



audientes

Annual Report

2022

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Audientes at a glance

Audientes A/S is a Danish hearing health company specializing in smart, self-fitting and affordable hearing aids and advanced hearables. Our mission is to make smart, self-fitting and high-quality hearing aids and hearables accessible and affordable for anyone who needs them. Audientes' unique hearing aid solution, Ven™ by Audientes, is available for purchase in the Indian market, online and in retail, and is expected to be introduced to the USA over-the-counter market and other markets in the coming years. Companion by Audientes is an advanced hearable consumer electronics product that is now commercially available in Europe.

Audientes is listed on Spotlight Stock Market Denmark (AUDNTS) and headquartered in Copenhagen, Denmark with an affiliate in Hyderabad, India.



Ven™ by Audientes

Ven is a self-fitting, binaural (both ears) hearing aid intended for people with severe up to profound hearing loss in one or both ears. With a built-in, industry gold-standard hearing test and Bluetooth capabilities, Ven combines the sound quality of a high-end digital hearing aid with the next-generation features of a modern Bluetooth headset.

Companion by Audientes

Companion is an advanced hearable and Bluetooth headset in one for people who want to hear better in certain situations. Companion provides crisp sound, clear audio and natural sounding speech, coupled with Bluetooth 5.2 connectivity for calls and media streaming.



Audientes partnering with Earkart in India



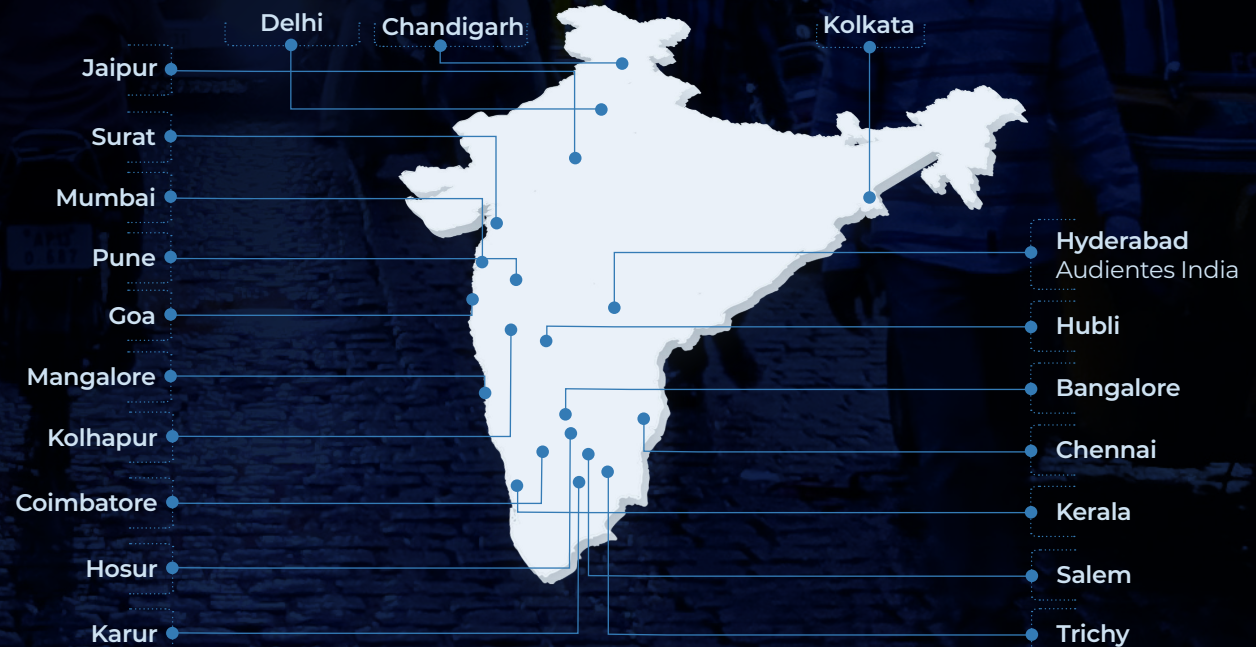
Audientes India Pvt. Ltd. was established in June 2021 and has been spearheading the commercialization and sales of Ven throughout India.

In May 2023, Audientes entered into an exclusive collaboration agreement with Earkart India, a rapidly growing hearing aid marketing and sales company. Earkart assumes general channel responsibility for Audientes' products in India, and will integrate Audientes' existing partner and distributor network with theirs.

Working with its extensive dealer network of more than 1,200 nationwide, which is the largest hearing clinic dealer network in India, Earkart has developed a scalable and comprehensive lead generation engine currently generating approximately 2,000 client leads per month.

Audientes will remain responsible for online and in-store dealer training and education, end-user support and product warranty matters. In certain cases, Audientes will distribute directly to specific partners or organizations.

Audientes' distribution network today encompasses partners with points of sale across India, and will be integrated with that of Earkart.



"This partnership with Earkart enables us to advance the sales and marketing of Ven in India by growing the retail presence and broadening the go-to-market channels. Earkart has the experience, network and resources to really push Ven out into the hands of consumers – both offline and online, and I look forward to further grow the market presence of Audientes self-fitting hearing aids in India with expansion to Bangladesh, Sri Lanka and Nepal in the next years",

Steen Thygesen, CEO, Audientes A/S.

Letter from the CEO

First year's sales revenue did not materialize as expected

The overall sales revenue for 2022 amounts to DKK 0.1 million as the revenue recorded and announced in quarterly interims reports during the 2022-period of DKK 3.1 million have been compensated by a provision of DKK 3.0 million related to products to be taken back in 2023. Reference is made to "Financial review 2022" on page 17. The revenue of DKK 0.1 million is significantly below our original expectations for the year.

In our view, this is because the bulk of potential Ven customers turned out to have more disabling hearing loss than originally anticipated, needing higher gain from Ven than it was made to provide in its initial version.

Consequently, as we also have communicated on several occasions, the sell-through of the products from our customers to the end-users have not been strong. This led to a very slow payment pattern from our hearing clinic customers related to recorded sales revenue from Q2 and Q3 for 2022.

In accordance with the recently announced exclusive distributor agreement with Earkart India, we are obliged to withdraw the distribution rights from existing distributors and have decided to take the consequence of this situation and to take back all products from our hearing clinic distributors and

dealers and other customers not paid for. We will upgrade these products with the new v2.0 software for Ven and use these products to support the committed sales to Earkart India within the next 12-15 months.

After the sales provision of DKK 3.0 million, partly compensated by the original production price for products to be taken back of DKK 1.3 million or net DKK 1.7 million, EBITDA hereafter amounts to DKK -14.0 million in 2022 compared to the latest guidance of an EBITDA of DKK -10 to -12 million. The loss after tax for 2022 hereafter amounts to DKK -24.4 million compared to DKK -12.9 million in 2021, while cash and cash equivalents amounted to DKK 6.9 million end of 2022, compared to DKK 10.6 million end of 2021.

The overall financial result is considered unsatisfactory. We have implemented a range of cost savings and delayed several initiatives to compensate for the missing margin due to the lower sales revenue.

Orders from some new prospective partners got delayed to 2023 as they were awaiting products based on the upcoming v2.0 platform release, which did not materialize as anticipated in Q4 but shifted into 2023. The good news is that they have started to materialize as we have recorded paid orders from a new distributor in Nepal, the Association of People with Disability in Bangalore and Earkart India.

Expanding the product portfolio with Companion by Audientes

In July 2022, we announced the addition of a new product to our portfolio with Companion by Audientes – a situational hearing solution, aimed at opening new markets and channels.

Companion is in the advanced hearables category and will extend Audientes’ reach to the consumer electronics market, where advanced hearables is one of the fastest growing segments globally. We believe that Companion will provide a valid alternative for those who are not quite ready for a traditional hearing aid, as well as for those who do not find the associated cost and stigma a good fit for them.

Companion is leveraging the hardware and software platform utilized in Ven. This will – in a cost-effective manner – enable Audientes to rapidly enter Europe, Asia, and the US with a smart non-medical consumer electronics device, while we continue to work on products to be registered or approved e.g., by the USA FDA and other regulatory bodies.

At the same time, the Audientes App has been enhanced with six different languages incl. German, Spanish and Japanese, supported by in-device voice prompts in Companion and Ven.

Continuously enhancing the product platform

Based on the initial learnings from India, we have been hard at work to develop an enhanced software platform upgrade (v2.0). This will power Ven and Companion devices in the coming years and was introduced to the Indian market in April 2023.

The v2.0 upgrade is providing a substantial sound experience improvement and increased gain to support up-to profound hearing loss, thus benefitting existing and new customers, and improving the product/market fit of Ven for the Indian, Nepalese, and other markets.

The feedback from both end-users and clinics having tested Ven with the v2.0 update is that it should initiate a much higher sell-through to end-users.

In 2022, we are amortizing a larger than normal part of the activated product development costs from the prior years to 2019, namely DKK 4.8 million, related to the software platform elements that no longer will serve a purpose in the future products.

Developing new channels, partnerships and customer segments

We began developing new channels in India, for e.g., pharmacies and NGO partnerships in line with our long-term distribution strategy. We advanced into the pharmacy, healthcare service provider and NGO markets with agreements with Thulasi Pharmacy Private Limited, Medtronic LABS’ ear care program, Shruti and the Association of People with Disability.

These agreements mean that more consumers and beneficiaries in India can be presented with Ven as a potential solution to their hearing loss. We are working diligently to train and support these partners, so more retailers will focus on selling and supporting Audientes’ products in their markets.

In parallel with seeking to address the product-market fit, we developed a close dialogue with Earkart in India, a rapidly growing hearing aid marketing and sales company. We recently announced that Earkart will assume general channel responsibility for Audientes’ products in India and will integrate Audientes’ existing partner and distributor network with theirs.

Working with its extensive dealer network of more than 1,200 nationwide, which is the largest hearing clinic dealer network in India, Earkart has developed a scalable and comprehensive lead generation engine currently generating approximately 2,000 client leads per month.

Audientes will remain responsible for online and in-store dealer training and education, end-user support and product warranty matters. In certain cases, Audientes will distribute directly to specific partners or organizations.

