



Powerhouse Ventures Limited (PVL) VALUATION POLICY

A. Purpose

The purpose of this policy is to provide a framework for the governance of Powerhouse's valuation of investment capital and managed third party funds to ensure that Powerhouse can:

- value investments including convertible and SAFE notes at a fair value that complies with AASB13; and
- adopt an appropriate risk management strategy

B. Financial Risk Framework

The Company's financial instruments consist mainly of cash (cash at bank) and financial assets designated at fair value through profit or loss, accounts receivable and payable.

Financial Risk Management Policies

The Company is exposed to a variety of financial risks as a result of its activities. These risks include market risk (price risk), credit risk, and liquidity risk. The Company's risk management investment policies, approved by the directors of the responsible entity, aim to assist the Company in meeting its financial targets while minimising the potential adverse effects of these risks on the Company's financial performance.

Specific Financial Risk Exposures and Management:

1. Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company is currently exposed to the following risks as it presently holds financial instruments measured at fair value and short-term deposits:

a. Price Risk

The Company is exposed to equity securities price risk. This arises from investments held by the Company and classified in the statement of financial position as financial assets at fair value through profit or loss. The Company seeks to manage and constrain market risk by diversification of the investment portfolio across multiple investments and through use of structural and contractual protections in its investments such as investing in preference shares or convertible notes, requiring minority protections in investment documentation and maintaining close relationships with its investment companies. The portfolio is monitored and analysed by the Asset & Liability Committee

b. Sensitivity Analysis

The Company may conduct sensitivity analysis to assess the impact on how profit and equity values reported at the end of the reporting period would have been affected by changes in the relevant risk variable that management consider to be reasonably possible – (eg +/- 5% on gain on equity investments)

2. Credit Risk:

Exposure to credit risk relating to financial assets arise from the potential non-performance by counterparties that could lead to a financial loss to the Company. The Company's objective in managing credit risk is to minimise the credit losses incurred mainly on trade and other receivables.

Credit risk is managed by the Company through maintaining procedures that ensure, to the extent possible, that counterparties to transactions are of sound credit worthiness. As the Company generally does not have trade receivables, receivables are usually in the order of prepayments for particular services. The Company ensures prepayments are only made where the counterparty is reputable and can be relied on to fulfil the service.

The Company's maximum credit risk exposure at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the statement of financial position. None of these assets are past due or considered to be impaired. The cash and cash equivalents are all held with one of Australia's reputable financial institutions.

3. Liquidity Risk:

Liquidity risk arises from the possibility that the Company might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. As the Company's major cash outflows may be the purchase of investments, the liquidity risk is managed by the Assets and Liabilities Committee per the Capital and Liquidity Management policy.

C. Fair Value Measurement

Overview

Powerhouse performs revaluation of its balance sheet assets on a periodic basis. Revaluation of the portfolio or an individual asset may be performed on an as needs basis should exceptional circumstances indicate a change in value.

The Australian Private Equity and Venture Capital Association (AVCAL) is a founding member of the International Private Equity and Venture (IPEV) and recommends their Valuation Guidelines. These guidelines set out recommendations on the valuation of private equity investments which are intended to represent current best practice. The directors have referred to the current December 2022 version to determine the "Fair Value" of the Company's financial assets.

For unlisted assets, value is generally realised through a sale or flotation of the entire Investee Company, rather than through a transfer of individual shareholder stakes. Therefore, Enterprise Value is the standard unit of account for private investments. There is typically no debt or surplus cash in these unlisted assets such that EV approximates equity value. Where the asset has issued Convertible Notes, the value of the Notes is either deducted as debt or converted to shares to estimate the fully diluted position.

The Fair Value of financial assets is assumed to be the price that would be received for the financial asset in an orderly transaction between knowledgeable and willing but not anxious market participants acting at arm's length given current market conditions at the relevant measurement date.

Powerhouse endeavours to determine Fair Value maximising the use of observable inputs and available market data. Powerhouse selects valuation methods appropriate to an asset's development stage. Where possible, multiple methods will be used for a weighted-summation valuation based on each method's relative reliability.

Price of Recent Investment

IPEV reaffirmed in their latest Valuation Guidelines that the Price of a Recent Investment should not be considered a standalone Valuation Technique. Assuming an orderly transaction, it generally represents Fair Value as of the transaction date so for subsequent Measurement Dates, it may be an appropriate starting point for estimating Fair Value. However, any changes to market conditions along with changes to the performance of the investee company must be properly considered.

