Powerhouse Ventures Limited

Financial Statements

For the year ended 30 June 2019

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Financial Statements
For the year ended 30 June 2019

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Company Directory
As at 30 June 2019

Postal Address	PO Box 29519 Riccarton Christchurch 8440 New Zealand
Registered Office	Level 1, Awly Building 287-293 Durham Street North Christchurch 8013 New Zealand
Business Locations	Level 1, Awly Building, 287-293 Durham Street North, Christchurch Central, Christchurch 8013 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	Lowndes Law K&L Gates, Sydney, Australia Andrew Lewis Law, Auckland, New Zealand
Independent Auditor	Grant Thornton New Zealand Audit Partnership, Christchurch
Date of Formation	17 August 2006

Powerhouse Ventures Limited
Financial Statements
For the year ended 30 June 2019

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 2019.

The Directors are responsible for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which present fairly the financial position of the Company as at 30 June 2019 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 Part 7 of the Financial Markets Conduct Act 2013.

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

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

Chairman	Director
Date: 4 September 2019	Date: 4 September 2019

Powerhouse Ventures Limited
Statement of Comprehensive Income
For the year ended 30 June 2019

	Notes	2019 $	2018 $
Income			
Net changes in fair value of investments at fair value through profit or loss	4	(2,687,939)	(6,713,659)
Realised gain/(loss) on investments at fair value through profit or loss		135,088	407,429
Government grant funding		605,000	430,000
Revenue from contracts with customers	3	77,419	372,095
Finance income		39,031	68,897
Gain on sale of assets		5,479	-
		(1,825,923)	**(5,435,238)**
Expenses			
Employee benefits expense	6	903,614	2,439,282
Marketing and events		(112,490)	528,604
Legal and professional costs		191,907	768,761
Travel		42,620	185,128
Interest expense		272,516	87,269
Other expenses	7	590,541	692,147
Impairment of financial assets	5	83,830	298,065
Fair value movement in convertible note assets		170,603	-
		2,143,142	**4,999,256**
Loss before income tax		**(3,969,065)**	**(10,434,494)**
Income tax expense/(credit)	8 (a)	-	-
Loss after tax for the year		**(3,969,065)**	**(10,434,494)**
Other comprehensive income		-	-
Total comprehensive loss for the year attributable to equity holders of the Company		**(3,969,065)**	**(10,434,494)**
Loss per share:			
Basic (cents per share)	9	(14)	(36)
Diluted (cents per share)	9	(14)	(36)

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

Grant Thornton New Zealand Partnership
Marked for identification purposes

Powerhouse Ventures Limited
Statement of Changes in Equity
For the year ended 30 June 2019

	Notes	Share capital	Equity-settled share-based payment reserve	Accumulated losses	Total equity
		$	$	$	$
Balance at 1 July 2018		**30,656,138**	**68,216**	**(21,309,306)**	**9,415,048**
Increase/(decrease) in share capital	**10,11**	169,235	-	-	169,235
Equity-settled share-based payments	**11**	-	(68,216)	-	(68,216)
Total comprehensive loss for the year		-	-	(3,969,065)	(3,969,065)
Balance at 30 June 2019		**30,825,373**	-	**(25,278,371)**	**5,547,002**
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 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**

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 2019

	Notes	2019 $	2018 $
ASSETS			
Cash and cash equivalents	**12**	122,594	1,052,690
Trade and other receivables and prepayments	**13**	56,455	395,486
Unsecured short-term loans receivable	**14**	-	-
Convertible notes in portfolio companies		40,000	437,263
Investments in portfolio companies	**25, 26, 27**	7,541,168	11,549,973
Property, plant and equipment		1,972	20,334
Total assets		**7,762,189**	**13,455,746**
LIABILITIES			
Trade and other payables	**15**	125,787	1,787,882
Convertible notes	**16**	2,089,400	2,252,816
Total liabilities		**2,215,187**	**4,040,698**
Net assets		**5,547,002**	**9,415,048**
EQUITY			
Share capital	**10**	30,825,373	30,656,138
Equity-settled share-based payments reserve	**11**	-	68,216
Accumulated losses		(25,278,371)	(21,309,306)
Total equity		**5,547,002**	**9,415,048**

Russell Yardley, Chairman
For and on behalf of the Board
Date: 4 September 2019

Ian Lothian, Director
For and on behalf of the Board
Date: 4 September 2019

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 2019

	Notes	2019 $	2018 $
Cash flows from operating activities			
Receipts from customers		1,029,926	1,106,229
Payments to suppliers and employees		(3,025,312)	(4,727,467)
Finance income		-	37,214
Income taxes paid		-	-
Interest paid		(274,048)	(84,886)
Net cash inflow/(outflow) from operating activities	**17**	**(2,269,434)**	**(3,668,910)**
Cash flows from investing activities			
Purchase of investments and convertible notes		(541,969)	(1,156,431)
Sale of investments		2,261,374	1,904,094
Recovery of/(Transfer to) restricted cash		-	180,036
Purchase of property plant and equipment		-	(4,496)
Proceeds from sale of property plant and equipment		9,143	2,250
Receipts from/(payments for) short term loans to investee companies		-	105,025
Net cash inflow/(outflow) from investing activities		**1,728,548**	**1,030,478**
Cash flows from financing activities			
Proceeds from issuance of convertible notes		-	2,252,816
Repayments of convertible notes		(104,249)	-
Proceeds from borrowings		-	315,033
Repayments of borrowings		(134,961)	(197,143)
Return of guarantee funds		(150,000)	-
Net cash inflow/(outflow) from financing activities		**(389,210)**	**2,370,706**
Net increase/(decrease) in cash and cash equivalents		**(930,096)**	**(267,726)**
Cash and cash equivalents at the beginning of the year		1,052,690	1,320,416
Cash and cash equivalents at the end of the year	**12**	**122,594**	**1,052,690**

