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AUDEARA

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Annual Report

30 JUNE 2023



Audeara Limited

ABN 27 604 368 443 | ASX: AUA

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Corporate directory

Directors

Mr David Trimboli
Non-Executive Chairman

Dr James Fielding
Managing Director and Chief Executive Officer

Mr Pasquale Rombola
Non-Executive Director
(resigned 25 August 2023)

Dr Elaine Saunders
Non-Executive Director

Mr Bill Peng
Executive Director
(appointed 5 August 2022)

Company secretary

Stephen Buckley

Registered office & principal place of business

Level 1, North Tower
527 Gregory Terrace
Fortitude Valley QLD 4006

Phone
1300 251 539

Website
audeara.com

Corporate Governance Statement
audeara.com/corporate-governance

Stock exchange listing

Audeara Limited shares are listed on the
Australian Securities Exchange (ASX)

ASX code: AUA

Share register

Computershare Investor Services Pty Ltd
Yarra Falls
452 Johnston Street
Abbotsford VIC 3067

Phone
(03) 9907 7163

Auditor

Grant Thornton
King George Central
Level 18, 145 Ann Street
Brisbane QLD 4000

Bankers

Westpac Banking Corporation
300 Elizabeth Street
Brisbane QLD 4000

Annual General Meeting

11:00 AM (Brisbane Time),
27 November 2023

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Letter to shareholders

Dear Shareholder,

We are pleased to present Audeara's Annual Report for the 2023 financial year – a period marked by the ongoing execution of the group's stated strategy to build a global hearing technology company with state-of-the-art products, licensed service offerings and multi-channel revenue streams. Heading into FY24, the Audeara Board and management team remains passionate about the role our Company plays in using technology to provide better audio listening solutions that facilitate healthy hearing and improves people's quality of life. Within that broader mission statement, the operational milestones achieved by the business in FY23 have placed the Company at the cutting edge of key changes taking place in the market for hearing health, not just in Australia but internationally.

FY22/23 Financial Results

Amid the broader market tailwinds forming for its expanded technology suite, Audeara recorded another strong year of revenue growth with annual sales of \$2.9m, up 40% from the previous year. Strong operating momentum heading into the end of the year was confirmed by record revenues of \$940,000 in the June quarter, which was achieved alongside a disciplined focus on cost management that flowed through to positive net margin trends. With an established market footprint for our core product suite, Audeara complemented its sales momentum with the implementation of a broader distribution strategy that presents the company with several new major addressable market opportunities. Along with product development and distribution partnerships with several new partners globally, FY23 was also marked by the successful launch of the group's AUA technology platform to capitalise on white-label opportunities and direct pathways to licensing revenue. Our operating results and new product initiatives were underpinned in the period by a \$2.8m share placement at a premium to strategic investor Clinico Inc – the largest audiology retailer in Taiwan with market reach throughout Taiwan and China. The funds raised strengthened the Company's capital position at an important juncture, as it pursues key advancements in new product development and its broader service offering.

Pioneering global audiology solutions for better hearing health

Audeara hardware

Audeara's operational success in the 2023 financial year was defined by its ability to complement strong sales growth of its proprietary hardware – headphones and accessories – with the delivery of an expanded hearing health technology platform across global markets. With its A-02 Headphones, the group maintains a dominant position in the Australian market for assistive listening devices, where its products are available to eligible participants of the National Disability Insurance Scheme (NDIS), the Hearing Services Program and the Department of Veteran's Affairs Rehabilitation Program. The group's domestic sales footprint includes an extensive wholesale network of over 1,400 audiology clinics, and Audeara also secured a number of strategic Healthy Hearing partnerships during the year. Key partnerships during the period included NextSense, a 162-year-old Australian institution and registered NDIS provider dedicated to support solutions for the hearing and vision impaired. Audeara is also the official Healthy Hearing partner of the Brisbane Lions AFL team, advocating for improved community hearing health and advancing broader brand awareness. The Company's efforts to expand into global markets during FY23 were highlighted by sales agreements in Europe with Demant and WS Audiology – two of the world's five largest specialist hearing companies. First purchase orders for both companies were secured in the June quarter.



AUA Technology

Alongside our product suite, the group's global distribution strategy is being driven by the launch of AUA Technology – a business unit specifically designed to leverage Audeara's IP portfolio across hardware, firmware and software. During the period, AUA Technology was engaged by a leading global musical instrument company in an agreement which will mark the first deployment of Audeara's proprietary technology for use as a component of third-party products and devices. First product development revenues from the agreement have been received, and it serves to highlight the scalable growth opportunities across multiple market segments. This capability was a driving force behind the strategic investment from Clinico, which has now entered into a product development partnership with AUA for an in-ear earbud device. Through this R&D partnership, Audeara and Clinico are committed to creating purpose-built solutions to enhance revenue and bottom-line growth for clinic partners, while also opening the door for non-audiology usage based on the broader application of the technology. The rapid progress for AUA highlights the expanded addressable market opportunity for Audeara's proprietary tech stack, and offers commercial upside heading into the 2024 financial year.

Business Outlook

The success of Audeara's operations in FY23 reflects the ability of the Board and management team to adjust to market conditions and implement the necessary cash conservation measures. With a clearly defined strategy, Audeara is focused on scaling up sales for both hardware products and the AUA Technology licensing division. Alongside Clinico Inc, the AUA Technology division is scheduling the rollout of healthy hearing earbuds to the Taiwanese audiology market, along with ongoing purchase orders through our licensing agreement with a major global music industry partner. These global market opportunities highlight our aim to re-rate into a global ASX health-tech success story. We'd like to take this opportunity to thank our shareholders for their ongoing support of our strategy, and look forward to an exciting year of updates in pursuit of our international expansion strategy.