In practical terms, Price of a Recent Investment is used to calibrate inputs with various valuation methodologies. For many early-stage companies, a milestone method or scenario analysis is often used because there are no short-future earnings or positive cash flows. At Measurement Dates, consideration is given to qualitative factors which impact value such as:

- cash burn to expectations
- likelihood, timing and pricing of next financing
- proximity to liquidity events: IPO, M&A, likely buyers
- customer or market traction
- product or service performance or development
- broader sector, market or regulatory circumstances for comparable companies

Calibration Inputs Selection

The goal is to identify which inputs are the most relevant in calibrating the asset to market conditions. The Fair Value of the asset can be revalued to the observable prices of the market by assessing the change in these inputs of the assets against the change in the market conditions.

Calibration inputs should maximise the use of measurable information and be relevant to the asset's development stage and industry sector. Measurable inputs may include:

- Financial: EBITDA, projected revenue, projected cashflow
- Non-financial: KPIs, users, volume, efficiency, regulatory/approvals
- Technical: Technology Readiness Level, patents, commercial partners/pilots
- Market: Valuations, multiples, cost of capital, size of funding rounds

Inputs are usually identified at time of investment and reassessed at each measurement date. Consideration in selecting inputs is also given to the 4Ts of Due Diligence from the Investment Memorandum:

- Team: MUST have bankable founders with cross discipline approach and respect for finance and passive equity
- Tech: IP freedom to operate
- Traction: Sales pipeline is credible and understanding of sales cycle is consistent with financial model
- TAM: Segmentable & Large

Valuation Methods Selection

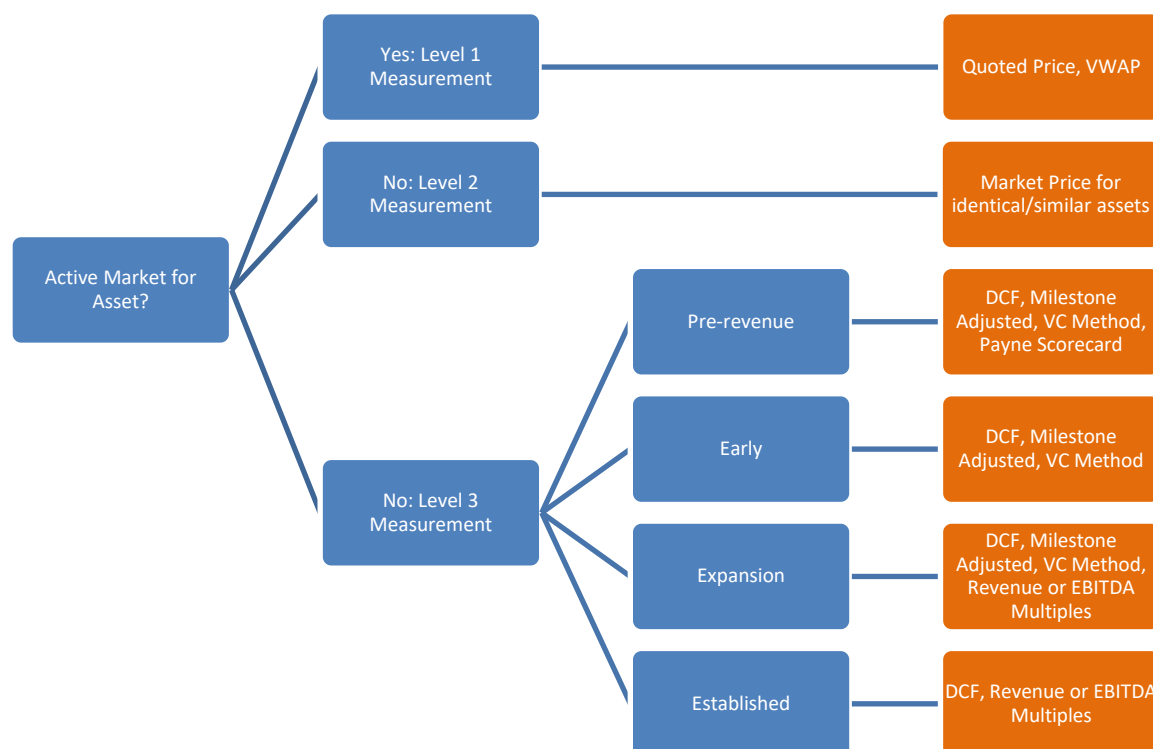
IFRS 13, IPEV and AVCAL all require the disclosure of fair value information by level of the fair value hierarchy. For the assets typically held by Powerhouse:

- Listed assets will use Level 1 Measurements
- Listed options or rights will use Level 2 Measurements
- Unlisted assets with a recent market price may use Level 2 Measurements
- Unlisted assets without a recent market price will use Level 3 Measurements

For unlisted assets, the valuation methods may vary due to business development stage:

- Pre-revenue: Seed or start-up companies are very early stage and pre-revenue. They raise funds to develop an idea, product or concept.
- Early: Early-stage businesses generally have a tested prototype or service model and have developed a business plan. The company may be generating trial or cost-recovery revenue rather than full, commercial revenue.
- Expansion: Businesses in the growth stage are in commercial operation with solid traction and existing customers. They are generating recurring revenues and experiencing solid growth, but still may not be profitable.
- Established: Full-fledged, viable businesses that should be profitable. The machinery of growth is built and proven. Businesses may consider liquidity events like an IPO or trade sale, or corporate finance activities like M&A.