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

Grant Thornton New Zealand Partnership
Marked for identification purposes

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 and under the Financial Markets Conduct Act 2013 is considered to be an FMC Reporting Entity with a higher level of public accountability, hence it reports as a Tier 1 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 2019 and the comparative information presented in these financial statements for the year ended 30 June 2018.

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)), expected credit losses of financial assets (Note 5), recognition of deferred tax assets and liabilities (Note 8) and the going concern assumption (Note 2).

In addition, the Directors have assessed the equity portion of the Convertible notes liability but have concluded that this is not material.

Summary of significant accounting policies

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

(a) Basis of consolidated financial statements

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 IFRS 9 financial instruments, 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 IFRS 9, or by applying the equity method as per NZ IAS 28 investments in associates and joint ventures. 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 contracts with customers:

Revenue is measured at the fair value of the consideration received or receivable, net of goods and services tax. Service revenue is recognised as income when the performance obligations outlined within the contractual terms have been met. All of the Company's revenue is from contracts with customers and is earned over time.

Variable consideration:

The entity considers the effects of variable consideration, the existence of significant financing components, and the consideration payable to the customer (if any) in determining the transaction price.

Interest:

Interest is recognised as it 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 (IPEV).

The valuation methodology used most commonly by the Company is the 'price of recent investment' supported by other Qualitative and Quantitative factors including 'milestone analysis'. 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 supported by other Qualitative and Quantitative factors including milestone analysis. 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 other Qualitative and Quantitative factors including milestone analysis and/or industry and sector analysis. In applying the milestone analysis approach to investments in companies in early or development stages the Company seeks to determine whether there is an indication of change in fair value based on a consideration of performance against any milestones that were set at the time of the original investment decision, as well as taking into consideration the key market drivers of the investee company and the overall economic environment. When considered appropriate due to the size of the change or inherent uncertainty, the Company may use external valuers to assess the reasonableness of any change in fair value estimated by management.

(e) Investments (continued)

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

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

- Where the investment being valued was itself made recently, its cost will generally provide a good indication of fair value unless there is objective evidence that the investment has since been impaired, such as observable data suggesting a deterioration of the financial, technical, or commercial performance of the underlying business;
- Where there has been any recent investment by third parties, the price of that investment will provide a good indication of fair value;
- If there is no readily ascertainable value from following the 'price of recent investment' methodology, the Company considers alternative methodologies in IPEV 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, or;
- 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

Recognition and derecognition:

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or it expires.

(f) Financial instruments (continued)

Classification and initial measurement of financial assets:

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with NZ IFRS 15 revenue from contracts with customers, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets are classified into the following categories:
• amortised cost
• fair value through profit or loss (FVTPL)
• fair value through other comprehensive income (FVOCI).

In the financial years presented the Company does not have any financial assets categorised as FVOCI.

The classification is determined by both:
• the company's business model for managing the financial asset
• the contractual cash flow characteristics of the financial asset.

All revenue and expenses relating to financial assets that are recognised in profit or loss are presented within interest or finance income, except for impairment of trade receivables which is presented within impairment of financial assets.

Subsequent measurement of financial assets:

Financial assets at amortised cost
Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):
• they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
• the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, and trade and other receivables fall into this category of financial instruments.

Financial assets at fair value through profit or loss (FVTPL)
Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All investment and convertible notes in portfolio companies fall into this category.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss.
The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

(f) Financial instruments (continued)

Impairment of financial assets:

NZ IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaces NZ IAS 39's financial instruments: recognition and measurement 'incurred loss model'. Instruments within the scope of the new requirements include loans and other debt-type financial assets measured at amortised cost, trade receivables, contract assets recognised and measured under NZ IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:
• financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
• financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Previous financial asset impairment under NZ IAS 39
In the prior year, the impairment of trade receivables was based on the incurred loss model. Individually significant receivables were considered for impairment when they were past due or when other objective evidence was received that a specific counterparty will default. Receivables that were not considered to be individually impaired were reviewed for impairment in groups, which are determined by reference to the industry and region of the counterparty and other shared credit risk characteristics. The impairment loss estimate was then based on recent historical counterparty default rates for each identified group.

Trade and other receivables
The Company applies the simplified approach in accounting for trade and other receivables and records the expected loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. The Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

Short term loan receivables
The Company applies the three stage general approach in accounting for short term loan receivables and records the expected credit losses where there is an indicator of an increase in credit risk. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. The Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

Refer to Note 13 for a detailed analysis of how the impairment requirements of NZ IFRS 9 are applied.