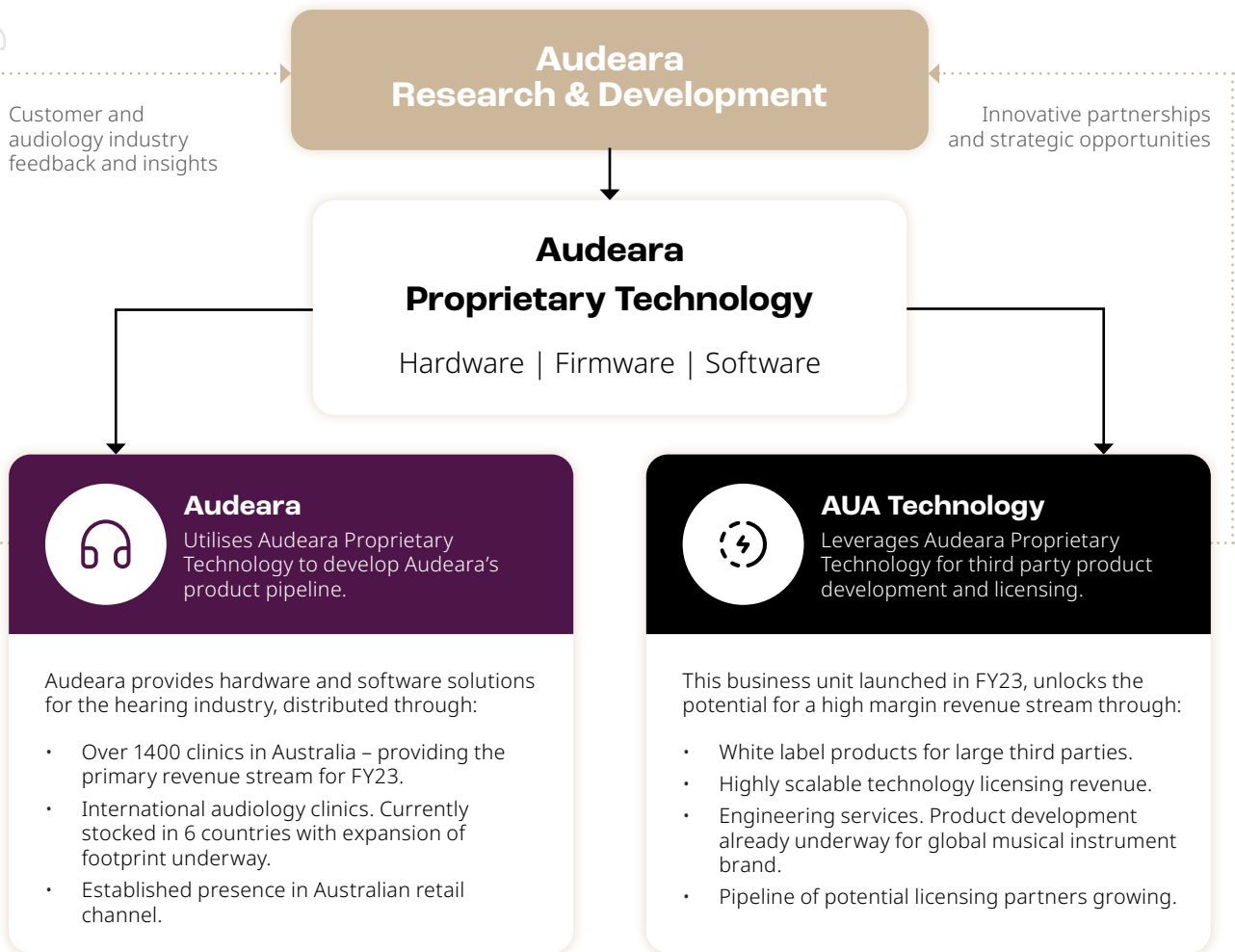


Dr James Fielding
Chief Executive Officer

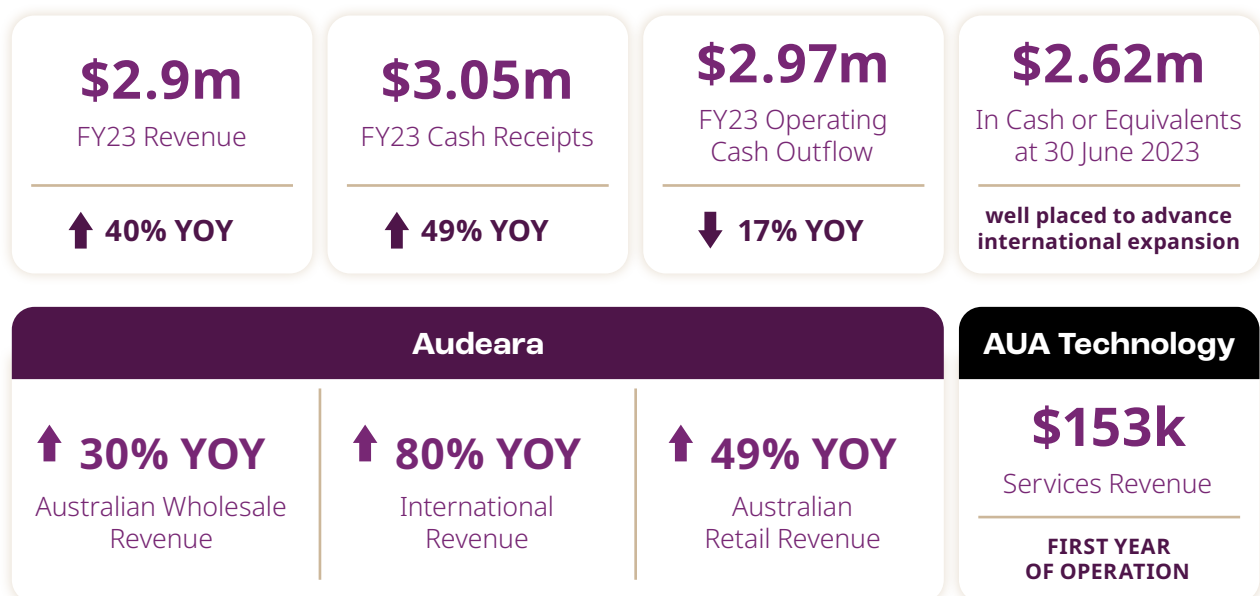


David Trimboli
Chairman

Business overview



Financial highlights





Company milestones



Continued growth in the Australian wholesale market

Audeara has continued to deliver sales momentum through increased traction for its proprietary hardware suite in the Australian market. The Company holds a leading position as a wholesale distributor to all major health networks, including the National Disability Insurance Scheme (NDIS), as well as relationships with all major audiology clinics. Audeara products are currently stocked in over 1,400 clinics nationwide.

This established footprint led to a wholesale revenue increase of 30% during FY23, coupled with a 49% year-on-year revenue growth through nationwide retail channels. Audeara is confident that the Australian market will continue to grow, particularly as larger audiology brands and clinics continue to transition to higher volume, single shipments during FY24 and beyond.



Expansion of international distribution

Audeara's well-established footprint in Australia, which includes partnerships with three of the global top-tier audiology brands – Amplifon, Demant, and WS Audiology - has led to an increased focus on international expansion during FY23.

The Company's partnership with Demant allowed for launches in Audika clinics throughout Hungary, as well as Hearing Life in the US. This was complemented by the WS Audiology partnership, which led to additional launches with bloom Hoerakustik in Austria and the HearUSA flagship store in the US. The Board remains focused on increasing international market penetration and expects to increase its European footprint throughout FY24 in collaboration with partners.

During the period, Audeara products were also launched in Taiwan alongside Clinico Inc.. Clinico is the largest audiology clinic in Taiwan and provides another large potential revenue stream.

Concurrently, the Board is also progressing opportunities within the EMEA region, underpinned by Amplifon Territories. Audeara is exploring a number of strategies to capitalise on this growing region, which will be undertaken via a coordinated rollout to bolster potential market success.



Clinico Inc. cooperative agreement

The Company's agreement with Clinico, secured in FY23, has led to the collaborative product development of healthy hearing earbuds with a clear path to market. Work towards completion is well progressed, with a product launch expected to occur in FY24.



Global musical instrument brand product development

A new product development stream, targeting the mass consumer market through potential partner groups, commenced during the period via the Company's AUA Technology division. This included design, sourcing, product development and post market support work. Additional fees from this division are expected to materialise during FY24 as Audeara realises its first technology licensing and contract manufacturing revenue.

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Directors' report

The directors present their report, together with the consolidated financial statements, on Audeara Limited (the Group) for the year ended 30 June 2023.

Directors

The following persons were directors of the Company during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mr David Trimboli

Non-Executive Chairman

Dr James Fielding

Managing Director and Chief Executive Officer

Mr Bill Peng

Executive Director and Chief Operating Officer
(appointed 5 August 2022)

Dr Elaine Saunders

Non-Executive Director

Mr Pasquale Rombola

Non-Executive Director
(resigned 25 August 2023)

Principal activities

The principal activity of the Group during the course of the financial year was the development of hearing health technology.

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

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Operating and Financial Review

The loss for the Group after providing for income tax amounted to \$3,742,927 (30 June 2022: \$2,954,057).

Over the past financial year, we have continued to see growth in the number of Australian clinics stocking Audeara products.

The anticipated expansion into the USA has not proceeded as well as expected and as a result we have reduced our presence to one person who has access to not only product sales channels but also access to companies seeking engineering solutions using our technology. An increased presence will be reviewed once the Group is cash flow positive.

The expansion into Europe has also been slower than expected but recent orders give us confidence this will be a significant market in the future. We continue to invest and expand in this market.

During this period we made a number of improvements to our product offering. In addition, we have also changed our strategy by making our proprietary software available to established brands. This allows us to provide our software as a service, leveraging off our hardware product offering and our partners established brands and channels to market.

The Group is currently not in a cash flow positive position and continues to rely on capital to fund its operations which is expected to continue until sales revenue increases. Operating overheads have been reduced in the reporting period after an in depth review of all aspects of the business which is discussed in more detail below.

Securing the business

With sales growth being slower than expected in the USA and Europe, as outlined above, the Group took the decision to right size its workforce and reduce costs accordingly. We believe we are now appropriately structured. A key driver of this will also be the success of the software licensing program we have rolled out whereby our technology is incorporated into established brands who have existing sales channels and significant brand equity in their respective markets.

The Company announced in December 2022, it had completed a A\$2.8m placement with Fortune Pioneer, a company associated with a strategic investor Mr David Lin. The Group issued 28,000,000 shares at a price of \$0.10 per share, which represented an 23% premium at the time. With the cost of initially stocking new sales channels, and the resultant growth expected in sales, the funds from the placement were expected to be used as working capital.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year.



Material Business Risks

The Board seeks to ensure that the process of risk identification, assessment and management is embedded in all aspects of the Group's businesses, and it monitors whether the level of compliance and governance within the Group is appropriate, with a particular focus on the risk culture and risk reporting. The size of the Group prevents some controls being effectively introduced but the Board believes it has compensating controls for any inherent deficiencies that may exist.

There are a number of material risks to which the Company is exposed, and the key material business risks are, in summary:

Access to financial resources

Given the Group's net loss and negative cash flow position, the ability of the Group to continue to access financial resources in the future could impact its ability to pay its debts as and when they fall due.

Changing consumer preferences in competitive markets

Given the changing environment in which the Group operates, this could have a very significant impact on the Group's financial results. The Board addresses this risk by constantly monitoring the market, and other competitors seeking to enter and already present in our markets.

Manufacturing disruption and supply chain reliability

Changing dynamics in overseas economies where the Group's products are manufactured could lead to disruption in manufacturing, shortages of crucial componentry, as well as delays in delivery, resulting in significant impact on the Group's financial results.

Maintaining a talented and motivated workforce

A loss of workforce capability, capacity, difficulty filling key positions, a continued loss of top performers, and forecast wage increases all could lead to a potential shortfall of staff, and in turn the Group's ability to deliver its goods which would result in a significant impact on the Group's financial results.

Matters subsequent to the end of the financial year

No other matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

The Group expects sales of headphones to continue to increase in future financial years. In addition, the Group also expects its software and technology licensing to result in increased future revenue.

Maintaining cost controls will ensure the Group achieves a break even sales point as soon as practically possible. Achieving positive net operating cash flows is a focus for the entire Group.

Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors



David Trimboli

B. Commerce, Major in Accounting and Corporate Finance

Non-Executive Chairman

Experience and expertise

David Trimboli has extensive experience as an executive and company director across many industries. He was a seed investor in Audeara in 2015, helping launch the Company. His experience includes 10 years with the international commodity trading and asset management company, Glencore International AG, as a senior coal trader based in Zug, Switzerland.

Other current directorships

Quantum Graphite Ltd (ASX:QGL),
Medibio Limited (ASX:MEB)

Former directorships (last 3 years)

None

Special responsibilities

Chair of the board

Interests in shares

15,940,805

Interests in options

300,000



Dr James Fielding

BBusMan/BSci, MBBS, Grad
Cert Exec Lead

Managing Director & Chief Executive Officer

Experience and expertise

Dr James Fielding completed dual bachelor's degrees in Business Management and Biomedical Science at University of Queensland. After working in finance and public relations in New York City, Dr Fielding gained graduate entrance into a Bachelor of Medicine/Bachelor Surgery, earning a scholarship for the University of Queensland's Medical Leadership Program, being an adapted MBA program for medical school students, conferring a Graduate Certificate of Executive Leadership.

Other current directorships

None

Former directorships (last 3 years)

None

Special responsibilities

Managing Director and Chief Executive Officer

Interests in shares

8,307,497

Interests in options

1,250,000

**Bill Peng**

BBus(Mktg), MBus(Entr)

Executive Director & Chief Operating Officer**Experience and expertise**

Bill has worked in the electronics industry and has extensive knowledge and experience in the production from electronic materials, components, and semi-product through to finished products. Most recently he has founded an Australian company specialising in electronic medical products. B Peng brings extensive business experience across operational, supply chain management, product development and international sales, particularly in the Asia Pacific Region.