Assets are valued by their business development stage using acceptable industry practices. The recommended methods for each stage are listed below. All relevant methods should be employed with reasoning given for any exclusions. The selected methods should be used consistently in subsequent valuations with any differences and/or changes recorded in detail.



Valuation Methods Guidelines

- DCF
 - Probability-weighted approach preferred as most transparent with risks
 - DCFs calculated for multiple scenarios (ie base, best and worst cases)
 - Final result obtained by weighting each case by Probability of Success
 - Alternatively, a single DCF can be created using the most probable inputs
 - The traditional Capital Asset Pricing Model (CAPM) can be used to determine the discount rate with consideration given to business sector and stage; or
 - The Build Up method can be used to determine the discount rate
- Milestone Adjusted Score-card
 - Starts with a calibrated valuation such as a recent and relevant transaction
 - Transaction should be within 12 months
 - Transaction should have external investors
 - Transaction must be calibrated for any preferential terms or rights
 - Tracks material internal and external events since the previous valuation
 - Scores the cumulative effect of these changes to adjust valuation
 - Considers any share dilution such as ESOP
- VC Method
 - Estimates expected earnings or revenue in the near future (ie 5 years)
 - Applies multiplier to end of forecast period estimate (exit multiple)
 - Calculates PV using discount rate within a Probability of Success range

- Success factors include financial, technical, traction, information quality

KPMG collated a range of expected returns by venture capitalists in their Start-ups and Early-Stage Companies A Valuation Insight, published May 2021. This data has been adapted in the table below noting that the probability of success is linked to the Calibration Inputs and sector in which the asset sits.

<-- Probability of Success -->					
Stage	Least	Less	Neutral	More	Most
Start up (Pre-revenue)	70%	65%	60%	55%	50%
First stage (Early)	60%	55%	50%	45%	40%
Second stage (Expansion)	50%	45%	40%	35%	30%
Bridge/IPO (Established)	35%	32.5%	30%	27.5%	25%

- **Payne Scorecard**
 - Starts with a benchmark of average valuation, ideally within the same industry, geographical region and stage
 - Establishes weighted factors in the valuation, ie Management Team 30%, Size of the Opportunity 20%, etc
 - Assigns scores in each weighted factor for the asset where 100% is per average, 120% is higher-than-average assessment and 80% lower
 - A total valuation adjustment is made by multiplying the assessments by weighted factors
- **Revenue or EBITDA Multiples**
 - Calculates value via an appropriate multiple, ie EV/Revenue or EV/EBITDA
 - Assumes similar companies have similar ratios
 - Multiple should be justified by identifying companies (ideally 5-10) with current, published ratios that share similarities with investee company

Once the applicable valuations have been completed, they will be weighted as appropriate giving consideration to the stage, sector, and quality of information available.

The IPEV Valuation Guidelines also suggest that the following methods may be useful in estimating Fair Value:

- Probability-Weighted Expected Return Method (PWERM) which considers possible future scenarios for expected fully-diluted equity value
- Option Pricing Method (OPM) which considers a distribution of outcomes rather than distinct future scenarios
- Current Value Method (CVM) which allocates value to various equity interests as though it was being sold

Convertible and SAFE Notes

Convertible and SAFE Notes are financial instruments with characteristics of both debt and equity so these components must be valued individually.

The Fair Value of debt may be impacted by changes in credit risk of investee company, market risks and/or market rates of return. Therefore, the value of debt measured using the perspective of a Market Participant and would include cash flow (coupon payments), risk, and time to expected principal repayment.

The Valuation Guidelines recommend that the estimation of Fair Value should be undertaken on the basis that all conversion rights that are currently exercisable and are likely to be exercised, or those that occur automatically on certain events, are considered as have taken place.

Therefore, it is necessary to undertake the same valuation techniques as for equity including qualitative milestones which also inform any calibrations to the debt valuation. If the valuation of the equity component exceeds the debt valuation, then it's reasonable to assume this as the Fair Value.