(f) Financial instruments (continued)

Classification and measurement of financial liabilities:

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Group's financial liabilities were not impacted by the adoption of IFRS 9. However, for completeness, the accounting policy is disclosed below.

The Group's financial liabilities include convertible note liabilities and trade and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within interest expense or finance income.

(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 as some income or expense items are taxable or deductible in other years or are not 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.

(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 basis 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 Company has a present obligation (legal or contractual) 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 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 on 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.

(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 new standard or interpretation has been issued or amended but is not yet effective.

NZ 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 by the Company for the reporting period commencing 1 July 2019. 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.

Management is in the process of assessing the full impact of the Standard. So far, Management believes that the most significant impact will be the need to recognise a right of use asset and a lease liability for the IT equipment currently treated as an operating lease. At 30 June 2019, the future minimum lease payments amounted to $90,480. Under NZ IFRS 16 Leases the nature of the above expense will change from being an operating lease expense to depreciation and interest expense.

The Company is currently assessing the impact of applying transitional reliefs.

(t) Adoption of new and revised standards and interpretations

New standards or interpretations effective for the first time from 1 July 2018 are outlined below. These new standards or interpretations have not had a material impact on the Company's financial statements.

NZ IFRS 9 *Financial Instruments* replaces NZ IAS 39 'Financial Instruments: Recognition and Measurement'. It makes changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets. The Company has adopted NZ IFRS 9 retrospectively and has therefore restated prior year results. Differences arising from the adoption of NZ IFRS 9 in relation to classification, measurement, and impairment are recognised in retained earnings.
In the prior year, the Company recognised finance income of $309,574 and a corresponding impairment expense of $309,574 relating to credit impaired unsecured short-term loan receivables.

In line with NZ IFRS 9, the Company will now recognise finance income on unsecured short-term loan receivables on a net basis, being the gross amount of the receivables less the total expected credit losses, where there is objective evidence of impairment.

A transition adjustment has been recognised to ensure that the Company has recognised finance income on a net basis for those assets categorised into stage 3 of the expected credit loss model.

This has resulted in a decrease to finance income and a decrease to the impairment expense of $309,574 for the year ended 30 June 2018. Overall, there is no impact on the loss after tax presented within the statement of comprehensive income.

NZ IFRS 15 *Revenue from Contracts with Customers* and the related 'Clarifications to NZ IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as 'NZ IFRS 15') replace NZ IAS 18 'Revenue', NZ IAS 11 'Construction Contracts', and several revenue-related Interpretations. The Company has adopted NZ IFRS 15 retrospectively. There were no differences arising from the adoption of NZ IFRS 15.

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 the date of signing these financial statements, 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 16, the Company is obligated to pay up to $2.2m of Convertible Notes in December 2019 should those Notes remain unconverted by that date. All Convertible Note holders have confirmed that they do not intend to convert any of the convertible notes into shares and have confirmed deferral of repayment of their convertible notes until a significant realisation event has taken place to allow the convertible notes to be repaid in full and to allow the Company to be able to meet its commitments for the forseeable future.

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 can 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. The Directors acknowledge that without the realisation of investments or a capital raise there is material uncertainty over going concern. However, the Directors consider contingency plans in place are adequate 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 contracts with customers

	2019 $	2018 $
Services provided within New Zealand	77,419	372,095
Total Revenue from contracts with customers	**77,419**	**372,095**

Revenue from contracts with customers in both the current and prior year is earned over time and is 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

	2019 $	2018 $
Revaluation gains on investments at fair value through profit or loss	473,009	1,069,666
Revaluation losses on investments at fair value through profit or loss	(3,160,948)	(7,783,325)
Net gain/(loss) on investments at fair value through profit or loss	**(2,687,939)**	**(6,713,659)**

Revaluation gains in the current year include $0.3m uplift in the value of Invert Robotics (2018: $0.4m profit on the sale of ArcActive Limited).

Revaluation losses in the current year include Photonic $0.8m, Veritide $0.5m, Fluent $0.4m, Tiro $0.4m, and Modlar $0.4m (2018: $3.0m relating to the fall in market price of listed portfolio company Croplogic Limited).

5 Expected credit loss provision on financial assets classified at amortised cost

	2019 $	2018 $
Provision for/(reversal of) expected credit losses of short term loans to portfolio companies (Note 14)	32,216	375,722
Provision for/(reversal of) expected credit losses of cash held as a guarantee (Note 12)	-	(180,036)
Provision for expected credit losses (Note 13)	51,593	93,192
Other	21	9,187
Total impairment of financial assets expense	**83,830**	**298,065**

The current year impairment charge includes $0.15m relating to Motim and $0.07m relating to Tiro (2018: Solar Bright $0.55m and Hydroworks $0.27m).