Securing working capital for the future

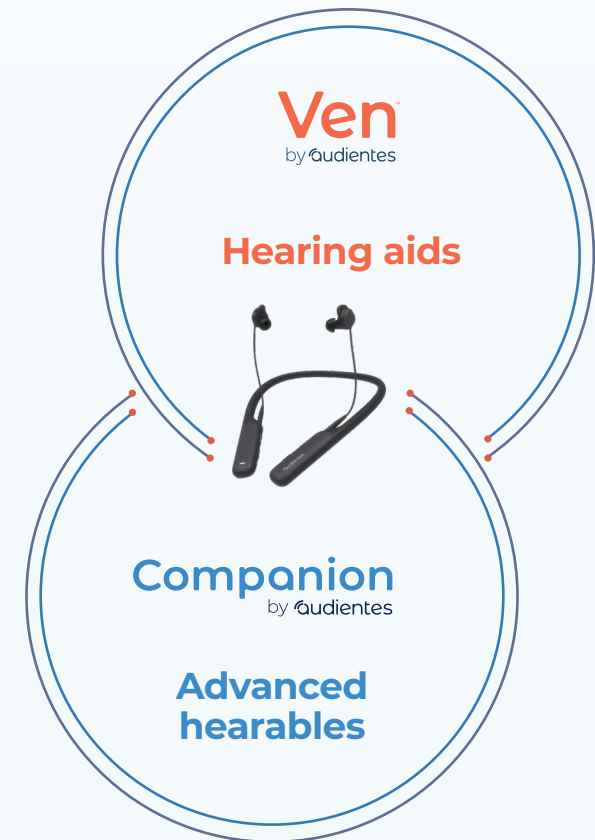
Securing further growth capital to cover the needed investments in market development activities, new product development and medical device approvals etc. remains a key priority for Audientes to fully deliver on our strategic objectives.

In April 2022, we announced our intention to raise approximately DKK 50 million over the next one-to-two years. Due to the current underperforming stock markets, our funding aim was later reduced, and divided up into smaller capitalization steps, each needing focus and attention.

Because of the lower-than-expected sales during 2022, considerable cost savings, and reluctance in cost spending in general, have been

Hearing aids:
Hearing aids industry global market approx. \$8 billion in 2022

In India, there are currently approximately 75 million people with untreated hearing loss.



Consumer electronics:
Spending on advanced hearables and ear-worn devices is forecast to reach \$44 billion in 2022

Audientes’ is focused on addressing the new global hearing health market with a complete portfolio.

Letter from the CEO

executed in the second half of 2022 to align the costs to the level of the sales results. At the end of 2022, several cost savings initiatives were implemented, the cost reduction impact will first take place during 2023 due to periods of notices etc. Further cost saving actions have been implemented in the beginning of 2023.

We executed on the planned Rights Issue of Units in December 2022, securing DKK 14 million in funding, however with net proceeds only at DKK 8 million and lower than hoped for to strictly follow the strategic plans and guidelines. The associated TO1 warrant exercise round, which ran from March 27th to April 13th, was also expected to support the pursuit of our strategic objectives, however, due to the current financial climate and Audientes current share price level, the net proceeds due from the warrants exercise only amounted to DKK 0.6 million, significantly lower than initially expected.

Anticipating this situation might occur, Audientes announced in February 2023 that we also intend to evaluate different alternatives to bring in the required financing in the short-medium term as well as exploring more longer-term structures such as partnerships, merger, sale of business or its assets, or a strategic investment.

Therefore, we remain open to partnering with a range of players in the industry on product development and go-to-market models, which can provide competitive advantages to us in developing our business as an independent entity, or as part of another industry actor. The funding aim and investment plan we currently are pursuing is being evaluated on an ongoing basis to keep both Company and shareholders' interests in mind.

We have formulated and have begun to execute on a highly focused strategy with our new exclusive partner Earkart in India as focal point. This translates to an opportunity to reach break-even in operations with total financing of less than DKK 5 million due to a cost-optimized operational approach. With this, we will be fully focused on the creation of a successful partnership with Earkart that can become a formula for replication and growth in other interesting markets.

As the first leg in the capitalization plan towards break-even, we have end of May 2023 secured immediate funding represented by a new convertible loan of TDKK 750 from existing lenders.

Overall learnings and take-aways from 2022

As aforementioned, 2022 has been a very challenged year for Audientes. However, it has also been a year of crucial learnings.

While Audientes was founded in 2014, the Company was not commercialized until 2018 with Ven and Companion first entering the market in 2022. Up until the beginning of 2022, the achieved funding including loans, pre-IPO investment and the IPO in 2020 amounted to around DKK 47 million.

We commenced the marketing of Ven in the Indian market from late Q1 2022, ramping up in Q2 and Q3 2022. However, as we later realized, the level of amplification in Ven was insufficient to address the group of end-users in India with more severe hearing loss. By Q4 2022, our sales to clinics were insignificant, as we worked on improving the capabilities of Ven. Our original IPO and announced sales expectations for 2022 of DKK 23-27 million were therefore too ambitious.

Products that had been shipped to our partner clinics in Q2 and Q3 remained outstanding for a considerable time. Despite the lack of payments, we decided at that time to continue the commercial collaboration with our direct customers in India and not recall unpaid products. Sales in 2022 amounted to a disappointing DKK 0.1 million.

Instead, we worked with the clinics, gaining feedback and insights into the reasons for the low sell through to end-users and in Q3 2022 began updating the Ven software platform to meet the requirements from our prioritized target group of customers.

At this time, we also implemented cost savings in the Danish organization, reducing headcount to accommodate the lower than originally expected sales. Additional cost savings were also implemented to minimize the needed cost base for running the operation with the now lowered sales expectations.

We also evaluated our own performance on the Indian market and decided to pursue an alternative strategy solution with an external and ambitious distributor, resulting in our sole distributor agreement with Earkart in India, commencing on May 1, 2023. We are looking forward to this cooperation with Earkart and to see how the updated Ven product will be received.

As a result of our distributor agreement with Earkart, we have now decided to take back all unpaid products from our

distributors and clinics so that we can update them to the new and improved software platform. These updated products will be then distributed to Earkart.

The updated version of Ven – and in parallel Companion – was released in April 2023 and is now being rolled out to Earkart. We are fully focused on supporting Earkart and on the Indian market to achieve the expected sales target of DKK 5 million in the coming 12 months. India, with a population of 1.4 billion and a significantly high amount of underprivileged people with untreated hearing loss, is our priority market and, based on the utilization of our strong commercial insights and experience in India, we are confident of our future success there.

In 2023, we have executed on the needed cost savings and are now a very lean organization with a minimum need for cost expenditures. We have prepared an estimate for need for cash the coming 12 months of DKK 5-6 million and a refinancing or prolongation of the current bridgeload of DKK 5.5 million to be paid in June 2023 based on an expected sales in the coming 12 months of DKK 6 million – much lower than our original target for 2022.

We are fully aware that our previous and current investors and shareholders may rightly be disappointed with our performance so far, but based on our upgraded product portfolio, cost savings initiatives, our full focus on the Indian market and our cooperation with Earkart, we allow ourselves to be optimistic in relation to securing the needed funding.

We have submitted the Annual Report for 2022 based on our belief that Audientes is a going concern. However, our auditor, Deloitte, deems it unlikely that we will achieve the necessary funding and meet our sales targets.

Nonetheless, we have developed a new and focused plan for the Company's future capitalization and will present this shortly. As part of the capitalization plan, at the end of May 2023, we secured a short-term funding from our existing bridge-lenders of TDKK 750.

I thank our shareholders for your patience, continued support and trust in Audientes in these difficult times.

Steen Thygesen
CEO, Audientes A/S

2023 Outlook

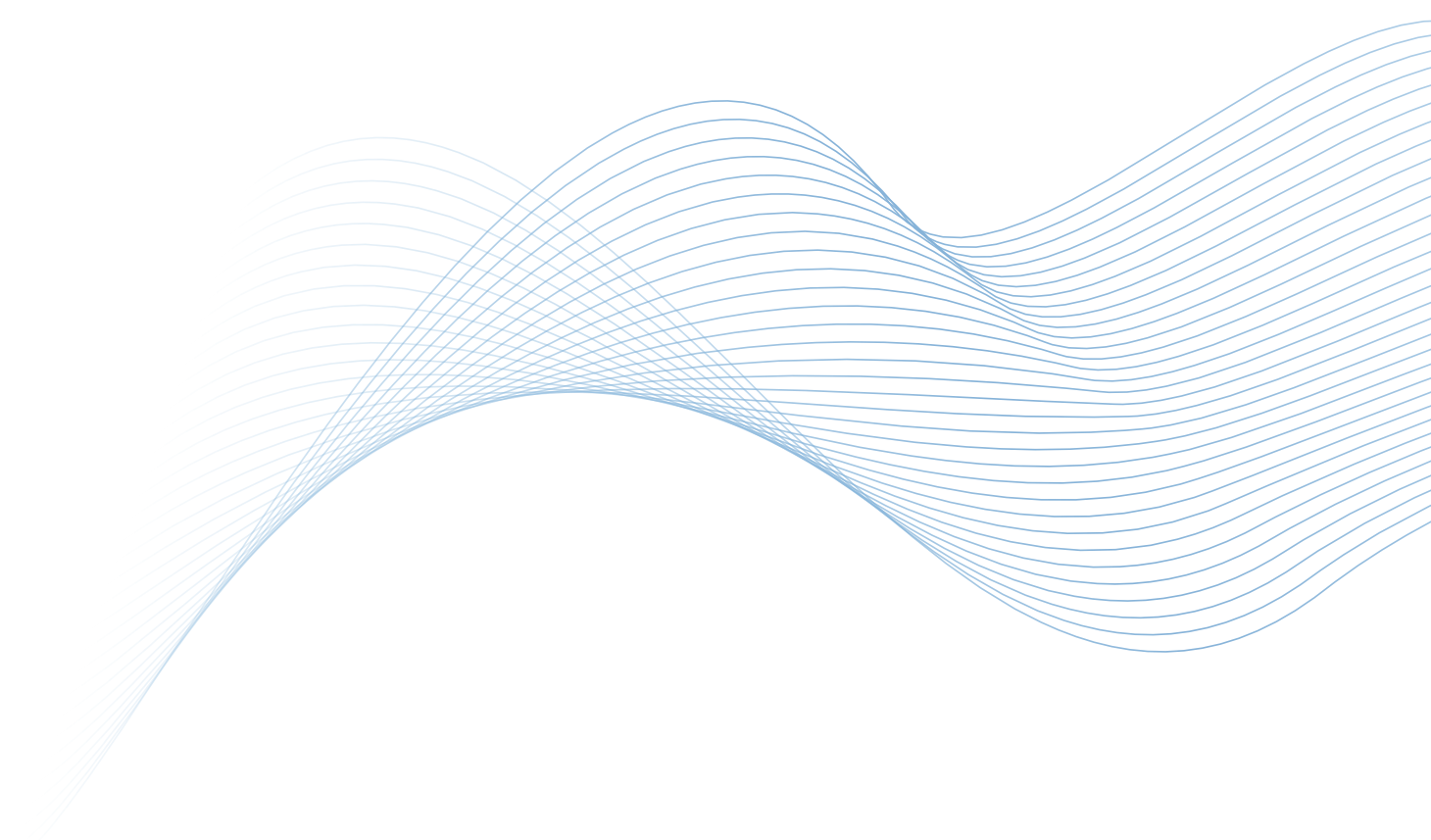
As announced, Audientes have a significant need for capital going forward to cover the needed investments in market development activities, new product development and medical device approvals etc. Therefore Audientes evaluate different alternatives to bring in the required financing in the short-medium term as well as exploring more longer-term structures such as partnerships, merger, sale of business or its assets, or a strategic investment.