Other current directorships

None

Former directorships (last 3 years)

None

Special responsibilities

Executive Director and Chief Operating Officer

Interests in shares

10,227,380

Interests in options

Nil

**Dr Elaine Saunders**BSc MSc, PhD, GAICD, Grad
Dip Mgt (Technology)**Non-Executive Director****Experience and expertise**

Elaine is a Biomedical Engineer, Audiological Scientist, business-woman, author, speaker and professional director. She started her career in the British NHS and now leads consulting company; Bingarra Scale-Up Solutions, specialising in helping businesses through growth.

Elaine's personal awards include the American Academy of Audiology's award for research within industry, the AFR/Westpac's 100 Women of Influence (2015), and the ATSE Clunies Ross Medal for Entrepreneur of the Year (2016). In 2004 she was the National Telstra Businesswoman of the Year in the Government, Private and Corporate Sector. She is a Churchill Fellow; a Fellow of the Academy of Technology, Science and Engineering; an Adjunct Professor at Swinburne University; an active mentor to Women in STEM and to early stage medical device companies.

Other current directorships

None

Former directorships (last 3 years)

None

Special responsibilities

None

Interests in shares

Nil

Interests in options

Nil



Pasquale Rombola
Bachelor of Economics

Non-Executive Director (resigned 25 August 2023)

Experience and expertise

Pasquale Rombola has extensive experience in the investment banking industry in Australia, United Kingdom and Asia specialising in Asian and Australian equities at both Morgan Stanley and Deutsche Bank. He held a variety of roles with Morgan Stanley, including Head of the ASEAN Equity and Global Head of the Asia Equity Sales.

Pasquale was Chairman and Director of ASX-listed Helix Resources Ltd from 2013 to 2016 and is currently Chairman of Advantage Agriculture Pty Ltd and Microba Life Sciences Limited.

Other current directorships

Microba Life Sciences Ltd (ASX:MAP)

Former directorships (last 3 years)

None

Special responsibilities

None

Interests in shares

351,588

Interests in options

450,000

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretary

The previous Company Secretary, Malcolm Thompson resigned on 7 October 2022. Stephen Buckley was appointed Company Secretary from 21 September 2022. Stephen is a director of Governance Corporate Pty Ltd, a company providing governance and company secretarial services to ASX listed companies. He currently acts as Company Secretary for four other ASX listed entities.

Meeting of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2023, and the number of meetings attended by each director were:

| | Full Board | |
|--------------------|------------|------|
| | Attended | Held |
| David Trimboli | 10 | 10 |
| Dr James Fielding | 10 | 10 |
| Pasquale Rombola | 10 | 10 |
| Dr Elaine Saunders | 7 | 10 |
| Bill Peng | 10 | 10 |

'Held' represents the number of meetings held during the time the director held office.

The Board has not established a separate audit committee. The full Board carries out the duties that would ordinarily be assigned to the audit committee. The Board considers that the Group is not currently of a size, nor are its affairs of such complexity to justify having, a separate audit committee.

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The Board is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the Group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The Board has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Group.

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Non-executive directors remuneration

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually. The Board may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration. Non-executive directors are entitled to receive shares and share options under the Directors' and Employees' Equity Incentive Plan. Upon the Company's admission to the ASX, the Company granted the Non-Executive Directors an allocation of options under the Company's Directors' and Employees' Equity Incentive Plan. Further details can be found under the heading "Share-based compensation" below.

As part of the cost reduction program initiated in May 2023, non executive directors agreed to reduce their fees. The Chair, David Trimboli, receives \$65,000 (2022: \$79,200) and each Non-Executive Director receives \$45,000 (2022: \$66,000) excluding superannuation. In addition, the Chairman has suspended receiving cash remuneration, pending shareholder approval of equity being issued to him in lieu of cash.

Directors may also be reimbursed for expenses properly incurred by them in dealing with the Group's business or in carrying out their duties as a Director.

Under the Constitution, the Board decides the total amount paid to each Non-Executive Director as remuneration for their services as a Director. However, under the ASX Listing Rules, the total amount of fees paid to all Directors for their services (excluding, for these purposes, the salary of any Executive Director) must not exceed in aggregate in any financial year the amount fixed by the Company's shareholders in general meeting. This amount has been fixed initially at \$380,000 per annum at a general meeting of the Company's members that occurred pre the IPO.

Executive directors remuneration

The Company aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Board based on individual and business unit performance, the overall performance of the Group and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive.

Bill Peng was appointed as an Executive Director on 5 August 2022 with the operational role as Director of Growth and Corporate Partnerships supporting manufacture, product design and Asian market development activities. Under the terms of the employment Mr Peng will be entitled to remuneration of \$200,000 per annum plus any statutory superannuation and discretionary benefits or incentives as may be approved by the Board. Mr Peng's employment will be for an initial fixed period of 1 year and thereafter continues unless terminated with 3 months' notice or under other standard employee termination clauses.

As part of the cost reduction program initiated in May 2023, executive directors agreed to reduce their salaries. The CEO, James Fielding, reduced his salary to \$200,000 per annum and Bill Peng reduced his salary to \$180,000 per annum excluding superannuation.

The short-term incentives ('STI') program is designed to align the targets of the Group with the performance hurdles of executives. STI payments are granted to executives based on specific targets and key performance indicators ('KPI's') being achieved. None of the executives received any short term incentives during the 2023 financial year.

The long-term incentives ('LTI') include share-based payments. Upon the Group's admission to the ASX in the prior financial year, the Company granted the Managing Director an allocation of options under the Company's Directors' and Employees' Equity Incentive Plan. Further details can be found under the heading "Share-based compensation" below.

Use of remuneration consultants

The Group did not engage remuneration consultants during the financial year ended 30 June 2023.

Voting and comments made at the Company's 28 November 2022 Annual General Meeting ('AGM')

At the 28 November 2022 AGM, 98.83% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2022. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the Group are set out in the following tables.

| 2023 | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | Total |
|---------------|----------------------|----------------------|--------------|--------------------------|--------------------|----------------------|---------|
| | Cash salary and fees | Annual leave accrual | Non-monetary | Super-annuation | Long service leave | Equity-settled | |
| | \$ | \$ | \$ | \$ | \$ | \$ | |
| D Trimboli | 68,333 | - | - | 7,175 | - | 2,377 | 77,885 |
| Dr J Fielding | 230,769 | (9,374) | - | 24,231 | 5,327 | 9,906 | 260,859 |
| P Rombola | 57,500 | - | - | 6,038 | - | 3,566 | 67,104 |
| Dr E Saunders | 57,500 | - | - | 6,038 | - | - | 63,538 |
| B Peng* | 202,154 | 12,302 | - | 21,226 | - | - | 235,682 |
| M Thompson** | 13,500 | - | - | - | - | - | 13,500 |
| S Smith*** | 69,695 | - | - | 7,318 | - | - | 77,013 |
| | 699,451 | 2,928 | - | 72,026 | 5,327 | 15,849 | 795,581 |

* B Peng was appointed an Executive Director on 5 August 2022.

** M Thompson resigned as Chief Financial Officer and Company Secretary on 7 October 2022.

*** S Smith was appointed Chief Financial Officer on 7 December 2022. His engagement is for a minimum of 1 day per week and he resigned with effect from 30 September 2023.

2022

| | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | Total |
|---------------|----------------------|----------------------|--------------|--------------------------|--------------------|----------------------|---------|
| | Cash salary and fees | Annual leave accrual | Non-monetary | Superannuation | Long service leave | Equity-settled | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| D Trimboli | 77,745 | - | - | 1,601 | - | 15,286 | 94,632 |
| Dr J Fielding | 240,000 | 18,461 | - | 24,000 | 4,000 | 63,693 | 350,154 |
| Dr E Saunders | 33,000 | - | - | 1,925 | - | - | 34,925 |
| P Rombola | 64,075 | - | - | - | - | 22,929 | 87,004 |
| M Thompson | 36,008 | - | - | - | - | - | 36,008 |
| | 450,828 | 18,461 | - | 27,526 | 4,000 | 101,908 | 602,723 |

The proportion of remuneration linked to performance and the fixed proportion are as follows:

| Name | Fixed remuneration | | At risk - STI | | At risk - LTI | |
|---------------|--------------------|------|---------------|------|---------------|------|
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| D Trimboli | 97% | 84% | - | - | 3% | 16% |
| J Fielding | 96% | 82% | - | - | 4% | 18% |
| P Rombola | 95% | 74% | - | - | 5% | 26% |
| Dr E Saunders | 100% | 100% | - | - | - | - |
| B Peng | 100% | - | - | - | - | - |
| S Smith | 100% | - | - | - | - | - |

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name Dr James Fielding

Title Managing Director and Chief Executive Officer

Agreement commenced 18 May 2021

Term of agreement Fixed term of 2 years

Details Annual salary of \$240,000 (exclusive of statutory superannuation) which has been reduced to \$200,000 to reduce corporate overheads. The remuneration will be reviewed by the Board of Directors 12 months from the commencement date and every 12 months thereafter or as otherwise agreed between the parties.

James is entitled to participate in the Company's option plan. Please refer to the section title "Share-based compensation" for further details.

The Company entered into an employment agreement with James that commenced on the date of the Company's listing on the Australian Securities Exchange and continues for a fixed two-year period, after which it may be terminated by either party on three months' notice. The Company may terminate the agreement without notice upon limited events including misconduct or incapacity.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2023.

Options

The Company has a Directors' and Employees' Equity Incentive Plan to align the interests of eligible employees and Directors with shareholders through the sharing of a personal interest in the future growth and development of the Company and to provide a means of attracting and retaining skilled and experienced eligible persons.

The Company has on issue a total of 2,000,000 options under the plan to three of the Directors. The options vest in three equal tranches in 12 months, 24 months and 36 months respectively. Options are exercisable by the holder as from the vesting date. The options vest based on the Director remaining a Director/employee on the vesting date. If a Director ceases to be a Director/employee before the rights vest, the rights will be forfeited, except in limited circumstances that are approved by the board on a case-by-case basis. There has not been any alteration to the terms or conditions of the grant since the grant date. There are no amounts paid or payable by the recipient in relation to the granting of such options other than on their exercise.

