Series A Preferred at a duly convened class meeting of the Series A Preferred.

The Company shall not declare or pay any dividends on Ordinary Shares until the holders of the Series A Preferred then issued and outstanding shall have first received, or simultaneously receive, dividends at the rate of eight percent (8%) per annum of the Original Series A Issue Price. Such dividends on the Series A Preferred shall not accrue on an annual basis, but shall only be payable as and when declared by the Board of Directors, or in the event of only liquidation, dissolution or winding-up of the Company.

- C.** On July 10, 2016 (after the balance sheet date) the company approved the grant of warrants to shareholders’ to purchase ordinary shares NIS 0.01 nominal value each of the Company at the exercise price of NIS 0.01. The total number of warrant shares is 175,000.
The warrant was issued without consideration.

Note 6 - Income Tax

Corporate tax rate

Presented hereunder are the tax rates relevant to the Company:

2015 – 26.5%
2016 – 25%

On January 5, 2016 the Knesset passed the Amendment 216 to the Income Tax Ordinance whereby, inter alia, the corporate tax rate will be reduced by 1.5% to a rate of 25% as from 2016.
Current taxes for the reported are calculated according to the tax rates above.

Notes to the Financial Statements

Note 7 - Related and Interested Parties

Compensation and benefits to key management personnel and interested parties

Compensation and benefits to key management personnel and interested parties (including consultants) that are employed by the Company:

		For the six months ended June 30 2016	For the year ended December 31 2015
	<u>Number of people</u>	<u>USD thousands</u>	<u>USD thousands</u>
Employee benefits	4	59	219

Note 8 - General, Administrative and Marketing Expenses

	For the six months ended June 30 2016	For the year ended December 31 2015
	<u>USD thousands</u>	<u>USD thousands</u>
Wages and salaries	46	142
Rent and office maintenance	1	8
Professional services	5	16
Marketing expenses	1	81
	<u>53</u>	<u>247</u>

Notes to the Financial Statements

Note 9 – Convertible Loan and Investment Agreements

On January 27, 2015, the Company entered into a convertible loan agreement with an investor (the “lender”) amounted US\$275 thousand (the “Loan”), in three installments:

- (1) In January 2015, the Company received US\$250 thousand.
- (2) In October 2015, the Company received US\$10 thousand.
- (3) In January 2016, the Company received US\$15 thousand.

The loan amount and interest incurred shall bear interest at the rate of 8% per annum and shall be deemed to be part of the principal amount for conversion purposes.

The convertible loan does not have a maturity date and is not payable in cash.

The principal amount and interest incurred will automatically be converted into ordinary shares of the Company, upon the earlier to occur of: (i) consummation of an equity financing round by the Company in an amount of at least US\$500 thousand (a “qualified financing”); or (ii) consummation of an M&A transaction. Upon consummation of a qualified financing, the loan amount shall be automatically converted into shares at a price per share reflecting a twenty-five percent (25%) discount on the price per share payable by the investors in such qualified financing round.

The Company is not exposed to liquidity risks because the principal and interest are not paid in cash.

The Company estimates that it will settle the liability through conversion to ordinary shares in the fourth quarter of 2016.

According to the assumption and estimates used in the valuation at the initial recognition of financial instrument, the book value of the convertible loans compatible or close to their fair value.

The convertible loan is measured using the amortized cost method. The effective Interest Rate was calculated by discounting the value of estimated number of ordinary shares to be issued at date of capital raising or acquisition of the company (4th quarter of 2016) to the consideration received for the loan.

At each reporting day the company reassess its estimate of the timing of the capital raising or acquisition of the Company and adjust the carrying amount of the liability using the original effective interest rate.

Note 10 – Subsequent Events

- A. The Company is contemplating an Initial Public Offering of its shares in the Australian Securities Exchange through share swap agreement.
- B. In July, 2016 an agreement was signed between the four founders and the Company whereby the founders waived a total amount of US\$47 thousand from their salary rights from January 1, 2015 and onward.
- C. On July 7, 2016 the Company entered into an additional convertible loan agreement with an investor (the “second lender”) amounted US\$575 thousand (the “second loan”).
The convertible loan will be repaid in one of the three following options: (i) Through the issue of ordinary shares at a 33% discount in case that the Company will list through a company listed on the Australian Securities Exchange. (ii) Through the issue of ordinary shares at a 25% discount in case of initial public offering. (iii) If the parties shall not execute an additional agreement the discount will be reduced to 20%.