6 Employee benefits expense

	2019 $	2018 $
Salaries	692,281	1,836,152
Directors' remuneration	171,539	231,841
Share-based payments (Note 11)	(68,216)	(8,872)
Bonuses	2,774	123,279
Kiwisaver defined contribution plans	19,324	57,770
Directors' fees	85,912	189,529
Investment Committee fees	-	9,583
Total employee benefits expense	**903,614**	**2,439,282**

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

7 Other Expenses

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

	2019	2018
	$	$
Accounting, assurance and tax advisory	72,073	128,930
Insurance	155,536	227,046
Office costs and rent	381,599	404,484
Provision expense/(release)	-	(208,253)
Miscellaneous expenses	34,799	130,126
Foreign exchange movements	(53,466)	9,814
Total Other Expenses	**590,541**	**692,147**

8 Income taxes

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

	2019	2018
	$	$
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))	-	-
Increase/(decrease) in deferred tax liabilities (Note 8(d))	-	-
Origination and reversal of temporary differences	-	-
Adjustment for prior years	-	-
Total deferred tax expense/(credit)	-	-
Total tax expense/(credit)	**-**	**-**

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

	2019	2018
	$	$
Profit/(loss) before tax expense	(3,969,065)	(10,434,494)
Expected tax charge using tax rate applicable for the year (28%)	**(1,111,338)**	**(2,921,658)**
Non-assessable income	(135,088)	(407,429)
Non-deductible expenses	845,711	2,689,168
Unrecognised current year tax losses	400,715	639,919
Total tax expense/(credit)	**-**	**-**

(b) Current tax assets and liabilities

	2019	2018
	$	$
Current tax assets:		
Current tax refundable	-	-
Current tax liabilities:		
Current tax payable	-	-

8 Income taxes (continued)

(c) Deferred tax assets

Deferred tax assets comprise temporary differences attributable to:	2019 $	2018 $
Employee benefits	-	-
Deferred tax assets	-	-

Movements in the deferred tax asset account:	2019 $	2018 $
Opening balance	-	-
(Charged)/credited to profit or loss	-	-
Closing balance	-	-

The Company has unused tax losses and credits amounting to $4,720,084 (2018: $4,578,757) 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:	2019 $	2018 $
Net value of investments at fair value through profit or loss	-	-
Deferred tax liabilities	-	-

Movements in the deferred tax liability account	2019 $	2018 $
Opening balance	-	-
Charged/(credited) to profit or loss	-	-
Closing balance	-	-

(e) Imputation credits

	2019 $	2018 $
Imputation credits available for use	-	-

9 Earnings per share calculation

Basic loss per share (refer to Statement of Comprehensive Income and Note 10)

	2019	2018
Basic loss per share (cents)	(14)	(36)
Losses used in the calculation of total basic loss per share	$(3,969,065)	$(10,434,494)
Weighted average number of ordinary shares for the purposes of basic loss per share	29,206,545	28,986,363

Diluted loss per share (refer to Statement of Comprehensive Income and Note 10)

	2019	2018
Diluted loss per share (cents)	(14)	(36)
Losses used in the calculation of total diluted loss per share	$(3,969,065)	$(10,434,494)
Weighted average number of ordinary shares for the purposes of diluted loss per share	29,206,545	28,986,363

The diluted loss per share excludes 10,000,000 (2018: 9,093,750) relating to the convertible note issue as these shares are anti-dilutive.

10 Share capital

At 30 June 2019, share capital comprised 29,311,733 authorised and issued ordinary shares (2018: 28,986,363). All issued shares are fully paid and have no par value.

Share capital comprises:	**2019**	**2018**
	$	**$**
Authorised, issued and fully paid in capital	32,343,226	32,803,403
Treasury stock	(2,136)	(631,548)
Issuance costs	(1,515,717)	(1,515,717)
Total share capital	**30,825,373**	**30,656,138**

Movements in share capital

	2019	**2018**
	$	**$**
Opening balance	30,656,138	30,446,388
Shares issued during the period for cash	-	-
Issuance costs incurred	-	-
Treasury stock movement	629,412	341,982
Other movements	(460,177)	(132,232)
Closing balance	**30,825,373**	**30,656,138**

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 Short Term Incentive (STI) Scheme. Treasury stock and other movements also included the transfer of shares from treasury stock to directors in lieu of director fees payable for the period April to June 2018 (2018: January to March 2018).

Number of ordinary shares authorised, issued and fully paid

	2019	**2018**
	shares	**shares**
Opening balance	28,986,363	28,986,363
Shares issued during the period for cash	-	-
Shares issued during the period in respect of non-cash transactions	325,370	-
Closing balance	**29,311,733**	**28,986,363**

10 Share capital (continued)

Treasury stock

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

	2019		2018	
	Number of shares	Value of shares ($)	Number of shares	Value of shares ($)
Opening balance	526,290	631,548	811,275	973,530
Distributed to Executives as ESOP	-	-	(153,508)	(184,210)
Distributed to Executives in lieu of salaries	(46,503)	(10,102)	-	-
Distributed to Directors for Director fees	(164,848)	(197,818)	(131,477)	(157,772)
Distributed to employees as STI	(305,107)	(421,492)	-	-
Closing balance	**9,832**	**2,136**	**526,290**	**631,548**

Components of treasury stock as at reporting date:

	2019		2018	
	Number of shares	Value of shares ($)	Number of shares	Value of shares ($)
Acquired for the employee ESOP	9,832	2,136	407,642	489,170
Balance of shares acquired during restructuring	-	-	118,648	142,378
	9,832	**2,136**	**526,290**	**631,548**

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 2019, shares were distributed to Executives under the STI Scheme. See Note 11 below for further details. Shares were also distributed to directors for director fees payable for the period April to June 2018 (2018: January to March 2018).