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

| Name | Number of options granted | Grant date | Date vested and exercisable | Expiry date | Exercise price | Fair value per option at grant date |
|------------|---------------------------|-------------|-----------------------------|-------------|----------------|-------------------------------------|
| D Trimboli | 100,000 | 18 May 2021 | 18 May 2022 | 10 May 2024 | \$0.30 | \$0.083 |
| D Trimboli | 100,000 | 18 May 2021 | 18 May 2023 | 10 May 2024 | \$0.30 | \$0.088 |
| D Trimboli | 100,000 | 18 May 2021 | 18 Feb 2024 | 10 May 2024 | \$0.30 | \$0.089 |
| J Fielding | 416,666 | 18 May 2021 | 18 May 2022 | 10 May 2024 | \$0.30 | \$0.083 |
| J Fielding | 416,667 | 18 May 2021 | 18 May 2023 | 10 May 2024 | \$0.30 | \$0.088 |
| J Fielding | 416,667 | 18 May 2021 | 18 Feb 2024 | 10 May 2024 | \$0.30 | \$0.089 |
| P Rombola | 150,000 | 18 May 2021 | 18 May 2022 | 10 May 2024 | \$0.30 | \$0.083 |
| P Rombola | 150,000 | 18 May 2021 | 18 May 2023 | 10 May 2024 | \$0.30 | \$0.088 |
| P Rombola | 150,000 | 18 May 2021 | 18 Feb 2024 | 10 May 2024 | \$0.30 | \$0.089 |

Options granted carry no dividend or voting rights.

There were no options that were exercised, forfeited or lapsed during the year.

The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2023 are set out below:

| Name | Number of options granted during the year 2023 | Number of options granted during the year 2022 | Number of options vested during the year 2023 | Number of options vested during the year 2022 |
|---------------|--|--|---|---|
| D Trimboli | - | - | 100,000 | 100,000 |
| J Fielding | - | - | 416,667 | 416,666 |
| P Rombola | - | - | 150,000 | 150,000 |
| Dr E Saunders | - | - | - | - |
| B Peng | - | - | - | - |
| S Smith | - | - | - | - |

Additional information

The Group aims to align its executive remuneration to its strategic and business objective and the creation of shareholder wealth. The tables below show measures of the Group's financial performance over the last four years (being the extent of available historic audited performance information) as required by the *Corporations Act 2001*. However, these are not necessarily consistent with the measures used in determining the variable amounts of remuneration to be awarded to KMPs. As a consequence, there may not always be a direct correlation between the statutory key performance measures and the variable remuneration awarded.

The earnings of the Group for the five years to 30 June 2023 are summarised below:

| | 2023 \$ | 2022 \$ | 2021 \$ | 2020 \$ | 2019 \$ |
|-----------------------|-------------|-------------|-------------|------------|-------------|
| Revenue | 2,905,985 | 2,067,411 | 1,115,124 | 902,761 | 581,660 |
| Loss after income tax | (3,742,927) | (2,954,057) | (1,253,415) | (453,998) | (1,500,095) |

| | 2023 | 2022 | 2021 |
|--|--------|--------|--------|
| Share price at financial year end (\$)* | 0.032 | 0.10 | 0.10 |
| Total dividends declared (cents per share) | - | - | - |
| Basic earnings per share (cents per share) | (2.88) | (2.80) | (1.91) |

* The Company's shares first traded on the ASX on 18 May 2021 after successful completion of its IPO at \$0.20 per share. Accordingly, no share price information has been provided prior to the 2021 financial year.

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the Company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

| | Balance at the start of the year | Additions | Balance at the end of the year |
|---------------|-------------------------------------|-----------|-----------------------------------|
| D Trimboli | 15,940,805 | - | 15,940,805 |
| J Fielding | 8,307,497 | - | 8,307,497 |
| P Rombola | 351,588 | - | 351,588 |
| Dr E Saunders | - | - | - |
| B Peng | 10,227,380 | - | 10,227,380 |
| S Smith* | - | 30,000 | 30,000 |
| M Thompson** | 35,000 | (35,000) | - |
| | 34,862,270 | (5,000) | 34,857,270 |

* S Smith was appointed Chief Financial Officer on 7 December 2022.

** M Thompson resigned as Chief Financial Officer on 7 October 2022 and ceased being a KMP at that date.

Option holding

The number of options over ordinary shares in the Company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

| Options over ordinary shares | Balance at the start of the year | Granted | Exercised | Expired/forfeited/other | Balance at the end of the year |
|------------------------------|----------------------------------|---------|-----------|-------------------------|--------------------------------|
| D Trimboli | 300,000 | - | - | 100,000 | 300,000 |
| J Fielding | 1,250,000 | - | - | 416,666 | 1,250,000 |
| P Rombola | 450,000 | - | - | 150,000 | 450,000 |
| Dr E Saunders | - | - | - | - | - |
| B Peng | - | - | - | - | - |
| S Smith | - | - | - | - | - |
| | 2,000,000 | - | - | - | 2,000,000 |

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of the Company under option at the date of this report are as follows:

| Grant date | Expiry date | Exercise price | Number under option |
|-------------|-------------|----------------|---------------------|
| 18 May 2021 | 10 May 2024 | \$0.30 | 3,487,500 |

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

No options were granted to the directors or any of the five highest remunerated officers of the Company since the end of the financial year.

Shares issued on the exercise of options

There were no ordinary shares of the Company issued on the exercise of options during the year ended 30 June 2023 and up to the date of this report.

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Group

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

Non-audit services

There were no non-audit services provided during the financial year by the auditor.

Officers of the Group who are former partners of Grant Thornton

There are no officers of the Group who are former partners of Grant Thornton.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this directors' report.

Auditor

Grant Thornton continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the directors



David Trimboli
Chairman

29 September 2023
Brisbane



For personal use only



For personal use only





Auditor's independence declaration



Grant Thornton Audit Pty Ltd
King George Central
Level 18
145 Ann Street
Brisbane QLD 4000
GPO Box 1008
Brisbane QLD 4001
T +61 7 3222 0200

Auditor's Independence Declaration

To the Directors of Audeara Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Audeara Limited for the year ended 30 June 2023, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton Audit Pty Ltd
Chartered Accountants

CDJ Smith
Partner – Audit & Assurance

Brisbane, 29 September 2023

www.grantthornton.com.au
ACN-130 913 594

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Financial statements

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Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2023

| | Note | 2023 \$ | 2022 \$ |
|---|------|--------------------|--------------------|
| Revenue | | | |
| Revenue | 5 | 2,905,985 | 2,067,411 |
| Cost of sales | | (1,762,378) | (1,078,406) |
| Gross profit | | 1,143,607 | 989,005 |
| Other income | 6 | 262,422 | 266,439 |
| Interest income | | 7,485 | - |
| Expenses | | | |
| Employee benefits and contractor expenses | | (3,753,795) | (3,384,001) |
| Professional fees | | (168,919) | (158,477) |
| Advertising and marketing | | (623,026) | (280,323) |
| Other expenses | | (453,218) | (247,994) |
| Loss before depreciation, net finance costs and income tax | | (3,585,444) | (2,815,351) |
| Depreciation and amortisation | | (140,364) | (123,042) |
| Total depreciation and amortisation expense | | (140,364) | (123,042) |
| Finance income | | - | - |
| Finance costs | 7 | (17,119) | (15,664) |
| Total net finance income/(costs) | | (17,119) | (15,664) |
| Loss before income tax | | (3,742,927) | (2,954,057) |
| Income tax expense | 8 | - | - |
| Loss after income tax expense for the year attributable to the equity holders of Audeara Limited | | (3,742,927) | (2,954,057) |
| Other comprehensive income for the year, net of tax | | - | - |
| Total comprehensive income/(loss) for the year | | (3,742,927) | (2,954,057) |
| | | Cents | Cents |
| Basic earnings/(loss) per share | 31 | (2.88) | (2.80) |
| Diluted earnings/(loss) per share | 31 | (2.88) | (2.80) |

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

As at 30 June 2023

| | Note | 2023 \$ | 2022 \$ |
|--------------------------------------|------|------------------|------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 9 | 2,622,961 | 2,869,588 |
| Trade and other receivables | 10 | 847,305 | 785,655 |
| Inventories | 11 | 816,847 | 764,942 |
| Other assets | 12 | 197,929 | 700,748 |
| Total current assets | | 4,485,042 | 5,120,933 |
| Non-current assets | | | |
| Property, plant and equipment | 13 | 109,394 | 153,871 |
| Right-of-use assets | 14 | 96,356 | 173,444 |
| Intangibles | 15 | 43,860 | 46,654 |
| Total non-current assets | | 249,610 | 373,969 |
| Total assets | | 4,734,652 | 5,494,902 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 16 | 880,057 | 726,016 |
| Contract liabilities | 17 | - | 144,519 |
| Borrowings | 18 | 82,949 | 67,652 |
| Lease liabilities | 19 | 101,608 | 79,664 |
| Employee benefits | 20 | 229,306 | 186,856 |
| Provisions | 21 | 180,032 | 31,930 |
| Total current liabilities | | 1,473,952 | 1,236,637 |
| Non-current liabilities | | | |
| Lease liabilities | 19 | 26,182 | 127,790 |
| Employee benefits | 20 | 64,897 | 45,564 |
| Total non-current liabilities | | 91,079 | 173,354 |
| Total liabilities | | 1,565,031 | 1,409,991 |
| Net assets | | 3,169,621 | 4,084,911 |
| Equity | | | |
| Issued capital | 22 | 13,970,383 | 11,170,383 |
| Reserves | 23 | 218,814 | 191,177 |
| Accumulated losses | | (11,019,576) | (7,276,649) |
| Total equity | | 3,169,621 | 4,084,911 |