Due to the uncertainty around the size and timing of funding in the short-term as well in the medium term, Audientes do not at the moment announce any guidance for the financial outlook for 2023.

Audientes has started execution on a highly focused strategy with our new exclusive partner Earkart in India as focal point, which translates to an opportunity to reach break-even in operations with total financing of less than DKK 5 million due to a cost-optimized operational approach.

As the first leg in the capitalization plan towards break-even, we have end of May 2023 secured immediate funding represented by a new convertible loan of TDKK 750 from existing lenders. The loan runs until September 30, 2023 with preferential status relating to prior debt. The loan is intended to be either set off for shares in future capitalization or to be repaid in cash.

Reference is made to note 1 “Going concern”



Financial highlights for the group

DKK '000	2022	2021	2020	2019	2018
Income statement					
Revenue	79	-	-	-	-
Other operating income	856	214	-	-	-
Earnings before interest, tax, depreciation and amortization (EBITDA)	-13,964	-13,217	-5,548	-110	-686
Earnings before interest and tax (EBIT)	-23,723	-14,360	-5,561	-110	-686
Profit/loss for the year	-24,362	-12,901	-5,138	-315	-446
Balance sheet					
Intangible assets	11,009	14,572	9,398	7,549	6,998
Inventories	4,647	1,366	-	-	-
Cash and cash equivalents	6,948	10,554	30,364	78	71
Total assets	26,601	31,454	42,195	7,699	7,537
Equity	13,049	25,484	38,372	3,931	4,246
Cash flow					
Cash flow from operation activities	-17,021	-13,977	-7,992	466	-513
Cash flow from investing activities	-3,303	-5,833	-1,301	-460	-467
Free cash flow	-20,324	-19,810	-9,293	6	-980
Cash flow from financing activities	16,718	-	39,579	-	800
Net cash flow for the year	-3,606	-19,810	30,266	7	-179
Other key figures and ratios					
Equity ratio in %	49.1%	81.0%	90.9%	51.1%	56.3%
Average number of full time employees	16	8	4	1	1
Earnings per share (in DKK)	-1.28	-1.38	-0.79	-0.09	-0.12
No. of shares beginning of the year	9,349,010	9,349,010	3,687,300	3,687,300	3,518,720
No. of shares end of the of year	28,747,020	9,349,010	9,349,010	3,687,300	3,687,300
Average number of shares in the year	19,048,015	9,349,010	6,518,155	3,687,300	3,603,010

Financial review 2022 for the Group

Sales of products amounted in 2022 to DKK 0.1 million as products of DKK 3.0 million recognized and reported during 2022, however not been paid for has been decided taken back leading to a provision in sales of DKK 3.0 million in 2022. The latest guidance for revenue for 2022 was DKK 3.5-5.0 million.

Earnings before interest, tax, depreciation and amortization (EBITDA) was in 2022 DKK -14.0 million and negatively impacted by DKK 1.7 million from taking back products not been paid for compared to an EBITDA of DKK -13.2 million in 2021. The latest guidance for EBITDA for 2022 was DKK -10 to -12 million.

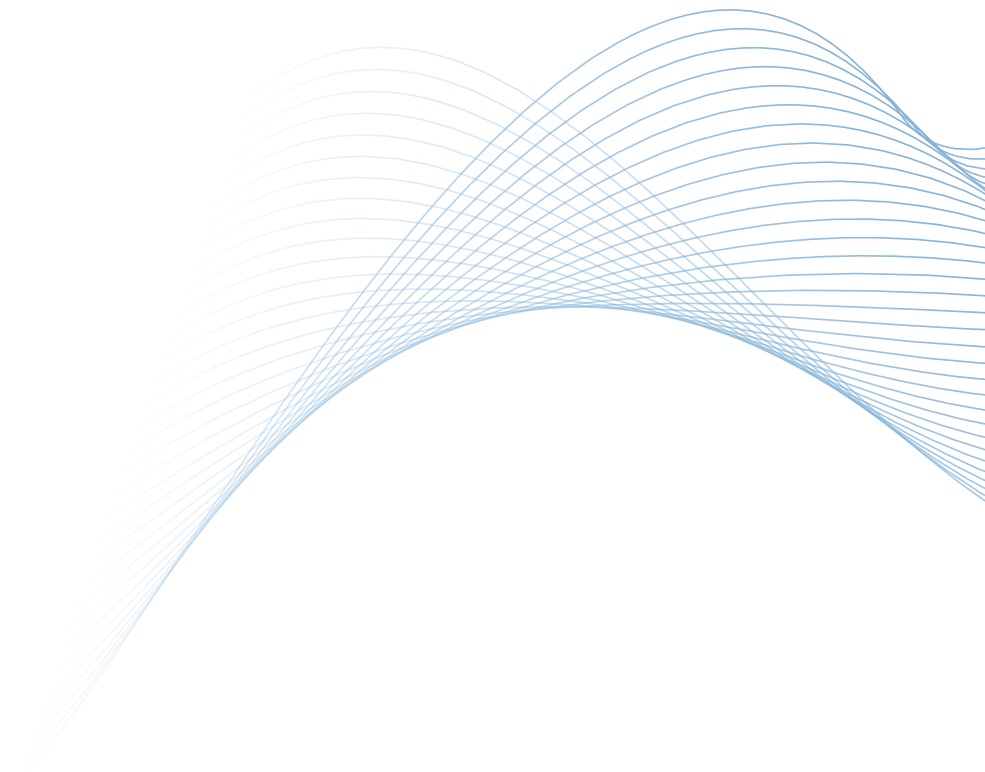
Depreciation and amortizations amounted in 2022 to DKK 9.8 million including an impairment of DKK 4.8 million related to scrapped and replaced developments cost from before 2019 compared to DKK 1.1 million in 2021.

Due to a free cash flow in 2022 of DKK -20.3 million, financial cost, net increased from DKK -0.4 million in 2021 to DKK -2.5 million in 2022.

Profit/loss for the year amounted to DKK -24.4 million in 2022 compared to DKK -12.9 million in 2021.

End of 2022, cash and cash equivalents amounted to DKK 6.9 million and equity to DKK 13.0 million.

Financial development in 2022 was characterized by sizable investment in the completion of our self-fitting hearing aid and execution on sales activities on especially the Indian market.



The financial review will be based on the performance for the Group except when otherwise indicated.

Revenue

Revenue from sales of hearing aid devices amounted in 2022 to DKK 0.1 million.

Due to a weak sell-through of products from Audientes' customers to end-users, which also have led to a slow payment pattern from Audientes' customers, Audientes recently decided to take back all products by the customers not paid for, upgrade these products with new software into Ven v2 and include these upgraded products into supporting the committed sales to the recently announced new distributor Earkart India, who starting May 1, 2023 will be the new sole distributor for the Indian market.

The provision for products to be taken back from the customers amounts to DKK 3.0 million, which has lowered the original recorded and previous announced revenue of DKK 3.1 million to DKK 0.1 million in 2022.

Other operating income

Other operating income of DKK 0.9 million compared to DKK 0.2 million in 2021 relates to support from the Danish Market Development Fund of in total DKK 3.4 million, which will be recognized over four years beginning in 2021.

Gross profit/loss

Gross profit was in 2022 realized at DKK -4.4 million compared with DKK -5.6 million in 2021.

The Gross profit/loss is impacted negative by net DKK 1.7 million from provision for taking back of products in 2023.

The improvement in Gross profit/loss is primarily driven by the increase in "Other operating income" and increase in "Own work capitalized".

Staff costs

Staff costs amounted in 2022 to DKK 9.6 million compared to DKK 7.7 million in 2021 – the increase primarily driven by the full-year impact from six new full-time employees hired in India in late 2021 and by provision for wages etc. to employees made redundant end of 2022.

In 2022, the average full-time employees were 16 employees compared to 8 employees in 2021. End of 2022, 13 employees were end in unannounced positions compared to 14 employees end of 2021.

EBITDA

EBITDA is in 2022 realized at DKK -14.0 million or DKK 0.7 million lower than in 2021. The positive impact from "Other income" has been compensated by provision for dismissed employees and by the full-year impact from wages and costs in general in 2022.

Depreciation, amortization and impairment

Depreciation, amortization and impairment amounted in 2022 to DKK 9.8 million or DKK 8.6 million higher than in 2021. Depreciation and amortization on intangible and tangible assets increased in 2022 by DKK 3.8 million primarily driven by the full-year impact from amortizations on "Development projects" initiated late 2021. Furthermore, an impairment of DKK 4.8 million related to scrapped and replaced development costs from before 2019 have been expensed in 2022.

Operating profit/loss

Operating profit/loss was in 2022 DKK -23.7 million compared to DKK -14.4 million in 2021.

Financial items

In 2022, net financial income and expenses amounted to DKK -2.5 million or DKK 2.1 million higher than in 2021 – driven by interests on bridge-loans taken in 2022 and commitment fees and commissions related hereto.

Profit/loss for the year

Tax for the year is calculated to an income of DKK 1.9 million primarily related to expected Credit Scheme disbursements under the Danish Tax Prepayment Credit, which is unchanged from 2021.

The loss for the year thus amounts to DKK -24.4 million compared to DKK -12.9 million in 2021.

Capitalization of development projects

During 2022, Audientes continued the development of its hearing aid concept consisting of software and hardware technology that together create an innovative hearing aid solution.

In 2022, DKK 5.6 million was capitalized under development projects compared to DKK 6.1 million in 2021. Additions thus totaled to DKK 21.1 million end of 2022, however compensated by DKK 7.0 million related to scrapped/replaced development costs from before 2019. Capitalized development costs end of 2022 hereafter amounted to DKK 14.1 million, where of DKK 1.2 million related to upgrade of the Ven-product to be marketed in 2023.

The booked value of development projects amounted to DKK 11.0 million end of 2022 compared to DKK 14.6 million end of 2021.

The Group's ongoing investments in development projects are expected to provide significant competitive advantages going forward.

Inventories

Inventories amounted to DKK 4.6 million end of 2022 including the products taken back from B2B customers in 2023 of DKK 1.2 million, which correspond an increase of DKK 3.3 million from the end of 2021. The inventory primarily consists of finished goods.

Receivables

Receivables from sales amounted to DKK 0 million end of 2022 as all sold products, however not paid for from the customers have been taken back by Audientes in 2023 and included in Inventories.

End of 2022, other receivables amounted to DKK 0.6 million compared to DKK 1.3 million end of 2021 – the decrease driven by lower VAT receivable.

Tax receivable amounted end of 2022 to DKK 1.9 million which is unchanged from 2021 and consist primarily of tax credit from the Credit Scheme disbursement under the Danish Tax Prepayment Scheme regarding development costs.