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

The Company owns nil (2018: 118,430) shares directly with the balance of 9,832 (2018: 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 years to 30 June 2019 and 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.

This plan was cancelled during the year ended 30 June 2019.

11 Share-based payments (continued)

Reconciliation of performance rights for Executive IPO Retention Scheme	**2019 number**	**2018 number**
Opening balance	-	153,508
Granted during the reporting period	-	-
Forfeited due to non-performance of vesting conditions	-	-
Vested as a result of KPI achievement	-	(153,508)
Closing balance	**-**	**-**

(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.

Due to the non performance of vesting conditions, these shares have been forfeited.

Reconciliation of performance rights for Staff Performance Rights Scheme

	2019 number	**2018 number**
Opening balance	3,764,691	-
Granted during the reporting period	-	4,003,629
Forfeited due to non-performance of vesting conditions	(3,764,691)	(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

	2019 number	**2018 number**
Opening balance	1,400,000	-
Granted during the reporting period	-	1,400,000
Forfeited due to non-performance of vesting conditions	(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

	2019 $	**2018 $**
Opening balance	68,216	252,088
Expense for equity settled share based payment transactions	-	68,216
Forfeited due to non-performance of vesting conditions	(68,216)	-
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**

12 Cash and cash equivalents

	2019	2018
	$	$
Cash at bank available on demand	122,594	1,052,690
Total cash and cash equivalents	**122,594**	**1,052,690**

13 Trade and other receivables and prepayments

	2019	2018
	$	$
Trade debtors	338,301	523,408
Provision for expected credit losses	(322,389)	(270,795)
Prepayments	33,272	142,873
GST receivable	7,270	-
Total trade and other receivables and prepayments	**56,455**	**395,486**

The provision for expected credit losses is based on estimated non-recoverable amounts determined by reference to circumstances and past default experience. In the current year, the Company has recognised an expense of $254,433 in respect of expected credit losses (2018: $93,192). Included in this amount is $170,603 which relates to convertible notes assets fair value movement (2018: nil).

2019 Trade Debtors

	0 - 30 days	More than 30 days	More than 60 days	More than 90 days	Total
Expected credit loss rate	0%	0%	0%	100%	
Gross carrying amount	3,299	12,153	-	322,849	338,301
Expected credit loss	-	-	-	322,849	322,849

2018 Trade Debtors

	0 - 30 days	More than 30 days	More than 60 days	More than 90 days	Total
Expected credit loss rate	2%	8%	20%	76%	
Gross carrying amount	154,218	10,844	6,888	351,458	523,408
Expected credit loss	3,084	868	1,378	265,466	270,795

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:

	2019	2018
	$	$
Hydroworks Limited	2,256,461	2,256,461
Solar Bright Limited	772,174	739,958
	3,028,635	2,996,419
Less provision for expected credit losses	(3,028,635)	(2,996,419)
Total short term loan receivable	**-**	**-**

All short term loans as at 30 June 2019 were fully impaired.

In the current year the Company recognised an expense of $32,216 in respect of expected credit losses.

All short term loans are more than 90 days overdue and therefore 100% of the expected credit loss provision is assigned to this balance.

15 Trade and other payables

	2019	2018
	$	$
Trade payables	72,381	945,171
Employee entitlements	3,179	110,899
Other accruals	50,227	423,054
Short term loans	-	284,961
GST payable	-	23,797
Total trade and other payables	**125,787**	**1,787,882**

16 Convertible Notes

2019

Date of issue	Price per note (A$)	Number of Notes	Total A$ value	Total NZ$ value
May-18	0.20	2,000,000	400,000	417,880
Jun-18	0.20	4,250,000	850,000	887,995
Aug-18	0.20	3,750,000	750,000	783,525
		10,000,000	2,000,000	**2,089,400**

2018

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**

During the year, all Convertible Notes issued in December 2017 have been re-issued at a strike price of A$0.20 per note. The Company issued net additional Convertible Notes of 906,250 during the year (issued 1,406,250 and repaid 500,000), increasing the total number of convertible notes issued at the date of this report to 10,000,000. 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 15 December 2019 and note holder election. If unconverted, the notes are repayable on 15 December 2019.

All Convertible Note holders have confirmed that they do not intend to convert any of the convertible notes into shares and have confirmed deferral of repayment of their convertible notes until a significant realisation event has taken place to allow the convertible notes to be repaid in full and to allow the Company to be able to meet its commitments for the forseeable future.