The above statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the year ended 30 June 2023

| | Issued capital \$ | Reserves \$ | Accumulated losses \$ | Total equity \$ |
|--|----------------------|----------------|--------------------------|--------------------|
| Balance at 1 July 2021 | 10,206,901 | 24,301 | (4,322,592) | 5,908,610 |
| Loss after income tax expense for the year | - | - | (2,954,057) | (2,954,057) |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| Total comprehensive income for the year | - | - | (2,954,057) | (2,954,057) |
| Transactions with owners in their capacity as owners: | | | | |
| Contributions of equity, net of transaction costs | 963,482 | - | - | 963,482 |
| Share-based payments | - | 166,876 | - | 166,876 |
| Balance at 30 June 2022 | 11,170,383 | 191,177 | (7,276,649) | 4,084,911 |

| | Issued capital \$ | Reserves \$ | Accumulated losses \$ | Total equity \$ |
|--|----------------------|----------------|--------------------------|--------------------|
| Balance at 1 July 2022 | 11,170,383 | 191,177 | (7,276,649) | 4,084,911 |
| Loss after income tax expense for the year | - | - | (3,742,927) | (3,742,927) |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| Total comprehensive income for the year | - | - | (3,742,927) | (3,742,927) |
| Transactions with owners in their capacity as owners: | | | | |
| Contributions of equity, net of transaction costs (note 22) | 2,800,000 | - | - | 2,800,000 |
| Share-based payments (note 23) | - | 27,637 | - | 27,637 |
| Balance at 30 June 2023 | 13,970,383 | 218,814 | (11,019,576) | 3,169,621 |

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the year ended 30 June 2023

| | Note | 2023 \$ | 2022 \$ |
|---|------|--------------------|--------------------|
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of GST) | | 3,047,172 | 2,042,215 |
| Payments to suppliers and employees (inclusive of GST) | | (6,326,740) | (5,824,896) |
| | | (3,279,568) | (3,782,681) |
| Interest received | | 7,485 | - |
| Research and development tax incentive | | 315,256 | 219,856 |
| Interest and other finance costs paid | | (10,925) | (15,664) |
| Net cash used in operating activities | 30 | (2,967,752) | (3,578,489) |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | 13 | (16,005) | (201,281) |
| Payments for security deposits | | - | (27,981) |
| Net cash used in investing activities | | (16,005) | (229,262) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | 22 | 2,800,000 | 1,000,000 |
| Other | | 4,044 | - |
| Proceeds from insurance premium funding | | 114,980 | 111,956 |
| Repayment of insurance premium funding | | (102,230) | (99,094) |
| Repayment of lease liabilities | | (79,664) | (36,617) |
| Share issue transaction costs | | - | (36,518) |
| Net cash from financing activities | | 2,737,130 | 939,727 |
| Net increase/(decrease) in cash and cash equivalents | | (246,627) | (2,868,024) |
| Cash and cash equivalents at the beginning of the financial year | | 2,869,588 | 5,737,612 |
| Cash and cash equivalents at the end of the financial year | 9 | 2,622,961 | 2,869,588 |

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements

30 June 2023

Note 1. General information

The financial statements cover Audeara Limited as a consolidated entity. The financial statements are presented in Australian dollars, which is Audeara Limited's functional and presentation currency.

Audeara Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 1, North Tower
527 Gregory Terrace
Fortitude Valley
QLD 4006

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 29 September 2023. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Going concern

For the year ended 30 June 2023, the Group incurred a loss before income tax of \$3,742,927 (2022: \$2,954,057) and had negative cash flows from operating activities of \$2,967,752 (2022: \$3,578,489). Included in the loss before income tax are non-recurring IPO transaction costs and other capital raising of \$nil (2022: \$53,626). Prima facie these factors indicate the existence of a material uncertainty regarding going concern.

The Group has invested significantly over time in the development of its headphones and has created a range of sales channels to market. Management anticipates continuing increases in revenue from a broader product offering. Management has also restructured the Group's cost base to better meet the needs of the Group.

The Directors have concluded that the going concern basis of preparation of the financial statements is appropriate and uncertainties regarding going concern should be able to be mitigated by the following:

- In the year ended 30 June 2023, the Company completed a successful placement and raised further capital of \$2.8 million, indicating its ongoing ability to raise equity.
- The Group had cash balances of \$2,622,961 at 30 June 2023, which when considered;
 - in light of management's anticipation of increases in revenue;
 - restructuring of the Group's cost base as outlined above, and
 - the Group's ability to raise further capital,
 are considered sufficient to meet working capital requirements for at least the next 12 months.
- At 30 June 2023, the Group had total net assets of \$3,169,621.

Based on the above, the Directors are of the opinion that at the date of signature of the financial report there are reasonable and supportable grounds to believe that the Company will be able to meet its liabilities from its assets in the ordinary course of business, for a period of not less than 12 months from the date of this financial report and has accordingly prepared the financial report on a going concern basis.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 33.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Audeara Limited (the Company; or parent entity) as at 30 June 2023 and the results of all subsidiaries for the year then ended. Audeara Limited and its subsidiaries together are referred to in these financial statements as the Group. Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

Note 2. Significant accounting policies (continued)

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Financial assets at amortised cost

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2023. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity. Refer to note 32 for further information.

Revenue from contracts with customers involving sale of goods

When recognising revenue in relation to the sale of goods to customers, the key performance obligation of the consolidated entity is considered to be the point of delivery of the goods to the location chosen as the location of control of the customer, as this is deemed to be the time that the customer obtains control of the promised goods and therefore the benefits of unimpeded access.

Revenue from contracts with customers involving the provision of services

When recognising revenue in relation to the provision of services over time, significant judgement is required in determining the appropriate performance obligations, the transaction price of the performance obligations and the satisfaction of the performance obligations.

Research and Development ('R&D') Tax Incentive

The Group lodges annual returns to claim eligible expenditure under the R&D Tax Incentive scheme with the Australian Government. The application of the R&D provisions requires a level of judgement and the maintenance of appropriate records to support amounts claimed.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Estimation of useful lives of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Income tax

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Note 4. Operating segments

Identification of reportable operating segments

The Group manages its operations as a single business operation and there are no parts of the Company that qualify as operating segments under AASB 8 Operating Segments. The Board of Directors (Chief Operating Decision Maker or "CODM") assess the financial performance of the Group on an integrated basis only and accordingly, the Group is managed on the basis of a single segment, being the development of hearing health technology. Information presented to the CODM on a monthly basis is categorised by type of expenditure.

Note 5. Revenue

| | 2023 \$ | 2022 \$ |
|--|------------------|------------------|
| Revenue from contracts with customers | | |
| Sale of goods – Wholesale (point in time) | 2,505,833 | 1,901,963 |
| Sale of goods – Retail (point in time) | 246,307 | 165,448 |
| Services revenue (over time) | 153,845 | - |
| | 2,905,985 | 2,067,411 |

Disaggregation of revenue from contracts with customers

| | 2023 \$ | 2022 \$ |
|-------------------------------------|------------------|------------------|
| Primary geographical markets | | |
| Australia | 2,712,167 | 2,005,441 |
| North America | 193,818 | 61,970 |
| | 2,905,985 | 2,067,411 |

Major customer

Revenues from one customer in Sales of goods - Wholesale, represented approximately \$955,850 or 46% (2022: \$575,000 or 52%) of the Group's total revenue.

Accounting policy for revenue recognition

Goods sold

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

Revenue from the sale of products is recognised at a point in time when control of the asset is transferred which is on shipment of the goods. The amount of revenue recognised is adjusted for expected returns, which are estimated based on the historical data for specific product types. The contracts permit the customer to return the item, however, there is a low probability of a significant reversal in cumulative revenue occurring.

Services revenue is recognised when the outcome of a transaction involving the rendering of services can be reliably estimated by reference to the stage of completion of the transaction at reporting date.

Note 6. Other income

| | 2023 \$ | 2022 \$ |
|--|----------------|----------------|
| Government grants (a) | 47,100 | 7,000 |
| Research and development tax incentive | 211,156 | 250,000 |
| Other | 4,166 | 9,439 |
| Other income | 262,422 | 266,439 |

(a) Government grants

| | 2023 \$ | 2022 \$ |
|--|---------------|--------------|
| Export Market Development Grant | 36,600 | - |
| Trade and Investment Queensland Grants | 10,500 | 7,000 |
| | 47,100 | 7,000 |

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

Note 7. Expenses

Loss before income tax includes the following specific expenses:

Depreciation

| | 2023 \$ | 2022 \$ |
|-------------------------------|----------------|----------------|
| Computer equipment | 60,482 | 51,173 |
| Buildings right-of-use assets | 77,088 | 69,075 |
| Total depreciation | 137,570 | 120,248 |

Amortisation

| | | |
|--|----------------|----------------|
| Patents and trademarks | 2,794 | 2,794 |
| Total depreciation and amortisation | 140,364 | 123,042 |

Finance costs

| | | |
|--|---------------|---------------|
| Interest and finance charges paid/payable on borrowings | 5,615 | 6,960 |
| Interest and finance charges paid/payable on lease liabilities | 5,309 | 5,030 |
| Other finance costs | 5,219 | - |
| Interest charges paid/payable to the ATO | 976 | 3,674 |
| Finance costs expensed | 17,119 | 15,664 |

Leases

| | | |
|----------------------------------|----------|---------------|
| Short-term lease payments | - | 13,602 |
|----------------------------------|----------|---------------|

Superannuation expense

| | | |
|--|----------------|----------------|
| Defined contribution superannuation expense | 218,780 | 159,417 |
|--|----------------|----------------|

Share-based payments expense

| | | |
|-------------------------------------|---------------|----------------|
| Share-based payments expense | 27,637 | 166,876 |
|-------------------------------------|---------------|----------------|

Note 8. Income tax

| | 2023 \$ | 2022 \$ |
|--|------------|------------|
| Income tax expense | | |
| Current tax | - | - |
| Deferred tax - origination and reversal of temporary differences | - | - |
| Adjustment recognised for prior periods | - | - |
| Aggregate income tax expense | - | - |

Numerical reconciliation of income tax expense and tax at the statutory rate

| | | |
|--|-------------|-------------|
| Loss before income tax expense | (3,742,927) | (2,954,057) |
| Tax at the statutory tax rate of 25% (2022: 25%) | (935,731) | (738,514) |