Equity

A capital increase consisting of a "Rights Issue of Units" has been carried out in December 2022. The equity was increased by DKK 14.5 million, however compensated by transaction and advisory costs of DKK -2.7 million causing a net increase equity of DKK 11.8 million, where DKK 1.9 is million related to Contributed capital.

Including a net loss in 2022 of DKK -24.4 million, the equity decreased from DKK 25.5 million at the end of 2021 to DKK 13.0 million at the end of 2022.

At the end of the financial year, the solvency ratio was 49% compared to 81% end of 2021.

Current liabilities other than provisions

Current liabilities other than provisions end of 2022 totaled DKK 13.5 million compared to DKK 6.0 million end of 2021. The increase related primarily to bridge-loans taken of DKK 4.8 million in 2022, to higher trade payables of DKK 3.0 million related to the increase in inventories, to increase in payables regarding provision for wages to employees made redundant and to personal income taxes, etc.

Cash flow

End of 2022, cash and cash equivalents amounted to DKK 6.9 million compared to DKK 10.6 million at end of 2021.

Cash flow from operations before change in working capital amounted to DKK -16.2 million compared to DKK -15.0 million in 2021.

Change in working capital is in 2022 negative with DKK -0.2 million compared with positive by DKK 1.0 million in 2021 – driven by the investment in inventories DKK -3.3 million, only partly compensated by lower receivables of DKK 0.5 million and increase in financing from trade payables and other payables of DKK 2.6 million.

After financial expenses, net paid and tax refunded, net, cash flow from operating activities amounted to DKK -17.0 million compared to DKK -14.0 million in 2021.

Cash flow from investing activities amounted in 2022 to DKK -3.3 million compared with DKK -5.8 million in 2021 driven especially by lower investments in tangible assets.

Free cash flow amounted in 2022 to DKK -20.3 million or DKK -0.5 million lower than in 2021.

Cash flow from financing activities amounted in 2022 to DKK 16.7 million and consisted of capital increase of net DKK 11.8

million and by bridge-loans taken of DKK 4.9 million. Cash flow from financing amounted in 2021 to DKK 0 million.

The decrease in cash and cash equivalents amounted in 2022 to DKK -3.6 million compared to DKK -19.8 million in 2021.

Proposal for disposition of Audientes' result

The loss for 2022 of DKK -24.4 million is suggested transferred to "Retained earnings" in equity.

The Board furthermore propose that no dividend to be paid for the financial year 2022.

Events after the balance sheet date

Securing further growth capital remains a key priority for the company. As part of the Rights Issue of Units funding process executed in December 2022, a process around exercising of warrants has taken place in March/April 2023 securing funding of net DKK 0.6 million.

Furthermore, Audientes has recently announced that it is in a position, where there will be a significant need for capital going forward to cover the needed investments in market development activities, new product development and medical device approvals etc. Therefore, Audientes intends to evaluate different alternatives to bring in the required financing in the short-medium term as well as exploring more longer-term structures such as partnerships, merger, sale of business or its assets, or a strategic investment.

If the upcoming critical funding round and/or the financing alternatives should not be completed as expected, the present plans for the development of the company will be adjusted accordingly to its financial capabilities.

As part of new strategic direction for the future capitalization of Audientes A/S, the current board members Povl-Andre Bang Bendz, Gitte Jürgens, Frank Vium and Peter Røpke resigned from the Board of Directors at an Extraordinary General Meeting on March 8th, 2023. The two major shareholders, Steen Thygesen and Hossein Jelveh, were elected together with Hiroshi Maeda and Jesper Rhode Andersen as new board members of Audientes A/S, and shall ensure the needed international competences to the anticipated business

development and capitalization.

From May 1, 2023, Earkart India – a rapidly growing hearing aid marketing and sales company – has become our exclusive distributor of Audientes' products in India. It is Earkart's expectation to purchase Audientes-products for around DKK 5 million within the coming 12 months.

No other events that might significantly affect the assessment of Audientes' financial position have occurred after the balance sheet date.

Going concern

Despite a successful Rights Issue process in December 2022, which yielded DKK 8 million in cash to the company and a process around exercising of warrants in March/April 2023 yielding net DKK 0.6 million the need for liquidity is still a challenge in order to develop the company commercially and to execute on the business plans.

The Company's execution of its business activities in 2023 is fully depending on further capital injection and refinancing or prolonging of a current bridge loan as well as successful execution of the sales budgets for the year.

The budget for the year is especially based on a successful sales of the updated and newly launched VEN version 2 on the Indian market carried out by the new exclusive distributor Earkart.

First leg of the new capitalization plan was to achieve a short-term additional bridge loan of DKK 750, which succeeded end of May 2023.

The Management fully acknowledge the commercial and financing challenges and risks. However it is the Management's assessment that the company is going concern, however uncertainty exists and further funding within the coming 2-4 months is required. The Management works together with financial and strategic advisors and is in dialogue with several stakeholders and potential investors etc. in order to secure sufficient funding.

Reference is made to note 1: Going concern.

Risk management

Introduction

Risk management is a priority focus area for Audientes as an integral part of daily operations to ensure rapid response in the face of changing conditions.

The overall responsibility for risk management lies with the Board of Directors in close collaboration with the Management.

Audientes has identified several risk factors which are outlined below in order of priority as regards significance and probability.

1. Revenue

Sales of the Audientes products commenced in Q2 2022. There is a associated risk of demand not being sufficiently high in the market for the Audientes hearing aid to sustain company operations.

To minimize this risk, Audientes has employed people and partnered with organizations with deep experience in building and driving consumer electronics and hearing aid sales both online and in retail. While this is not a guarantee of sale, it ensures that the product's potential is propagated in the market through several channels.

2. Capital risk

Audientes' growth strategy anticipates further capital injection in 2023 to manufacture, market, sell and support its hearing aid product Ven™ and Companion in sufficient quantities to meet its stated financial goals for the year.

To be able to support its growth strategy and need for working capital to support its ongoing operations, Audientes may elect to finance its market development primarily in India by separate capital injection as public or private placements, loans, or grants, subject to availability.

Should Audientes not be able to secure timely to further funding, it could have consequences for the company, including its ability to grow it business further and, ultimately, continue operating.

3. Regulation - Medical device approval

To be marketed and sold as a medical grade hearing aid, i.e. a medical device, which is a part of Audientes' core strategy, its hearing aids will need to undergo medical device approvals in several markets. The company's approach to medical device approvals spans the next couple of years, beginning with the quality management system introduced in 2022, as well and the preparation of the necessary documentation for submission of applications to the regulatory authorities.

Audientes' sales strategy is tailored in such a way that our initial launch markets are markets (such as India) where the Audientes hearing aid did not need medical device approval initially to be sold as a hearing aid. Our current plans for registration and/or approval in countries include, but not limited to, India (MDR - Medical Device Rules) and US (FDA Class 2 or 510(k)) and Europe (CE/MDR - Medical Device Regulation). Should Audientes not obtain these targeted approvals in a timely manner or at all, or if approvals are only obtained after a longer period than anticipated, then the impact on Audientes could be significant in the markets in question.

To address the potential risks of delays in the planned approval processes of FDA, CE/MDR, etc., the company has assembled a team of expert consultants with experience in certification and approval processes in both the US and Europe and plans to employ a Quality Manager with responsibility for regulatory approvals.

To mitigate the inherent risk in required approvals and certifications for certain markets, Audientes' may decide to

have its product(s) categorized and sold as a basic sound amplifier product, such as Personal Sound Amplification Products (PSAPs) and Assistive Listening Devices (ALDs), in order to get market access in a timely manner.

Such products are marketed and sold as consumer electronics products and has a simpler approval scheme. Audientes Companion product is approved for European and US markets already.

4. Product development

Audientes has in 2022 and will in the coming years commence product development activities for future products to constantly evolve its product portfolio of compelling offerings to prioritized markets and customer segments.

There is a risk that these new products will not be fully developed and ready for mass production and sale as scheduled according to our product roadmap, which is being updated regularly. Delays in the development and readiness of new products could have a serious impact on Audientes' longer-term ability to generate timely cash flow from the sale of its future hearing aids products. This would have serious consequences for the company, including its ability to grow it business further and continue operating.

To mitigate this risk, Audientes has secured a robust team with extensive experience in design, development, and market introduction of new products. This team have brought Ven™ and Companion to market and are poised to do so with future products as well.

5. Supply chain

Audientes' hearing aid Ven™ was launched in India in Q1 2022 when the mass production also was ramping up. In 2022, sales are significantly lower than budgeted, but sales are expected to

Risk management

ramp up in Q2 2023 and onwards based on upgraded products (both Ven and Companion). The products will be subject to ongoing design and development improvements, subject to Audientes' own plans as well as feedback from customers.

Delays in the supply of functioning products to sell Ven in Audientes markets, most prominently in India but also other new markets, could have a serious impact on Audientes' ability to generate timely cash flow from the sale of its hearing aids. Failure to generate cash from sales of products will have serious consequences for the company, including its ability to grow its business further and continue operating.

To mitigate this risk, Audientes has engaged experts and consultants with supply chain and production expertise. These people work with our manufacturing partner, Swedish-owned manufacturing partner, OSM Global ("OSM"), and other supply chain partners such as those providing core semiconductor components like Qualcomm and other components for our products, to ensure components and materials are ordered and delivered at the right time and in the expected quality.

6. High production costs

Production of the Audientes products Ven™ and Companion have begun. Prices for materials and components have increased during the recent years and the entire supply chain has become under increased pressure. There is a risk that the cost of production will be higher than expected, ultimately resulting in an increased retail price for the hearing aid. Such a price increase could have a negative impact on the market and, subsequently, company earnings.

During the past five years, Audientes has established a strong collaboration with our preferred production partner, OSM, to develop and optimize product design and to ensure favorable component prices and predictable deliveries from our suppliers.

OSM purchases components in very large quantities to produce several million products annually and can therefore secure volume discounts for the benefit of Audientes.

Further mitigation of production cost effects will happen as Audientes increases the number of manufactured units, as costs is likely to decrease then, subject to our scale of manufacturing and our position to negotiate and secure good rates.

7. External production and development partner

Audientes has been working with OSM since 2017 on both the development and production of the market-ready products. OSM manufactures in several countries, including China which is currently the site of production for Audientes.

The agreement with OSM is based on sub-agreements for each step of product development and production. In the case that OSM terminates the current agreement and subsequent sub-agreements, and we cannot define new sub-agreements, including the production agreement, Audientes will be forced to find another supplier of these services.

To deal with risk of delays related to OSM and the production, Audientes has engaged experts within design for manufacturing, production, and supply chain management as external consultants as well as full-time employed staff to acquire and develop its capabilities in this area. These people ensure sharp focus on weekly milestones and priorities, coupled with a close daily dialog with OSM at all stages of product development and production, to ensure products are optimized for manufacturing, minimize delays to supply of critical semiconductor and other components and materials, and optimize in general all supply chain and production related matters.