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

	2019 $	2018 $
Loss for the year	(3,969,065)	(10,434,494)
(Less)/plus non cash items		
Depreciation	9,218	10,347
Amortisation	-	12,802
FX translation	(59,167)	-
Net changes in fair value of investments at fair value through profit or loss	2,687,939	6,306,229
Expense converted to investments	(103,090)	(167,732)
Deferred tax movement	-	-
Trademark impairment	-	-
Share-based payment expense/(credit)	(68,216)	(8,871)
Unpaid interest receivable	-	(358,624)
Director fees paid in shares	72,550	72,550
Issue of shares to employees	134,485	-
Impairment of financial assets	-	575,261
Provisions	-	(343,253)
Fair value movement on convertible note asset	170,603	-
(Less)/plus changes in working capital		
Decrease/(increase) in trade and other receivables	277,512	(14,371)
Decrease/(increase) in accrued income	-	245,000
Decrease/(increase) in current tax receivable	-	-
(Decrease)/increase in trade and other payables	(1,422,204)	436,246
Net cash inflow/(outflow) from operating activities	**(2,269,435)**	**(3,668,910)**

18 Reconciliation of liabilities arising from financing activities

Changes in the Company's liabilities arising from financing activities can be classified as follows:

	Convertible loan notes $	Short term loans $	Total $
1 July 2018	**2,252,816**	**284,961**	**2,537,777**
Cash flows			
Repayments	(104,249)	(284,961)	(389,210)
Non-cash			
Fair value	(59,167)	-	(59,167)
30 June 2019	**2,089,400**	**-**	**2,089,400**

	Convertible loan notes $	Short term loans $	Total $
1 July 2017	**-**	**17,071**	**17,071**
Cash flows			
Repayments	-	(196,873)	(196,873)
Proceeds	2,252,816	314,763	2,567,579
Non-cash			
Acquisition	-	150,000	150,000
30 June 2018	**2,252,816**	**284,961**	**2,537,777**

19 Remuneration of Auditors

	2019 $	2018 $
Audit of the financial statements	51,491	55,000
Review of interim financial statements	22,253	39,000
Total remuneration paid to auditors	**73,744**	**94,000**

20 Segment Information

Reportable segments

Under NZ IFRS 8 operating segments, as at 30 June 2019, the Company operates in one geographical segment, New Zealand. Material operations in Australia had not commenced as at 30 June 2019. In both reporting periods, the Company has operated 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.

(b) Transactions with related parties:

For the year ended 30 June 2019

Name	Revenues	Expenses	Trade and other receivables	Trade and other payables
	$	$	$	$
Subsidiary and associate portfolio companies	77,419	-	15,913	-
Directors fees	-	85,912	-	-
Convertible note assets	-	-	40,000	-
Short term loans (per Note 14)	-	-	-	-

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	-	-
Directors fees	-	189,529	-	-
Convertible note assets	-	-	437,263	-
Short term loans (per Note 14)	-	-	-	-

At the reporting date $3,521k (2018: $3,098k) of related party receivables had been provided for in full and are not included in the figures in the table above.

(c) Key management personnel compensation
The key management personnel of the Company consists of the executive management team.

	2019	2018
	$	$
Short-term employee benefits	504,584	961,768
Treasury shares issued	10,102	-
Equity-settled share-based payments	(68,216)	(8,870)
Total key management personnel compensation	**446,470**	**952,898**

(d) Convertible Notes
During the 2019 financial year, 500,000 Convertible Notes were issued to Mr Russell Yardley, the Company's Board Chair, with a face value of A$100,000.

22 Commitments

Investments

The Company was committed to investing a total of $67,500 into new and existing investee companies as at 30 June 2019 (2018: $563,500) as a result of contractual agreements with the following companies:

	2019	2018
	$	$
2.2 GForce Limited	-	100,000
Deliveon Health Limited	-	137,500
Hapai Transfer Systems Limited	25,000	100,000
Hot Lime Labs Limited	42,500	80,000
Inhibit Coatings Limited	-	50,000
Orbis Diagnostics Limited	-	16,000
Silventum Limited	-	80,000
	67,500	**563,500**

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 or met later than agreed, the Company is not obligated to invest.

Operating lease commitments

The operating lease commitments relate to IT equipment leases, with lease terms of between one to two years with options to extend.

Non-cancellable operating lease payments

	2019	2018
	$	$
Less than one year	54,980	134,321
Between one and five years	35,500	144,208
More than five years	-	-
Total non-cancellable operating lease payments	**90,480**	**278,529**

23 Contingencies

Contingent assets

There were no contingent assets as at 30 June 2019 (2018: nil).

Contingent liabilities

There were no contingent liabilities as at 30 June 2019 (2018: nil).

24 Subsequent Events

As noted in the recent announcements to the ASX:

On 17 July 2019, the Company sold a small stake in its portfolio company MARS Bioimaging Limited (MARS), receiving $0.16m cash proceeds for 2,000 shares reducing its shareholding in MARS to 6.4%.

On 14 August 2019, a placement of 3 million fully paid ordinary shares was completed at an issue price of $A0.10 per share, raising $A300,000.