Tax effect amounts which are not deductible/(taxable) in calculating taxable income:

| | | |
|---|------------------|------------------|
| Non-assessable income | (50,000) | (62,500) |
| R&D expenses | 150,090 | 146,988 |
| Other expenses | 83 | 44,307 |
| | (835,558) | (609,719) |
| Current year tax losses not recognised | 851,283 | 707,932 |
| Current year temporary differences not recognised | (15,725) | (98,213) |
| Income tax expense | - | - |

| | 2023 \$ | 2022 \$ |
|---|------------------|------------------|
| Deferred tax assets not recognised | | |
| Deferred tax assets not recognised comprises temporary differences attributable to: | | |
| Prior year unrecognised tax losses carried forward | 1,403,657 | 774,672 |
| Over/under recognition of prior year deferred tax adjustments | (2,445) | 19,266 |
| Unrecognised tax losses | 851,449 | 707,932 |
| Unrecognised temporary differences | (15,725) | (98,213) |
| Total deferred tax assets not recognised | 2,236,936 | 1,403,657 |

The above potential tax benefit for tax losses and deductible temporary differences has not been recognised in the statement of financial position as the recovery of this benefit is uncertain. The tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

Note 8. Income tax (continued)

Accounting policy for income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Note 9. Cash and cash equivalents

| | 2023 \$ | 2022 \$ |
|-----------------------|------------------|------------------|
| Current assets | | |
| Cash on hand | 0 | 1,201 |
| Cash at bank | 2,622,961 | 2,868,387 |
| | 2,622,961 | 2,869,588 |

Accounting policy for cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, 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 changes in value.

Note 10. Trade and other receivables

| | 2023 \$ | 2022 \$ |
|--|----------------|----------------|
| Current assets | | |
| Trade receivables | 647,305 | 525,406 |
| Other receivables | - | 10,249 |
| Research and development tax incentive | 200,000 | 250,000 |
| | 847,305 | 785,655 |

Accounting policy for trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 14-60 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Note 11. Inventories

| | 2023 \$ | 2022 \$ |
|---|----------------|----------------|
| Current assets | | |
| Stock in transit - at cost | 395,153 | 220,121 |
| Stock on hand - at cost | 554,246 | 544,821 |
| Less : provision for stock obsolescence | (132,552) | - |
| | 816,847 | 764,942 |

Accounting policy for inventories

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Stock on hand is stated at the lower of cost and net realisable value on a "first in first out basis". Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Note 12. Other assets

| | 2023 \$ | 2022 \$ |
|-----------------------|----------------|----------------|
| Current assets | | |
| Prepayments | 156,198 | 277,823 |
| Security deposits | 41,731 | 41,731 |
| Other deposits | - | 381,194 |
| | 197,929 | 700,748 |

Note 13. Property, plant and equipment

| | 2023 \$ | 2022 \$ |
|--------------------------------|----------------|----------------|
| Current assets | | |
| Computer equipment - at cost | 223,236 | 207,233 |
| Less: Accumulated depreciation | (113,842) | (53,362) |
| | 109,394 | 153,871 |

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| | Computer equipment \$ |
|--------------------------------|--------------------------|
| Balance at 1 July 2021 | 3,763 |
| Additions | 201,281 |
| Depreciation expense | (51,173) |
| Balance at 30 June 2022 | 153,871 |
| Additions | 16,005 |
| Depreciation expense | (60,482) |
| Balance at 30 June 2023 | 109,394 |

Accounting policy for property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Computer equipment 3-4 years

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

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Note 14. Right-of-use assets

| | 2023 \$ | 2022 \$ |
|--------------------------------|---------------|----------------|
| Non-current assets | | |
| Buildings - right-of-use | 231,260 | 231,260 |
| Less: Accumulated depreciation | (134,904) | (57,816) |
| | 96,356 | 173,444 |

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| | Buildings \$ |
|--------------------------------|-----------------|
| Balance at 1 July 2021 | 11,259 |
| Additions | 231,260 |
| Amortisation expense | (69,075) |
| Balance at 30 June 2022 | 173,444 |
| Additions | - |
| Amortisation expense | (77,088) |
| Balance at 30 June 2023 | 96,356 |

Accounting policy for right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are amortised on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Note 15. Intangibles

| | 2023 \$ | 2022 \$ |
|----------------------------------|---------------|---------------|
| Non-current assets | | |
| Patents and trademarks - at cost | 60,850 | 60,850 |
| Less: Accumulated amortisation | (16,990) | (14,196) |
| | 43,860 | 46,654 |

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| | Patents and trademarks \$ |
|--------------------------------|------------------------------|
| Balance at 1 July 2021 | 49,448 |
| Amortisation expense | (2,794) |
| Balance at 30 June 2022 | 46,654 |
| Amortisation expense | (2,794) |
| Balance at 30 June 2023 | 43,860 |

Accounting policy for intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, ranging from 1-20 years.

Note 16. Trade and other payables

| | 2023 \$ | 2022 \$ |
|----------------------------|----------------|----------------|
| Current liabilities | | |
| Trade payables | 570,225 | 426,274 |
| Accrued expenses | 153,842 | 217,858 |
| BAS payable | 138,860 | 59,760 |
| Other payables | 17,130 | 22,124 |
| | 880,057 | 726,016 |

Refer to note 24 for further information on financial instruments.

Accounting policy for trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Note 17. Contract liabilities

| | 2023 \$ | 2022 \$ |
|-----------------------------|------------|----------------|
| Current liabilities | | |
| Contract liabilities | - | 144,519 |

Contract liabilities relate to the unearned revenue component on goods invoiced but not yet delivered to a customer at the year-end.

Unsatisfied performance obligations

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period was \$NIL as at 30 June 2023 (\$144,519 as at 30 June 2022):

| | 2023 \$ | 2022 \$ |
|------------------------|------------|----------------|
| Within 6 months | - | 144,519 |

Accounting policy for contract liabilities

Contract liabilities represent the Group's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Group recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Group has transferred the goods or services to the customer.

Note 18. Borrowings

| | 2023 \$ | 2022 \$ |
|---|------------|------------|
| Current liabilities | | |
| Unsecured: Insurance premium funding | 82,949 | 67,652 |

Refer to note 24 for further information on financial instruments.

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

| | 2023 \$ | 2022 \$ |
|-------------------------------------|------------|------------|
| Total facilities | | |
| Insurance premium funding | 82,949 | 67,652 |
| Used at the reporting date | | |
| Insurance premium funding | 82,949 | 67,652 |
| Unused at the reporting date | | |
| Insurance premium funding | - | - |

Accounting policy for borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Note 19. Lease liabilities

| | 2023 \$ | 2022 \$ |
|--------------------------------|----------------|----------------|
| Current liabilities | | |
| Lease liability | 101,608 | 79,664 |
| Non-current liabilities | | |
| Lease liability | 26,182 | 127,790 |
| | 127,790 | 207,454 |

Refer to note 24 for further information on financial instruments.

Accounting policy for lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Note 20. Employee benefits

| | 2023 \$ | 2022 \$ |
|--------------------------------|----------------|----------------|
| Current liabilities | | |
| Annual leave | 229,306 | 186,856 |
| Non-current liabilities | | |
| Long service leave | 64,897 | 45,564 |
| | 294,203 | 232,420 |

Accounting policy for employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Note 21. Provisions

| | 2023 \$ | 2022 \$ |
|----------------------------|----------------|---------------|
| Current liabilities | | |
| Marketing | 150,000 | - |
| Warranties | 30,032 | 31,930 |
| | 180,032 | 31,930 |

Warranties

The provision represents the estimated warranty claims in respect of products sold which are still under warranty at the reporting date. The provision is estimated based on historical warranty claim information, sales levels and any recent trends that may suggest future claims could differ from historical amounts.

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

| 2023 | Marketing | Warranties \$ |
|---|----------------|------------------|
| Carrying amount at the start of the year | - | 31,930 |
| Additional provisions recognised/(reversed) | 150,000 | (1,898) |
| Carrying amount at the end of the year | 150,000 | 30,032 |

Accounting policy for provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Note 22. Issued capital

| | 2023 Shares | 2022 Shares | 2023 \$ | 2022 \$ |
|------------------------------|----------------|----------------|------------|------------|
| Ordinary shares - fully paid | 143,000,000 | 115,000,000 | 13,970,383 | 11,170,383 |

Movements in ordinary share capital

| Details | Date | Shares | Issue price | \$ |
|----------------|---------------------|--------------------|-------------|-------------------|
| Balance | 1 July 2022 | 115,000,000 | | 11,170,383 |
| Shares issued | 28 December 2022 | 28,000,000 | \$0.10 | 2,800,000 |
| Balance | 30 June 2023 | 143,000,000 | | 13,970,383 |

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group does not have any externally imposed capital requirements.

The capital risk management policy remains unchanged from the 2022 Annual Report.

The Group monitors capital on the basis of its working capital position (i.e. liquidity risk). The Group's net working capital at 30 June 2023 was \$3,011,090 (30 June 2022: \$3,884,296).

Accounting policy for issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Note 23. Reserves

| | 2023 \$ | 2022 \$ |
|------------------------------|------------|------------|
| Share-based payments reserve | 218,814 | 191,177 |

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

| | Share-based payments \$ |
|--------------------------------|----------------------------|
| Balance at 1 July 2021 | 24,301 |
| Share-based payment expenses | 166,876 |
| Balance at 30 June 2022 | 191,177 |
| Share-based payment expenses | 27,637 |
| Balance at 30 June 2023 | 218,814 |

Note 24. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, and ageing analysis for credit risk.

Risk management is carried out under policies set by the board of directors. The board provides principles for overall risk management, as well as policies covering specific areas.