8. Organization

Currently, Audientes is a small-sized company. Therefore, a change in the Top Management (CEO, CFO and CTO) could have significant consequences for the development, production, and sale of the company's hearing aid.

To address this staff-related risk, an incentive scheme for the CEO and CFO has been implemented, while the company's CTO has a significant stake in the company.

9. The geopolitical situation

There are armed conflicts, unrest, and international sanctions effective in several markets of interest to Audientes. While the company is not able to predict the development in these areas and how it will affect its business in production and sales of its hearing aid products, increased turmoil in the world may have an adverse effect on Audientes manufacturing and supply chain overall, as well as its sales and marketing of its products in new and future markets.

Effects from armed conflicts and similar events may hinder Audientes to produce, ship and generate cash from sales of products, which will have serious consequences for the company, including its ability to grow its business further and continue operating.

However, while Audientes cannot reasonably predict about future impact on the company, at the point of publishing this annual report in Summer 2023, we do not currently see a material impact of current international conflicts to our supply chain, our own development, production by OSM, and market access in India.

Board of Directors



Hossein Jelveh, Chairman

Chairman since 10/03/2023.

Founder of Audientes in 2014 CTO since 27/08/2018. Hossein founded Audientes in 2014. He has worked in product R&D for over 30 years and has broad experience in the hearing aid industry, the wireless industry and the small mobile/medical device domain, as well as 20+ years of SW development experience.

Owns 2,255,010 shares in Audientes A/S through fully controlled holding company Jelveh Holding ApS. Privately holds 270,000 warrants in Audientes A/S.



Steen Thygesen, Board member

Board member since 08/03/2023.

Steen holds an MBA from London Business School and a Bachelor of Science in Electrical Engineering from Copenhagen University College. Steen has held executive positions within strategy, sales and management in technology companies such as Star, Nokia Denmark, Specialisterne, Microsoft, Symbian PLC and TDC.

Owns privately 310,789 shares in Audientes A/S. Privately holds 821,032 warrants in Audientes A/S.



Hiroshi Maeda, Board member

Board member since 08/03/2023.

Hiroshi is a graduate of the State University of New York. He has held a number of strategic positions in companies such as Motorola, where he was responsible for launching the mobile phone business, as well as director of business strategy for smartphone platforms at Symbian, Microsoft and Nokia. He has over 30 years of experience in launching new business units and building alliances in the telecommunications, Mobile communication and ICT industries. Since 2015, he has established Japan subsidiaries and held director positions for Wiko, Cloudmade and Star. Today, he is part of United International Group and has established United Innovations Co., Ltd. in Japan.

Owns privately 368,338 shares in Audientes A/S.



Jesper Rohde, Board member

Board member since 08/03/2023.

Jesper has a Bs.E.E in Electronic Engineering and Computer Science from IKT, and business and technology management from Thunderbird School of International Management, London Business School, and MIT. He is currently Managing Partner of TR4NSFORM consulting, and a board member of Viaduto SA a major Industry 4.0 rental company in Brazil and Miwire ApS, a Danish mobile router manufacturer. He has held several senior management positions at Ericsson and was a board member at SonyEricsson mobile handset business in Brazil, and Mills SA, Brazil's largest rental business for the construction industry listed on B3 in Sao Paulo.

Management



Steen Thygesen, CEO

Steen holds a Bachelor of Science in Electrical Engineering from Copenhagen University College and an MBA from London Business School. Throughout his career, Steen has had weighty responsibilities within IT development, strategy, sales and management in companies such as Star, Nokia Denmark, Microsoft Inc, Symbian and TDC. Additionally, he spent four years as CEO of the non-profit organization Specialisterne Foundation. Steen was a member of Audientes' Board until 2018 and again from March 2023. Since 2016, Steen has been a mentor at DTU Science Park.



Hossein Jelveh, CTO and founder

Hossein has a Master of Science in Electrical Engineering from Denmark's Technical University (DTU). He started his career at Nokia in 1997, where he worked as a software engineer and test manager. In 2012, he started his own company, Jelveh Medical Device, working on the research and development of hearing aids, and in 2014, he established Audientes. Until 2020, Hossein was a member of Audientes' Board of Directors and Chairman since March 2023. He is director and owner of Jelveh Holding ApS, the sole purpose of which is to function as a holding company for his ownership stake in Audientes A/S.



Troels Torp, CFO

Troels holds a Master of Science in Business Economics and Auditing and has over 25 years of experience in financial management, management reporting, financial analysis and forecasting. He has held executive positions in Novenco Marine & Offshore, Orkla Foods Denmark, Vækstfonden and GN Store Nord.

Shareholder information

Audientes shares

The closing price for 2022 was DKK 0.60 (in 2021: DKK 11.70), corresponding to a market value of approximately DKK 17 million (in 2021: DKK 109 million).

In 2022, a total of 3,609,642 shares or 31% of the total number of shares were traded compared to 7,718,568 shares or 77% in 2021.

Audientes is a commercial company with an expectation of a strong newsfeed in 2023.

Share capital

Audientes' share capital at the end of 2022 was nominal DKK 2,874,702 divided into 28,747,020 shares of DKK 0.1 each. The company has one class of shares and all shares carry the same voting rights, i.e. one vote. The shareholders must be registered in the company's register of shareholders in order to be allowed to vote at the company's annual general meeting.

Ownership

Due to Audientes' recently completed Rights Issue of Units, the new shares acquired by certain existing as well as new shareholders were in the process of being delivered (converted from units), and the ownership register was therefore not updated on the last trading day of the year, December 30, 2022.

As of January 2, 2023, Audientes A/S had over 2,800 registered shareholders (2021: 2,749), incl. shares held by customers of Avanza Bank AB (4.45%), Nordnet Securities Bank AB (3.46%), THE BANK OF NEW YORK MELLON SA/NV (1.04%), and STATE STREET BANK AND TRUST (0.47%), holding 75% of the company's share capital (2021: 93.87%).

As of January 2023, one shareholder had declared a shareholding of more than 5%.

Share price development in 2022 (price per share in DKK)



The official share price on 31 December 2022 was DKK 0.6, corresponding to a market value of DKK 17 million.

Shareholder	No. of shares	Holding, %
Jelveh Holding ApS*	2,255,010	7.84

As of January 2, 2023, the current members of the Company's Board of Directors and the Management held a total of 10.21% of the share capital.

Shareholder	No. of shares	Holding, %
Jelveh Holding ApS*	2,255,010	7.84
Steen Thygesen	310,789	1.08
Hiroshi Maeda	368,338	1.28
Total	2,934,167	10.21

*Jelveh Holding ApS is owned by Hossein Jelveh, CTO and founder of Audientes.

Warrants

Audientes has an incentive program consisting of warrants awarded to members of the Board of Directors and the Management as well as to employees of the company.

The main terms of the warrant programs are laid out in the company's Articles of Association, which can be found on Audientes' website at www.audientes.com.

In 2022, the Company issued warrants entitling the holders to subscribe to 75,000 shares with a nominal value of DKK 0.1. Warrants were issued in June 2022.

35,000 warrants were issued to previous board member Frank Vium and 40,000 warrants were issued to a member of staff, both with an exercise price of DKK 7.01 per share.

The Board of Directors is authorized to issue additional warrants at a nominal value of DKK 79,179.

Share data

Market:	Spotlight Stock Market Denmark
Industry:	Healthcare
ISIN code:	DK0061406618
Ticker:	AUDNTS
Share capital:	DKK 2,874,702
Nom. value per share:	DKK 0.1
No. of shares:	28,747,020
Votes:	One share carries one vote

Financial calendar



Investor relations

Audientes desires an open and continuous dialogue with shareholders, potential investors and the public. Therefore, all shareholders are encouraged to register in the company's register of shareholders according to the company's Articles of Association. Additionally, all shareholders are invited to sign up for the company's news service through the company's website at www.audientes.com.

Annual General Meeting

The company's 2022 Annual General Meeting will be held at Teknikerbyen 5, 2830, Virum, Denmark on June 28, 2023 at 3.00 pm.

The Board of Directors recommends to the Annual General Meeting that no dividend be paid for the financial year 2022 and that the loss for the year of DKK -24.362 million be transferred to next year.

Further information

Questions and comments from shareholders, analysts and other stakeholders should be addressed to:

Steen Thygesen, CEO
Email: steen.thygesen@audientes.com

Troels Torp, CFO
Email: tto@audientes.com

Audientes A/S
Teknikerbyen 5
2830 Virum
Tel.: +45 77 34 16 80
www.audientes.com

Statement by the Board of Directors and Executive Management

The Board of Directors and the Management have today considered and approved the annual report of Audientes A/S for the financial year 2022.

The consolidated financial statements and the Parent Company's financial statements have been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31.12.2022 and of the results of its operations and cash flows for the financial year 2022.

We believe that the management commentary contains a fair review of the affairs and conditions of Group and the Parent Company referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Virum, 13.06.2023

Management

Steen Thygesen

Hossein Sandfeld Jelveh

Board of Directors

Hossein Sandfeld Jelveh

Steen Thygesen

Hiroshi Maeda

Jesper Rhode

Independent auditor's report

To the shareholders of Audientes A/S

Adverse opinion

We have audited the consolidated financial statements and the parent financial statements of Audientes A/S for the financial year 01.01.2022 - 31.12.2022, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent, and the consolidated cash flow statement. The consolidated financial statements and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, due to the significance of the matters specified in the "Basis for adverse opinion" section, the consolidated financial statements and the parent financial statements do not give a true and fair view of the Group's and the Parent's financial position at 31.12.2022 and of the results of their operations and the consolidated cash flows for the financial year 01.01.2022 - 31.12.2022 in accordance with the Danish Financial Statements Act.

Basis for adverse opinion

The consolidated financial statements and the parent financial statements are presented on the assumption that the Company is a going concern. As mentioned in Note 1, the Group's ability to continue as a going concern depends on the Group achieving its sales targets for 2023/24, renegotiating and extending existing credit facilities, and raising sufficient additional liquidity to finance the continued operations of the Group. However, we consider the above unlikely to happen. Consequently, we give a qualified opinion as to presenting the consolidated financial statements and the parent financial statements on the assumption that the Company is a going concern.

Note 2 to the consolidated financial statements and the parent financial statements refers to the uncertainty connected with recognising and measuring the Group's development projects, recognised at DKK 11,009 thousand. The value of the development projects directly depends on the Group meeting the estimated sales targets and the additional financing requirements specified in Note 1. Otherwise, the recoverable

amount will be significantly lower than the carrying amount.

Note 2 to the consolidated financial statements and the parent financial statements refers to the uncertainty connected with recognising and measuring the Group's and the Parent's other fixtures, fittings, tools and equipment, recognised at DKK 1,002 thousand and DKK 944 thousand, respectively. The value of the production resources directly depends on the Group meeting the additional financing requirements specified in Note 1. Otherwise, the recoverable amount will be significantly lower than the carrying amount.