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

Name of subsidiary or associate	2019 ownership interest	2018 ownership interest	Nature of operations
2.2 GForce Limited	100.0%	100.0%	Delivers certified preventative, predictive and aftershock enduring solutions.
Motim Technologies Limited	74.7%	74.7%	Delivers innovative mobile marketing capability through interactive cell phone applications.
Koti Technologies Limited	65.0%	65.0%	Uses ceramic thin-film coating technology to coat complex shapes and surfaces.
Hapai Transfer Systems Limited	45.5%	25.0%	Developed a range of low force lift and transfer devices to improve the mobility of frail patients.
Veritide Limited	44.0%	22.6%	Uses optical fluorescent techniques for detection and identification of hazardous organisms.
Silventum Limited	41.2%	41.2%	Novel nanochemistry technology conferring dental filling materials with resistance to bacterial infection.
Deliveon Health Limited	31.8%	58.3%	Develops personalised nutritional solutions based on high quality nutritional science and technology.
CertusBio Limited	30.9%	30.9%	Development of biosensor solutions for dairy and other industries.
Photonic Innovations Limited	30.6%	29.9%	Develops a laser spectroscopy-based gas detection system to identify gas leaks.
Tiro Medical Limited	29.6%	30.1%	Develops physiological modelling systems using digital sensor technologies.
Inhibit Coatings Limited	28.8%	21.3%	Uses nanotechnology for environmentally friendly marine antifouling and antimicrobial coatings.
Ferronova Pty Limited	25.2%	27.2%	Develops a medical device that helps in easier detection of cancers using magnetic tracers.

All investments in portfolio subsidiaries and associates have been valued using price of recent investment methodology supported by other Qualitative and Quantitative factors including 'milestone analysis'.

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 price of recent investment does not include sufficient third party validation.

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) 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	2019 ownership interest	2018 ownership interest	Nature of operations
EdPotential Limited	15.4%	20.7%	Provides software for schools to inquire into assessment data and improve achievement.
Fluent Scientific Limited	15.4%	20.1%	Uses facial and verbal micro-expression analysis to enhance verbal and visual communication.
Auramer Bio Limited	12.7%	18.2%	Provides novel chemical sensing technologies for small molecule and protein detection.
Objective Acuity Limited	12.6%	15.8%	Developed a vision testing system to accurately and reliably detect visual function.
Modlar Limited	9.9%	9.9%	Creator and distributor of Building Information Models (BIM) for use by architects and designers.
Hi-Aspect Limited	9.8%	29.5%	Develops protein-based materials and products for the medical and lifesciences markets.
Avalia Immunotherapies Limited	9.5%	13.2%	Develops vaccine and adjuvant technologies for the treatment of cancer, allergy and disease.
Invert Robotics Limited	8.1%	20.0%	Designs and manufactures mobile robotic systems and delivers inspection services.
MARS Bioimaging Limited	7.7%	8.4%	Provides in-vivo colour x-ray imaging to drug research companies.
Hot Lime Labs Limited	7.3%	5.8%	Developing CO2 capture systems for biomass boilers in order to supply commercial greenhouse growers with low-cost, renewable CO2.
Cirrus Materials Science Limited	7.2%	8.7%	Develops and licenses chemistry technologies and IP for novel coatings and surface finishing solutions.
Orbis Diagnostics Limited	5.0%	3.9%	Developing in-line milking measurement for protein, fat, somatic cell and progesterone.
CropLogic Limited	3.0%	14.9%	Provider of yield-predicting decision-support software for the agriculture sector.
Upstream Medical Technologies Limited	0.0%	13.4%	Front line biomarker testing for heart disease and associated clinical complications.

All investments in other entities have been valued using price of recent investment methodology with the exception of Croplogic which has been valued using mark to market methodology as its shares are actively traded.

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 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 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.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates and assumes that the financial instruments held at balance date were in place for the entire year. A positive number below represents an increase to profit and equity and a negative number below represents a decrease in profit and equity.

	2019	2018
100 basis points increase in interest rates	**$**	**$**
Impact on profit for the year	(20,108)	(2,351)
Impact on equity for the year	(14,478)	(1,693)
100 basis points decrease in interest rates		
Impact on profit for the year	20,108	2,351
Impact on equity for the year	14,478	1,693

(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 2019						
Financial assets						
Cash and cash equivalents	122,594	-	-	-	-	122,594
Trade and other receivables	-	23,183	-	-	-	23,183
Convertible notes in portfolio companies	-	-	-	-	40,000	40,000
Investments	-	-	-	-	7,541,168	7,541,168
Total financial assets	**122,594**	**23,183**	**-**	**-**	**7,581,168**	**7,726,945**
Financial liabilities						
Trade and other payables	-	72,381	50,227	3,179	-	125,787
Convertible notes	-	-	-	2,214,764	-	2,214,764
Total financial liabilities	**-**	**72,381**	**50,227**	**2,217,943**	**-**	**2,340,551**

	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	-	192,753	59,860	-	-	252,613
Convertible notes in portfolio companies	-	-	-	-	437,263	437,263
Investments	-	-	-	-	11,549,973	11,549,973
Total financial assets	**1,052,690**	**192,753**	**59,860**	**-**	**11,987,236**	**13,292,539**
Financial liabilities						
Trade and other payables	-	1,003,968	463,054	320,860	-	1,787,882
Convertible notes	-	-	-	2,455,569	-	2,455,569
Total financial liabilities	**-**	**1,003,968**	**463,054**	**2,776,429**	**-**	**4,243,451**