Market risk

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

| | Assets | | Liabilities | |
|-------------------------|------------------|----------------|-------------|----------------|
| | 2023 \$ | 2022 \$ | 2023 \$ | 2022 \$ |
| US dollars (USD) | 5,057 | 137,360 | - | 258,417 |
| Hungarian Forint (HUF) | 1,561,530 | - | - | - |
| Hong Kong dollars (HKD) | - | - | - | 599 |
| | 1,566,587 | 137,360 | - | 259,016 |

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

| 2023 | AUD strengthened | | | AUD weakened | | |
|------|------------------|-----------------------------|------------------|--------------|-----------------------------|------------------|
| | % change | Effect on profit before tax | Effect on equity | % change | Effect on profit before tax | Effect on equity |
| USD | 10% | (694) | (694) | 10% | (849) | (849) |
| HUF | 10% | (628) | (698) | 10% | (768) | (768) |
| HKD | 10% | - | - | 10% | - | - |
| | | (1,322) | (1,392) | | (1,617) | (1,617) |

| 2022 | AUD strengthened | | | AUD weakened | | |
|------|------------------|-----------------------------|------------------|--------------|-----------------------------|------------------|
| | % change | Effect on profit before tax | Effect on equity | % change | Effect on profit before tax | Effect on equity |
| USD | 10% | (17,557) | 17,557 | 10% | 17,557 | (17,557) |
| GBP | 10% | - | - | 8% | - | - |
| HKD | 10% | (11) | 11 | 5% | 11 | (11) |
| | | (17,568) | 17,568 | | 17,568 | (17,568) |

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

At 30 June 2023, the Group was exposed to variable interest rate risks on cash balances only. A change of 100 basis points (2022: 100 basis points) in interest rates at the reporting date would have decreased the loss before tax by \$1,322 (2022: decreased the loss by: \$17,568).

As at the reporting date, the Group had the following variable rate cash balances and no variable rate borrowings:

| | 2023 | | 2022 | |
|---|----------------------------------|------------------|----------------------------------|------------------|
| | Weighted average interest rate % | Balance \$ | Weighted average interest rate % | Balance \$ |
| Cash at bank | 1.55% | 2,622,961 | - | 2,868,387 |
| Net exposure to cash flow interest rate risk | | 2,622,961 | | 2,868,387 |

Note 24. Financial instruments (continued)

An analysis by remaining contractual maturities is shown in 'liquidity and interest rate risk management' below.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral.

Cash and cash equivalents

The Group has cash at bank of \$2,622,961 at 30 June 2023 (2022: \$2,868,387) that is held with financial institution counter-parties that are rated AA-based on S&P Global rating.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. The receivables that the Group does experience through its normal course of business are short-term and the risk of recovery of no recovery of receivables is considered to be negligible.

The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of 14-60 days for the majority of customers.

The Group uses an allowance matrix to measure the ECLs of trade receivables, which comprises of a large number of small balances. Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the age of the customer relationship and type of revenue/customer. Based on this matrix, management has determined an allowance of \$nil as at 30 June 2023 (2022: \$nil). Management also provides for the lifetime expected credit loss when there is indication the receivable is impaired.

Liquidity risk

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

2023

| 2 months or less | 2-12 months | 1-2 years | 3-5 years | Remaining contractual maturities |
|------------------|-------------|-----------|-----------|----------------------------------|
| \$ | \$ | \$ | \$ | \$ |

Non-derivatives

Non-interest bearing

| | | | | | |
|----------------|---------|---|---|---|---------|
| Trade payables | 862,928 | - | - | - | 862,928 |
| Other payables | 17,130 | - | - | - | 17,130 |

Interest-bearing - fixed rate

| | | | | | |
|------------------------------|----------------|----------------|---------------|----------|------------------|
| Lease liability | 16,750 | 84,858 | 26,182 | - | 127,790 |
| Insurance premium funding | 23,700 | 59,249 | - | - | 82,949 |
| Total non-derivatives | 920,508 | 144,107 | 26,182 | - | 1,090,797 |

2022

| 2 months or less | 2-12 months | 1-2 years | 3-5 years | Remaining contractual maturities |
|------------------|-------------|-----------|-----------|----------------------------------|
| \$ | \$ | \$ | \$ | \$ |

Non-derivatives

Non-interest bearing

| | | | | | |
|----------------|---------|---|---|---|---------|
| Trade payables | 426,274 | - | - | - | 426,274 |
| Other payables | 299,742 | - | - | - | 299,742 |

Interest-bearing - fixed rate

| | | | | | |
|------------------------------|----------------|----------------|----------------|---------------|------------------|
| Lease liability | 5,363 | 74,300 | 101,609 | 26,182 | 207,454 |
| Insurance premium funding | 18,685 | 48,967 | - | - | 67,652 |
| Total non-derivatives | 750,064 | 123,267 | 101,609 | 26,182 | 1,001,122 |

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Note 25. Key management personnel disclosures

Compensation

The aggregate compensation made to key management personnel of the Group is set out below:

| | 2023 \$ | 2022 \$ |
|------------------------------|----------------|----------------|
| Short-term employee benefits | 702,379 | 469,289 |
| Post-employment benefits | 72,026 | 27,526 |
| Long-term benefits | 5,327 | 4,000 |
| Share-based payments | 15,850 | 101,908 |
| | 795,582 | 602,723 |

Note 26. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Grant Thornton, the auditor of the Group:

| | 2023 \$ | 2022 \$ |
|---|------------|------------|
| Audit services - Grant Thornton | | |
| Audit or review of the financial statements | 69,110 | 55,000 |

Note 27. Contingent liabilities

The Company did not have any contingent liabilities at 30 June 2023 and 30 June 2022.

Note 28. Related party transactions

Key management personnel

Disclosures relating to key management personnel are set out in note 25 and the remuneration report included in the directors' report.

Transactions with related parties

There were no transactions with related parties during the current and previous financial year.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Note 29. Events after the reporting period

No matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Note 30. Cash flow information

Reconciliation of loss after income tax to net cash used in operating activities

| | 2023 \$ | 2022 \$ |
|--|--------------------|--------------------|
| Loss after income tax expense for the year | (3,742,927) | (2,954,057) |
| Adjustments for: | | |
| Depreciation and amortisation | 140,364 | 123,042 |
| Share-based payments | 27,637 | 166,876 |
| Change in operating assets and liabilities: | | |
| Increase in trade and other receivables | (61,650) | (435,704) |
| Increase in inventories | (51,905) | (473,522) |
| Decrease/(increase) in prepayments | 121,625 | (213,782) |
| Decrease/(increase) in other operating assets | 381,194 | (328,065) |
| Increase in trade and other payables | 154,041 | 320,047 |
| (Decrease)/increase in contract liabilities | (144,519) | 144,519 |
| Increase in employee benefits | 61,783 | 56,936 |
| (Decrease)/increase in other provisions | 146,605 | 15,221 |
| Net cash used in operating activities | (2,967,752) | (3,578,489) |

Changes in liabilities arising from financing activities

| | Lease liabilities \$ | Insurance premium funding \$ | Total \$ |
|--|----------------------------|------------------------------------|----------------|
| Balance at 1 July 2021 | 12,811 | 54,790 | 67,601 |
| Net cash from/(used in) financing activities | (36,617) | 12,862 | (23,755) |
| Other changes/acquisition of leases | 231,260 | - | 231,260 |
| Balance at 30 June 2022 | 207,454 | 67,652 | 275,106 |
| Net cash from/(used in) financing activities | (79,664) | 12,750 | (66,914) |
| Other | - | 2,547 | 2,547 |
| Balance at 30 June 2022 | 127,790 | 82,949 | 210,739 |

Note 31. Earnings per share

| | 2023 \$ | 2022 \$ |
|--|--------------------|--------------------|
| Loss after income tax attributable to the owners of Audeara Limited | (3,742,927) | (2,954,057) |
| | | |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 105,630,137 | 105,630,137 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 129,902,740 | 105,630,137 |
| | | |
| | Cents | Cents |
| Basic earnings per share | (2.88) | (2.80) |
| Diluted earnings per share | (2.88) | (2.80) |

Options are considered to be potential ordinary shares but were anti-dilutive in nature and therefore the diluted loss per share is the same as the basic loss per share. These options could potentially dilute basic earnings per share in the future.

Accounting policy for earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Audeara Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 32. Share-based payments

Directors' and Employees' Equity Incentive Plan

The Company has a Directors' and Employees' Equity Incentive Plan to align the interests of eligible employees and Directors with shareholders through the sharing of a personal interest in the future growth and development of the Group and to provide a means of attracting and retaining skilled and experienced eligible persons.

On 18 May 2021, the Company granted a total of 3,950,000 options under the plan to key management personnel. The options were issued for nil consideration. The options vest in three equal tranches in 12 months, 24 months and 36 months respectively, and are exercisable by the holder as from the vesting date at 30 cents per share. The total value of all options granted was \$307,185. Other than remaining employed by the Group, there are no other vesting conditions.

Set out below are summaries of options granted under the plan:

2023

| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|--|-------------|----------------|----------------------------------|---------------|---------------|---------------------------|--------------------------------|
| 10/05/2021 | 10/05/2024 | \$0.30 | 3,487,500 | - | - | - | 3,487,500 |
| | | | 3,487,500 | - | - | - | 3,487,500 |
| Weighted average exercise price | | | \$0.30 | \$0.30 | \$0.00 | \$0.00 | \$0.30 |

2022

| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|--|-------------|----------------|----------------------------------|---------------|---------------|---------------------------|--------------------------------|
| 10/05/2021 | 10/05/2024 | \$0.30 | 3,950,000 | - | - | (462,500) | 3,487,500 |
| | | | 3,950,000 | - | - | (462,500) | 3,487,500 |
| Weighted average exercise price | | | \$0.30 | \$0.00 | \$0.00 | \$0.30 | \$0.30 |

Of the 3,487,500 options 1,304,167 were fully vested by 18 May 2022 and 1,091,667 vested on 18 May 2023 and were exercisable from those dates.

As a result of employees leaving, 462,500 share options have been cancelled.