Moreover, Note 2 to the consolidated financial statements and the parent financial statements also refers to the uncertainty connected with recognising and measuring the Group's and the Parent's inventories, recognised at DKK 4,647 thousand and DKK 1,361 thousand, respectively. The Group has sold goods corresponding to DKK 0.9 million of these inventories after the balance sheet date. The Group's ability to sell the remaining inventories depends on the additional financing requirements specified in Note 1 and, most importantly, on the existence of buyers for the hearing aids produced. In particular, with reference to the distribution agreement entered into with Earkart India in May 2023, Management does not assess that any impairment of the remaining inventories is indicated.

Note 2 to the consolidated financial statements and the parent financial statements refers to the uncertainty connected with recognising and measuring the Parent's receivable from the subsidiary Audientes India Pvt. Ltd., recognised at DKK 3,170 thousand. The subsidiary's ability to pay the receivable directly depends on the Group meeting the estimated sales targets on the Indian market and the additional financing requirements specified in Note 1. Otherwise, the net realisable value will be significantly lower than the carrying amount.

As mentioned above, we consider it unlikely that the Group will meet the estimated sales targets and the additional financing requirements specified in Note 1, which will significantly affect the value of the individual types of assets as specified above:

- We believe that, in the consolidated financial statements, the development projects will be negatively affected by an amount between DKK 0-11 million, that property, plant, and equipment will be negatively affected by an amount between DKK 0-1 million, and that inventories will be negatively affected by an amount between DKK 0-3.7 million. The total impact on the Group's assets is then DKK 0-15.7 million, which, equivalently, will negatively affect the results for the year before tax and equity.
- We believe that, in the parent financial statements, the development projects will be negatively affected by an amount between DKK 0-11 million, that property, plant, and equipment will be negatively affected by an amount between DKK 0-0.9 million, that inventories will be negatively affected by an amount between DKK 0-1.3 million, and that the receivable from the subsidiary in India will be negatively affected by an amount between DKK 0-3.2 million. The total impact on the Parent's assets is then DKK 0-16.4 million, which, equivalently, will negatively affect the results for the year before tax and equity.

Consequently, we give a qualified opinion as to the measurement of the assets mentioned above.

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements" section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Management's responsibilities for the consolidated financial statements and the parent financial statements

Management is responsible for the preparation of consolidated financial statements and parent financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and the Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and parent financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit

evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and

timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the management commentary

Management is responsible for the management commentary. Our opinion on the consolidated financial statements and the parent financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

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

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

As is evident from the "Basis for adverse opinion" section, we have modified our opinion on the consolidated financial statements and the parent financial statements because of the fact that the consolidated financial statements and the parent financial statements have been presented as going concern to which we disagree in. Further, in our opinion, the management commentary should have reflected the significant uncertainties related to recognition and measurement as described in the "Basis for adverse opinion" section above. We have concluded that, for this reason, the management commentary is materially misstated as, in our opinion, the management commentary should have reflected these circumstances.

Copenhagen, 13.06.2023

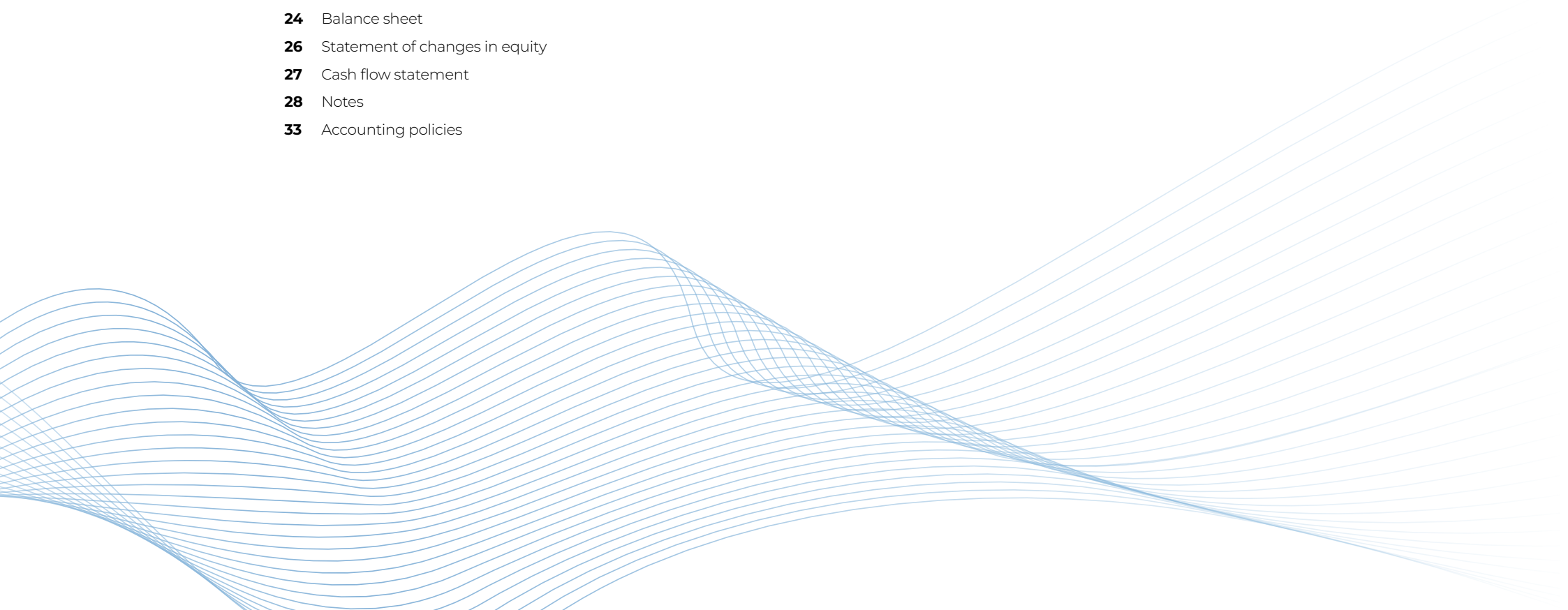
Deloitte

Statsautoriseret Revisionspartnerselskab
CVR No. 33963556

Henrik Wolff Mikkelsen
State Authorised Public Accountant

Identification No (MNE) mne33747

Consolidated financial statements and Parent Company financial statements

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Income statement for 2022

DKK '000	Note:	Group		Parent	
		2022	2021	2022	2021
Revenue		79	-	5,857	-
Own work capitalized		2,377	1,806	2,377	1,806
Other operating income		856	214	856	214
Cost of goods sold		-473	0	-4,311	0
Other external costs		-7,214	-7,571	-7,622	-7,463
Gross profit/loss		-4,375	-5,551	-2,843	-5,433
Staff costs	3	-9,589	-7,666	-8,511	-7,460
Depreciation, amortisation and impairment losses	7, 9	-9,759	-1,143	-9,756	-1,143
Operating profit/loss		-23,723	-14,360	-21,110	-14,036
Share of profit/loss in subsidiaries		-	-	-2,899	-324
Other financial income	4	207	50	207	50
Other financial expenses	5	-2,697	-473	-2,425	-473
Profit/loss before tax		-26,213	-14,783	-26,227	-14,783
Tax on profit/loss for the year	6	1,851	1,882	1,865	1,882
Profit/loss for the year		-24,362	-12,901	-24,362	-12,901
Proposed distribution of profit and loss:					
Retained earnings				-24,362	-12,901
Proposed distribution of profit and loss				-24,362	-12,901

Balance sheet, assets as of December 31

DKK '000	Note	Group		Parent	
		2022	2021	2022	2021
Completed development projects	7, 8	9,825	14,572	9,825	14,572
Development projects in progress	7, 8	1,184	-	1,184	-
Intangible assets	7, 8	11,009	14,572	11,009	14,572
Other fixtures and fittings, tools and equipment	9	1,002	1,545	944	1,545
Tangible assets		1,002	1,545	944	1,545
Investments in group enterprises	11	-	-	-	117
Deposits	10	196	151	140	151
Financial assets		196	151	140	268
Non-current assets		12,207	16,268	12,093	16,385
Raw materials and consumables		941	1,366	941	1,366
Manufactured goods and goods for resale		3,706	-	420	-
Inventories		4,647	1,366	1,361	1,366
Receivables from sales		-	-	-	-
Receivables from group enterprises		-	-	3,170	53
Other receivables		621	1,325	517	1,044
Income tax receivable		1,865	1,843	1,865	1,843
Prepayments		313	98	312	99
Receivables		2,799	3,266	5,864	3,039
Cash and cash equivalents		6,948	10,554	6,929	10,554
Current assets		14,394	15,186	14,154	14,959
Assets		26,601	31,454	26,247	31,344

Balance sheet, equity and liabilities as of December 31

DKK '000	Note	Group		Parent	
		2022	2021	2022	2021
Contributed capital	12	2,875	935	2,875	935
Reserve for development expenditure		-	-	7,915	10,264
Reserve for exchange rate adjustments		92	13	92	13
Retained earnings		10,082	24,536	2,167	14,272
Equity		13,049	25,484	13,049	25,484
Warranties	13	65	-	-	-
Provisions		65	0	0	0
Bank loans		62	25	62	25
Other short term loans		4,847	-	4,847	-
Trade payables		4,752	1,785	4,672	1,726
Other payables	14	1,471	948	1,262	897
Deferred income		2,355	3,212	2,355	3,212
Current liabilities other than provisions		13,487	5,970	13,198	5,860
Liabilities other than provisions		13,487	5,970	13,198	5,860
Equity and liabilities		26,601	31,454	26,247	31,344
Unrecognised rental and lease commitments	16				

Statement of changes in equity as of December 31

Group 2022

DKK '000	Contributed capital	Reserve for exchange rate adjustments	Retained earnings	Total
Equity beginning of year 2022	935	13	24,536	25,484
Capital increase	1,940	-	12,608	14,548
Expenses related to capital increase	-	-	-2,700	-2,700
Exchange rate adjustments	-	79	-	79
Profit/loss for the year	-	-	-24,362	-24,362
Equity end of year 2022	2,875	92	10,082	13,049

Group 2021

DKK '000	Contributed capital	Reserve for exchange rate adjustments	Retained earnings	Total
Equity beginning of year 2021	935	-	37,437	38,372
Exchange rate adjustments	-	13	-	13
Profit/loss for the year	-	-	-12,901	-12,901
Equity end of year 2021	935	13	24,536	25,484

Parent 2022

DKK '000	Contributed capital	Reserve for development expenditure	Reserve for exchange rate adjustments	Retained earnings	Total
Equity beginning of year 2022	935	10,264	13	14,272	25,484
Capital increase	1,940	-	-	12,608	14,548
Expenses related to capital increase	-	-	-	-2,700	-2,700
Exchange rate adjustments	-	-	79	-	79
Transfer to/from reserves	-	-2,349	-	2,349	-
Profit/loss for the year	-	-	-	-24,362	-24,362
Equity end of year 2022	2,875	7,915	92	2,167	13,049