27 Financial Instruments (continued)

(h) Classification of financial assets and liabilities

	Amortised cost	Fair value through profit or loss	Total
	$	$	$
As at 30 June 2019			
Financial assets			
Cash and cash equivalents	122,594	-	122,594
Trade and other receivables	23,183	-	23,183
Convertible notes in portfolio companies	-	40,000	40,000
Investments	-	7,541,168	7,541,168
Total financial assets	**145,777**	**7,581,168**	**7,726,945**
Financial liabilities			
Trade and other payables	125,787	-	125,787
Convertible notes	2,089,400	-	2,089,400
Total financial liabilities	**2,215,187**	**-**	**2,215,187**
As at 30 June 2018			
Financial assets			
Cash and cash equivalents	1,052,690	-	1,052,690
Trade and other receivables	252,613	-	252,613
Convertible notes in portfolio companies	-	437,263	437,263
Investments	-	11,549,973	11,549,973
Total financial assets	**1,305,303**	**11,987,236**	**13,292,539**
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**

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 2019

Financial assets designated at fair value through profit or loss

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Investments at fair value through profit or loss valued as at last capital raise or liquidity event	-	-	7,045,110	7,045,110
Investments at fair value through profit or loss valued using observable quoted prices	496,058	-	-	496,058
Total financial assets measured at fair value through profit or loss	**496,058**	**-**	**7,045,110**	**7,541,168**

27 Financial Instruments (continued)

(h) Classification of financial assets and liabilities (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. The Directors consider there are sufficient trading volumes of Croplogic shares to use mark to market valuation methodology.

As at 30 June 2018

Financial assets designated at fair value through profit or loss

	Level 1 $	Level 2 $	Level 3 $	Total $
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**

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 supported by other qualitative and quantitative factors including milestone analysis	7,045,110	Price of recent investment, 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

	2019 $	2018 $
Opening balance	10,928,677	17,469,782
Total unrealised fair value gains recognised in profit or loss	379,691	1,219,666
Total unrealised fair value losses recognised in profit or loss	(3,160,947)	(4,894,781)
Transfers to investments classified as level one in the fair value hierarchy	-	(3,659,840)
Total fair value of investments purchased	382,931	791,431
Total fair value of convertible notes converted to equity	515,353	799,238
Total fair value of short term loans converted to equity	-	572,555
Total fair value of trade debtors converted to equity	42,223	-
Total fair value of investments acquired on restructuring	-	127,292
Total fair value of investments disposed	(2,042,818)	(1,496,666)
Closing value	**7,045,110**	**10,928,677**

Independent Auditor's Report

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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 on pages 5 to 37 which comprise the statement of financial position as at 30 June 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Powerhouse Ventures Limited as at 30 June 2019 and of its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) issued by the New Zealand Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) issued by the New Zealand Auditing and Assurance Standards Board. 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 undertaking a potential capital raise. Should the disposals of investments or potential capital raise not occur, a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our audit 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 period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and 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 a key audit matter that should be communicated in our report. For the matter below, our description of how our audit addressed the matter is provided in that context. We consider the disclosures around the valuation of investments in portfolio companies to be appropriate and the procedures performed provide the basis for our opinion on the accompanying financial statements.

Valuation of unlisted investments in portfolio companies:

Why the audit matter is 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 various investments at Notes 25 and 26 to the financial statements. The Company's investments in portfolio companies represents approximately 97% of the Company's total assets at 30 June 2019. The investments are carried at fair value, established using the International Private Equity and Venture Capital Valuation Guidelines. While the fair value of the unlisted investments in portfolio companies is based on the best information available, there is a high degree of uncertainty about that value due to the early-stage nature of the investments and the absence of quoted market prices. This uncertainty could have a material effect on the Company's statement of comprehensive income and its statement of financial position.	In obtaining sufficient appropriate audit evidence 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 is supported by other qualitative and quantitative inputs including milestone analysis and therefore representative of fair value. • We reviewed 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 for impairment for individual portfolio companies, relevant to the nature and stage of the investment. • We assessed the adequacy of the disclosures made by the directors in the financial statements regarding the valuation of investments.

Other Matter

The financial statements of Powerhouse Ventures Limited for the year ended 30 June 2018 was audited by another auditor who expressed an unmodified opinion on those financial statements on 31 August 2018.

Other information

The Directors are responsible for the Annual Report which will include information other than the financial statements and auditor's report. The other information contained in the Annual Report, except for the Directors' Responsibility Statement, is expected to be made available to us after the date of the issuance of this auditor's report.

Our opinion on the financial statements does not cover any of the other information that has been provided and we do not and will not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we have received, we conclude that there is a material misstatement of this other information, we are required to report that fact.

When we read the other information in the Annual Report, including the Directors' Responsibility Statement, if we conclude there is a material misstatement therein, we will be 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 Company for the preparation and fair presentation of the financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards issued by the New Zealand Accounting Standards Board, 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 on behalf of the Company for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to 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 ISAs (NZ) 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 on the External Reporting Board's website at: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/

Restriction on use of our report

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders, as a body, those matters which 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 its shareholders, as a body, for our audit work, for this report or for the opinion we have formed.

Grant Thornton New Zealand Audit Partnership

Grant Thornton

M Stewart
Partner
Christchurch
4 September 2019