The weighted average remaining contractual life of options outstanding at the end of the financial year was 0.86 years (2022: 1.86 years)

Accounting policy for share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions. Volatility used in the calculation was based on the historical volatility of comparable companies.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

Note 32. Share-based payments (continued)

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Note 33. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

| | Parent | |
|-----------------------------------|--------------------|--------------------|
| | 2023 \$ | 2022 \$ |
| Profit after income tax | (3,719,512) | (2,954,053) |
| Total comprehensive income | (3,719,512) | (2,954,053) |

Statement of financial position

| | Parent | |
|---------------------------|------------------|------------------|
| | 2023 \$ | 2022 \$ |
| Total current assets | 4,190,216 | 5,120,933 |
| Total assets | 4,480,539 | 5,494,902 |
| Total current liabilities | 1,511,683 | 1,236,637 |
| Total liabilities | 1,287,498 | 1,409,991 |
| Net Assets | 3,193,041 | 4,084,916 |
| Equity | | |
| Issued capital | 14,480,995 | 11,680,995 |
| Current Year Earnings | (3,719,512) | (2,954,052) |
| Retained Earnings | (7,276,643) | (4,322,590) |
| Options Reserve | 218,814 | 191,177 |
| Share Issue Costs | (510,612) | (510,612) |
| Total equity | 3,193,041 | 4,084,916 |

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2023 and 30 June 2022.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2023 and 30 June 2022.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2023 and 30 June 2022.

Loans to Subsidiaries

The parent entity holds loans with its subsidiaries which cause the net assets of the parent entity to exceed the total equity of the consolidated Group. Impairment losses have been recorded against the parent entity's loans receivable to reduce the equity position of the parent entity to the consolidated equity of the Group.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1.

Note 34. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following wholly-owned subsidiaries in accordance with the accounting policy described in note 1:

| Name | Principal place of business / Country of incorporation | Ownership interest | |
|--------------------|---|--------------------|-----------|
| | | 2023 % | 2022 % |
| Audeara Europe KFT | Hungary | 100% | – |
| Audeara US Inc. | United States of America | 100% | 100% |





Directors' declaration

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the directors

David Trimboli
Chairman

29 September 2023
Brisbane

Independent auditor's report

To the members of Audeara Limited



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Independent Auditor's Report

To the Members of Audeara Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Audeara Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2023, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Material uncertainty related to going concern

We draw attention to the going concern note within Note 2 of the financial statements, which indicates that the Group incurred a net loss of \$3,742,927 during the year ended 30 June 2023, and recorded net operating cash outflows of \$2,967,752. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report 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 matters described below to be the key audit matters to be communicated in our report.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Revenue Recognition – Note 5 <p>The Group earns revenue from the sale of its hearing health products to its retail and wholesale customers, as well as the provision of design and engineering services to selected clients.</p> <p>Revenue recognition from product sales can be impacted by a failure to measure revenue in accordance with applicable accounting standards or by applying an incorrect approach to period end cut-off. Additionally, revenue from the provision of services needs to be recognised “over time”, using an output method that assesses the completion of project milestones, which inherently requires the use of estimation and judgement.</p> <p>This area is a key audit matter because revenue recognition is significant to the users of the financial statements.</p> | <p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • Reviewing Audeara Limited's revenue recognition policies for compliance with AASB 15 <i>Revenues from Contracts with Customers</i>; • Understanding and documenting the processes and controls relating to revenue recognition; • Reviewing sales agreements with significant customers to assess whether the terms and conditions are reflected in the recognition of revenue; • Testing a sample of product sales revenue transactions to proof of delivery documentation and cash receipt, to evaluate the occurrence of the transaction and assess whether revenue was recorded in the correct period; • Selecting service contract revenue transactions, and: <ul style="list-style-type: none"> – reading the relevant contract terms and discussed the project schedule with key project personnel to evaluate how revenue should be recognised under AASB 15; – considering the appropriateness of the company's conclusion that it should recognise revenue over time and measure the completion of the performance obligations under the contract using the output method; and – agreeing outputs delivered to internal and external documentation; and – recalculating the service revenue that should be recognised during the period. • Obtaining Management's application of revenue cut-off at year-end, and testing the recording of sales close to year end to ensure they were recorded in the correct period; and • Assessing the adequacy of the financial report disclosures relating to revenue contained in Note 5. |

Independent auditor's report (continued)

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2023, but does not include the financial report and our auditor's report thereon.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards 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 this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 17 to 23 of the Directors' report for the year ended 30 June 2023.

In our opinion, the Remuneration Report of Audeara Limited, for the year ended 30 June 2023 complies with section 300A of the *Corporations Act 2001*.



Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Grant Thornton Audit Pty Ltd
Chartered Accountants

CDJ Smith
Partner – Audit & Assurance

Brisbane, 29 September 2023

Shareholder information

The shareholder information set out below was applicable as at 11 September 2023. As at 11 September 2023, there were 656 holders of fully paid ordinary shares.

Voting rights

The voting rights attached to ordinary shares are set out below:

Subject to any rights or restrictions for the time being attached to any shares or class of shares of the Company, each member of the Company is entitled to receive notice of, attend and vote at a general meeting. Resolutions of members will be decided by a show of hands unless a poll is demanded. On a show of hands each eligible voter present has one vote. However, where a person present at a general meeting represents personally or by proxy, attorney or representation more than one member, on a show of hands the person is entitled to one vote only despite the number of members the person represents.

On a poll each eligible member has one vote for each fully paid share held.

There are no voting rights attached to any of the options and performance options that the Company currently has on issue. Upon exercise of these options, the shares issued will have the same voting rights as existing ordinary shares.

Twenty largest quoted equity security holders

The names of the twenty largest holders of Ordinary Fully Paid Shares are:

| Holder Name | Holding | % IC |
|---|--------------------|--------------|
| FORTUNE PIONEER INTERNATIONAL HOLDINGS CO LIMITED | 28,000,000 | 19.54 |
| AUDEARA INVESTMENTS PTY LTD | 15,235,459 | 10.63 |
| BP PENG PTY LTD <BP PENG A/C> | 10,000,000 | 6.98 |
| JDB SERVICES PTY LTD <RAC & JD BRICE INVEST A/C> | 9,713,777 | 6.78 |
| C J NEW VENTURES PTY LTD <JEFFERY FAMILY A/C> | 9,518,656 | 6.64 |
| JAMES FIELDING FAMILY PTY LTD <JAMES FIELDING FAMILY A/C> | 8,214,263 | 5.73 |
| ALEX JOHN AFFLICK | 4,980,823 | 3.48 |
| UNIQUEST PTY LIMITED | 2,929,896 | 2.04 |
| CJQ INVESTMENTS PTY LTD <CJQ DISC A/C> | 2,646,575 | 1.85 |
| MR DAVID JOHN MYERS + MRS AMANDA MYERS | 1,949,291 | 1.36 |
| SCOTT SONNENBLICK | 1,616,727 | 1.13 |
| SCINTILLA STRATEGIC INVESTMENTS LIMITED | 1,500,000 | 1.05 |
| MR PAUL HENRI VERON + MRS JULIE ANNE VERON <DEAD KNICK S/F A/C> | 1,473,872 | 1.03 |
| LIU PINGQIAO | 1,220,634 | 0.85 |
| DIRON JEBEJIAN | 1,080,370 | 0.75 |
| BRINDLE HOLDINGS PTY LTD <O'CONNOR S/F A/C> | 909,869 | 0.63 |
| MYRNA BARAKAT | 732,847 | 0.51 |
| FRYLOCH PTY LTD <FRYLOCH DISC A/C> | 661,644 | 0.46 |
| HERACO PTY LTD <D G ROBERTSON SUPER FUND A/C> | 600,000 | 0.42 |
| KAMAREL PTY LTD <K F & M L SMITH S/F A/C> | 600,000 | 0.42 |
| Totals | 104,184,703 | 72.70 |

Substantial holders

The names of the substantial shareholders disclosed to the Company as substantial shareholders are:

| Name | No of Shares Held | % of Issued Capital |
|---|-------------------|---------------------|
| C J New Ventures Pty Ltd <Jeffery Family A/C> | 9,668,657 | 9.21% |
| David Trimboli & Related Parties | 15,940,805 | 11.12% |
| Fortune Pioneer International Holdings Co Limited | 28,000,000 | 19.54% |
| Hsin-Chieh Peng | 10,227,380 | 7.14% |
| James Fielding Family Pty Ltd <James Fielding Family A/C> | 8,307,497 | 5.80% |
| JDB Services Pty Ltd <RAC & JD Brice invest A/C> | 9,713,777 | 6.78% |

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

| Holding Range | Holders | Shares | % Issued Shared Capital |
|-------------------|------------|--------------------|-------------------------|
| 1 to 1,000 | 12 | 2,859 | 0.00% |
| 1,001 to 5,000 | 71 | 294,369 | 0.21% |
| 5,001 to 10,000 | 126 | 1,055,642 | 0.74% |
| 10,001 to 100,000 | 331 | 13,847,437 | 9.66% |
| 100,001 and over | 117 | 128,099,693 | 89.39% |
| Total | 657 | 143,300,000 | 100.00% |

Unmarketable Parcels – 158 Holders with a total of 842,870 shares, based on the last trading price of \$0.05 on 11 September 2023.

Restricted Securities

There are no securities on issue which are subject to restriction.

Unquoted restricted securities

The following unquoted securities are on issue and were issued under the employee incentive plan with various vesting schedules.

3,337,500 Unlisted Options @ \$0.30 expiring 10 May 2024 - 12 Holders

Corporate Governance Statement

The Corporate Governance Statement is available from the Company's website at <https://audeara.com/pages/corporate-governance>

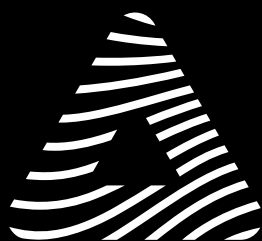
On market buy back

There is currently no on-market buy back program.

ASX Listing Rule 4.10.19

The Company has used its cash and assets in a form readily convertible to cash that it had at the time of listing of the Company's securities to quotation in a way consistent with its business objectives.

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