Parent 2021

DKK '000	Contributed capital	Reserve for development expenditure	Reserve for exchange rate adjustments	Retained earnings	Total
Equity beginning of year 2021	935	6,035	-	31,402	38,372
Exchange rate adjustments	-	-	13	-	13
Transfer to/from reserves	-	4,229	-	-4,229	-
Profit/loss for the year	-	-	-	-12,901	-12,901
Equity end of year 2021	935	10,264	13	14,272	25,484

Cash flow statement

DKK '000	Note	Group	
		2022	2021
Operating profit/loss		-23,723	-14,360
Amortisation, depreciation and impairment losses		9,759	1,143
Other adjustments for non-liquidity items		-2,251	-1,806
Working capital changes	15	-159	1,023
Cash flow from ordinary operating activities		-16,374	-14,000
Financial income received		207	50
Financial expenses paid		-2,697	-473
Taxes refunded/paid		1,843	446
Cash flow from operating activities		-17,021	-13,977
Acquisition etc of intangible assets		-3,215	-4,266
Acquisition etc of other fixtures and fittings, tools and equipment		-43	-1,481
Changes in other financial assets		-45	-86
Cash flow from investing activities		-3,303	-5,833
Free cash flows generated from operations and investments before financing activities		-20,324	-19,810
Cash increase of capital		11,865	-
Short-term loan, taken/paid, net		4,884	-
Cash from bridge-loans, converted to equity afterwards		2,144	-
Transaction costs and advisory costs		-2,175	-
Cash flow from financing activities		16,718	0
Increase/decrease in cash and cash equivalents		-3,606	-19,810
Cash and cash equivalents beginning of year		10,554	30,364
Cash and cash equivalents end of year		6,948	10,554
Cash and cash equivalents at year-end are composed of:			
Cash and cash equivalents		6,948	10,554
Cash and cash equivalents end of year		6,948	10,554

Notes

1: Going concern

The Company's execution of its business activities in 2023 is fully depending on further capital injection and refinancing or prolonging of a current bridge loan as well as successful execution of the sales budgets for the year.

Should Audientes not be able to secure timely further funding, it could have consequences for the Company, including its ability to grow its business further and, ultimately, continue operating.

To finance its business activities according to plan the Company carried out a fully subscribed Rights Issue of Units in December 2022 yielding DKK 14.0 million in gross proceeds. However, DKK 8 million was received in net proceeds due to transaction costs, partial repayment of existing bridge loans etc. The following associated warrants series T01 in March/April 2023 yielded DKK 0.6 million in cash.

According to the operative budget for the coming 12 months from May 2023, the need for additional funding amounts to approximately DKK 3-4 million until end of 2023 and further DKK 1-2 million in first tertial 2024. Furthermore, there is a need for prolonging or refinancing of the current bridge loan of DKK 5.5 million, which is to be redeemed end of June 2023.

The budget is based on successful sales of especially the Ven hearing aid with the newly introduced v2.0 software platform on the Indian market as well as the Companion consumer electronics product for global consumer electronics markets. The revenue for the coming 12 months is budgeted to DKK 6 million. Based on the execution plan for 2023/24, the inventory of DKK 4.6 million recorded at the end of 2022 will be consumed.

The Indian market is still a key market for Audientes. As recently announced, the Company has entered an agreement with a new exclusive distributor Earkart starting May 1, 2023. The new

distributors successful approach on the Indian market is crucial for the Company in terms of generating incoming cash from product sales.

Introducing a new updated product, Ven 2.0, on top of a Ven 1.0 product, which has not been a success in the market and at the same time engage a new distributor on the Indian market, include a natural but significant commercial and financial uncertainty. The same goes for building up new markets outside India. The Management is fully aware of this, and the Management will execute an approach based on optimizing cash flow including cost saving initiatives.

As announced in February 2023, the Company has started to evaluate different alternatives to bring in the required substantial financing as well as exploring more longer-term structures such as partnerships, merger, sale of the business or its assets, or a strategic investment. For this purpose, the Company has entered a finance partner. Dialogues and negotiations with specific lenders as well as concrete investors are ongoing, however no agreements have yet been achieved.

The Management acknowledge the commercial uncertainties around the new and updated product to be sold on the Indian market by a new sole distributor as well as the significant uncertainty related to achieving sufficient funding on relevant conditions in a somehow low-activity funding environment. However, despite the uncertainties the Management feel confident that the needed funding of DKK 5-6 million and refinancing or the prolonging of the current bridge loan of DKK 5.5 million as well as successful execution of the sales targets can be achieved – and based on this, the Management have prepared the Annual Report for 2022 as going concern.

2: Uncertainties and estimates

The preparation of Audientes financial statements requires

Management to make judgements, estimates and assumptions that affect the reported amounts of expenses, assets and liabilities, and the accompanying disclosures. Significant uncertainty about these assumptions and estimates could result in outcomes that require material adjustments to the carrying amount of assets or liabilities affected in future periods.

Management continuously reassesses these estimates and judgements based on several factors in the given circumstances.

Valuation of development projects

Development projects (Group and Parent) consist of completed development projects, that are amortized over 4 years. Completed development projects are assessed for impairment whenever there is an indication that the development asset may be impaired. The amortisation period for completed development projects are reviewed on an annual basis. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement as amortisation.

Management has assessed that development projects from 2019 and before are fully impaired, which have been written down and affected the carrying value by DKK 4.8 million in 2022.

The carrying value of intangible assets, DKK 11.0 million are based on Management's expectations to future cash flow and other assumptions described in note 8. These assumptions are by nature subject to significant uncertainty taken the Company's going concern risk and the dependence of Audientes receiving the necessary funding to continue the planned activities into consideration.

Notes

Valuation and existence of inventory

Inventory consist mainly of completed units, which are assessed for impairment by comparing cost prices (cost of raw materials, consumables and direct labour costs) to net realisation values.

The estimated net realisation values are based on Management estimates and assumptions over future sales volume and prices and are by nature subject to uncertainty. In relation to 2022, Management has assessed that inventory with a carrying value of DKK 4.6 million is not subject to any write-down. However, there is an inherent significant uncertainty related to the valuation of products still unsold as of June 2023, which amounts to around DKK 3.7 million, as the net realisation values of these items may also depend on Audientes receiving the necessary funding to continue the planned activities.

Furthermore, a part of the stock taken back as described in the letter from the CEO is still with hearing clinics and former distribution partners in India at the time of the presentation of the annual report. The value of this inventory amounts to DKK 0.6 million, which the management is working to bring home to its own warehouse at Audientes India Pvt. Ltd.

Valuation of receivable from group enterprises

The parent company has a receivable of DKK 3.2 million from its Indian subsidiary. Management has assessed that no write-down of this receivable is necessary.

The ability of the subsidiary to repay its debt, is connected with achieving sales to Earkart. It is Management's assessment that the agreement with Earkart entered into in the beginning of May 2023 will secure the necessary cash flow in Audientes India Pvt. Ltd. for the subsidiary's debt to the parent company to be repaid.

However, as stated in note 1 Management acknowledge the commercial uncertainties around the new and updated product

to be sold on the Indian market by a new sole distributor. There is therefore a significant risk related to the underlying assumptions regarding the future sales and the corresponding ability of Audientes India Pvt. Ltd. to realise profit and sufficient positive cash flow to repay the debt.

Valuation of income tax receivable

A tax receivable of DKK 1.9 million relating to the expected refund of tax credit under the Danish Tax Credit Scheme has been recognised. Based on an evaluation of the criteria for using the scheme, it is Management's assessment that Audientes qualifies for using the scheme. The recognition of the receivable is based on this assessment.

Whether the criteria are met, is subject to an estimate, with an underlying risk and uncertainty. The Danish Tax Authorities may have another opinion and, in this case, there could be a risk that the Company will not receive the tax receivable recognised.

It is Management's assessment that Audientes also qualifies for using the scheme in prior years, thus no provision for already received tax credit has been included in this respect. The potential risk of repayment is maximized to approx. DKK 2.3 excluding interest.

Valuation of tangible assets

As stated in note 1, Management feels confident that the needed funding and refinancing or prolonging of the current bridge loan can be achieved. However, should Management against expectations not be able to secure funding to continue Audientes production of Ven and Companion, the value of the company's production equipment will be very limited. Booked value of tangible assets amount to DKK 1 million as of 31 December 2022.

3: Staff costs	Group		Parent	
	2022	2021	2022	2021
DKK ´000				
Wages and salaries	8,661	6,879	7,583	6,673
Pension costs	693	469	693	469
Other social security costs	76	62	76	62
Other staff costs	159	256	159	256
	9,589	7,666	8,511	7,460
Average number of full-time employees	16	8	10	8

Audientes has an incentive program consisting of warrants awarded to members of the Board of Directors and the Management as well as to employees of the Company. Reference is made to page 27 "Warrants"

4: Other financial income	Group		Parent	
	2022	2021	2022	2021
DKK ´000				
Exchange rate adjustments	207	50	207	50
	207	50	207	50

5: Other financial expenses	Group		Parent	
	2022	2021	2022	2021
DKK ´000				
Interest expenses	1,210	173	1,210	173
Fees related to loans taken	751	-	751	-
Exchange rate adjustments	451	54	179	54
Fees, Stock Exchanges	110	66	110	66
Other	175	180	175	180
	2,697	473	2,425	473

6: Tax on profit/loss for the year	Group		Parent	
	2022	2021	2022	2021
DKK ´000				
Tax credit for the year, income	1,865	1,843	1,865	1,843
Adjustment to previous year	-	39	-	39
Tax for the year	-14	-	-	-
	1,851	1,882	1,865	1,882

Income tax for the year includes a tax credit for research and development at the applicable tax rate under the Danish Corporate Income Tax Act.

In 2022, TDKK 1,843 (2021: TDKK 446) was received in Prepaid Tax Credit related to previous year.

7: Intangible assets	Group / Parent			
	Completed development projects		Development projects in progress	
DKK ´000	2022	2021	2022	2021
Cost beginning of year	15,470	-	-	9,398
Transfers	-	15,470	-	-15,470
Additions	4,408	-	1,184	6,072
Disposals/scrapped	-6,998	-	-	-
Cost end of year	12,880	15,470	1,184	0
Amortisation and impairments beginning of year	-898	-	-	-
Amortisation and impairments for the year	-9,155	-898	-	-
Amortisations and impairments on projects disposed/scrapped	6,998	-	-	-
Amortisation and impairment losses end of year	-3,055	-898	0	0
Carrying amount end of year	9,825	14,572	1,184	0

8: Development projects

Audientes A/S has developed a platform of software and hardware technology that together creates an innovative hearing aid solution that can help millions of people around the world with hearing loss.

Based on the impairment tests which have been carried out for the assets related to Audientes' products VEN and Companion, the Management has assessed that this implies that the recoverable amounts for Development projects exceeds carrying value at December 31, 2022.

The development projects include the development of Audientes platform for hearing aids and advanced hearables, consisting of Smartphone app client and backend software, as well as embedded software and hardware elements for products. The development projects essentially consists of direct salaries and fees to technical consultants.

Reference is made to the Managements Report.

9: Other fixtures and fittings, tools and equipment

DKK ´ 000	Group		Parent	
	Other fixtures and fittings, tools and equipment		Other fixtures and fittings, tools and equipment	
	2022	2021	2022	2021
Cost beginning of year	1,803	322	1,803	322
Adjustment	18	-	-	-
Additions	43	1,481	-	1,481
Cost end of year	1,864	1,803	1,803	1,803
Depreciation and impairment losses beginning of year	-258	-13	-258	-13
Depreciation for the year	-604	-245	-601	-245
Depreciation and impairment losses end of year	-862	-258	-859	-258
Carrying amount end of year	1,002	1,545	944	1,545

10: Deposits

DKK ´ 000	Group		Parent	
	2022	2021	2022	2021
Deposits beginning of year	151	65	151	65
Additions	91	86	35	86
Disposals	-46	-	-46	-
Deposits end of year	196	151	140	151

11: Investments in group enterprises

DKK ´ 000	Parent	
	2022	2021
Cost beginning of year	429	-
Additions in year	-	429
Cost end of year	429	429
Impairment losses beginning of year	-312	-
Exchange rate adjustments in the year	79	12
Profit/loss in the year	-2,899	-324
Impairment losses end of year	-3,132	-312
Carrying amount end of year	-2,703	117
Compensated in "Receivables from Group enterprises"	2,703	-
Investments in Group enterprises end of year	0	117

Investments in subsidiaries:	Ownership share in %
Audientes India Pvt. Ltd	100%

12: Contributed capital

	Parent
Share capital:	Nominal value DKK
Share Capital, 15.07.2014	222,222
Addition, 16.09.2015	63,200
Addition, 11.05.2016	4,262
Addition, 11.05.2016 (debt conversion)	26,369
Addition, 16.05.2017	35,819
Addition, 27.08.2018	16,858
Addition, 03.08.2020	25,030
Addition, 19.08.2020	38,276
Addition, 19.08.2020 (debt conversion)	2,865
Addition, 17.09.2020	500,000
Share capital end of 2021	934,901
Addition, 20.12.2022	1,583,959
Addition, 20.12.2022 (debt conversion)	285,843
Addition, 21.12.2022 (debt conversion)	69,999
Share capital end of 2022	2,874,702

13: Warranties

Group / parent

Warranty provisions concern products sold to external customers. The warranty provision covers any defects in design, materials and workmanship for a period of 2 years from delivery.

14: Other payables

DKK '000	Group		Parent	
	2022	2021	2022	2021
Wages and salaries, personal income taxes, social security costs etc.	1,172	617	963	566
Holiday pay obligation	299	330	299	330
Other	-	1	-	1
	1,471	948	1,262	897

15: Changes in working capital

DKK '000	Group	
	2022	2021
Increase/decrease in Inventories	-3,281	-1,366
Increase/decrease in Receivables	489	241
Increase/decrease in Trade payables, Other payables etc	2,633	2,148
	-159	1,023

16: Unrecognised rental and lease commitments

DKK '000	Group	
	2022	2021
Liabilities under rental or lease agreements until maturity in total	301	119

Accounting policies

Reporting class

This Annual Report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class B enterprises with addition of a few provisions for reporting class C.

Changes in accounting practices

In accordance with an interpretation from the Danish Business Authority, fees that can be directly and indirectly attributed to the development projects are classified as "Own work capitalized", where the value was previously set off in "Staff costs". The change has no effect on the income statement and equity.

Apart from the above-mentioned areas, the annual report has been prepared according to the same accounting practices as last year.

Consolidated financial statements

In contrast to previous years consolidated financial statements for 2022 have been prepared including consolidated figures etc. for 2021.

The consolidated financial statements are in 2022 presented in DKK and all values are rounded to the nearest thousand (DKK´000) except when otherwise indicated.

Recognition and measurement

Assets are recognized in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Group, and the value of the asset can be measured reliably.

Liabilities are recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Group, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost.

Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognized in the income statement when earned, whereas costs are recognized by the amounts attributable to this financial year.

Consolidation principles

The Consolidated Financial Statements comprise the Parent Company, Audientes A/S, and subsidiaries in which the Parent Company directly or indirectly holds more than 50% of the votes or in which the Parent Company, through share ownership or otherwise, exercises control.

On consolidation, items of a uniform nature are combined. Elimination is made of intercompany income and expenses, shareholdings, dividends, and accounts, as well as of realized and unrealized profits and losses on transactions between the consolidated enterprises.

The Parent Company's investments in the consolidated subsidiaries are set off against the Parent Company's share of the net asset value of subsidiaries stated at the time of consolidation.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items dominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date.

Exchange differences that arise between the rate at the transaction date and the one in effect at the payment date or

the rate at the balance sheet date is recognized in the income statement as financial income of financial expenses.

Exchange differences arising from the translation of foreign subsidiaries' equity at the beginning of the year to the balance sheet date and the translation of income statements from average rates to the exchange rate at the balance sheet date are recognized directly in equity.

Exchange adjustments of outstanding accounts with independent foreign subsidiaries that are considered part of the total investments in the subsidiary in question are classified directly in equity.

Income statement

Revenue

Revenue from sale of products is recognized net of VAT, duties, and sales discounts and is measured at fair value of the consideration fixed. Revenue is recognized in the income statement when the customer obtains control of the goods.

Own work capitalized

Own work capitalized comprise fees that be directly or indirectly attributed to the development projects.

Cost of sales

Cost of sales comprises goods consumed in the financial year measured at cost, adjusted for ordinary inventory write downs.

Other external expenses

Other external expenses include expenses relating to the Group's ordinary activities, including expenses for premises, stationery and office supplies, marketing costs, etc. This item also includes write downs of receivables recognized in current assets.

Staff costs

Staff costs comprise salaries and wages, and social security contributions, pension contributions, etc for entity staff.

Depreciation, amortization and impairment losses

Depreciation, amortization and impairment losses relating to property, plant, equipment and development projects comprise depreciation, amortization and impairment losses for the financial year, and gains and losses from the sale of property, plant, equipment and development projects.

Income from investments in group enterprises

Income from investments in group enterprises comprises the pro rata share of the individual enterprises' profit/loss after full elimination of intra-group profits or losses.

Other financial income

Other financial income comprises net capital or exchange gains on securities, payables and transactions in foreign currencies, amortisation of financial assets, and tax relief under the Danish Tax Prepayment Scheme etc.

Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital or exchange losses on securities, payables and transactions in foreign currencies, amortisation of financial liabilities, and tax surcharge under the Danish Tax Prepayment Scheme etc.

Tax on profit/loss for the year

Tax for the year, which for the Parent Company consists of tax credit for research and development at the applicable tax rate under the Danish Corporate Income Tax Act current and for the subsidiaries tax for the year and changes in deferred tax, is recognized in the income statement by the portion attributable to the profit for the year and recognized directly in equity by the portion attributable to entries directly in equity.

Balance sheet**Intellectual property rights etc**

Intellectual property rights etc comprise development projects in progress with related intellectual property rights, acquired intellectual property rights and prepayments for intangible assets.

Development projects on clearly defined and identifiable products and processes, for which the technical rate of utilization, adequate resources and a potential future market or development opportunity in the enterprise can be established, and where the intention is to manufacture, market or apply the product or process in question, are recognized as intangible assets. Other development costs are recognized as costs

in the income statement as incurred. When recognizing development projects as intangible assets in the Parent Company, an amount equaling the costs incurred less deferred tax is taken to equity under Reserve for development costs that is reduced as the development projects are amortized and written down.

The cost of development projects comprises costs such as salaries and amortization that are directly and indirectly attributable to the development projects.

Indirect production costs in the form of indirectly attributable staff costs and amortization of intangible assets and depreciation of property, plant and equipment used in the development process are recognized in cost based on time spent on each project.

Intellectual property rights etc are written down to the lower of recoverable amount and carrying amount. Intellectual property rights are amortised over 4 years.

Property, plant and equipment

Plant and machinery, and other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

- Other fixtures and fittings, tools and equipment: 3 years

Estimated useful lives and residual values are reassessed annually.

Items of property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Investments in group enterprises

Investments in group enterprises are recognized and measured according to the equity method. This means that investments are measured at the pro rata share of the enterprises' equity value

Upon distribution of profit or loss, net revaluation of investments in group enterprises is transferred to the reserve for net revaluation according to the equity method in equity.

Investments in group enterprises are written down to the lower of recoverable amount and carrying amount.

Inventories

Inventories are measured at the lower of cost using the FIFO method and net realisable value.

Cost consists of purchase price plus delivery costs. Cost of manufactured goods and work in progress consists of costs of raw materials, consumables and direct labour costs.

The net realizable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

Receivables

Receivables are measured at amortized cost, usually equaling nominal value less write-downs for bad and doubtful debts.

Tax payable or receivable

Current tax payable or receivable is recognized in the balance sheet, stated as tax computed on this year's taxable income, adjusted for prepaid tax.

Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Cash and cash equivalents

Cash comprises cash in hand and bank deposits.

Other financial liabilities

Other financial liabilities are measured at amortized cost, which usually corresponds to nominal value.

Equity

The reserve for exchange currency translation comprises foreign exchange differences arising from translation of financial statements of foreign enterprises from their functional currencies to the presentation currency of the Group.

Deferred income

Deferred income comprises income received for recognition in subsequent financial years. Deferred income is measured at cost.

Cash flow statement

The cash flow statement shows cash flows from operating, investing and financing activities, and cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are presented using the indirect method and calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes and taxes received or paid.

Cash flows from investing activities comprise payments in connection with acquisition and divestment of enterprises, activities and fixed asset investments, and purchase, development, improvement and sale, etc of intangible assets and property, plant and equipment, including acquisition of assets held under finance leases.

Cash flows from financing activities comprise changes in the size or composition of the contributed capital and related costs, and the raising of loans, inception of finance leases, repayments of interest-bearing debt, purchase of treasury shares and payment of dividend.

Cash and cash equivalents comprise cash and short-term securities with an insignificant price risk less short-term bank loans.

AUDIENTES A/S

Teknikerbyen 5
2830 Virum
Denmark

CVR No.: 36 04 76 31
Tel: +45 77 34 16 80

contact@audientes.com
www.audientes.com

FOUNDED

August 2014

AUDITOR

Deloitte
Statsautoriseret Revisionspartnerselskab
CVR No.: 33 96 35 56

