



2017

ANNUAL REPORT

CORPORATE DIRECTORY

Directors

Fred Bart (Chairman)

Ian Dennis

Cheryl Bart AO

Company Secretary

Ian Dennis

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DIRECTOR'S REPORT

The Directors of Audio Pixels Holdings Limited submit herewith the financial report of the company for the financial year ended 31 December 2017. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names and particulars of the directors of the company during or since the end of the financial year are:

Name	Particulars
Fred Bart	Chairman and Chief Executive Officer. A director since 5 September 2000. He has been Chairman and Managing Director of numerous private companies since 1980, specialising in manufacturing, property and marketable securities. Mr Bart is also Chairman of Immunovative Therapies Limited, an Israeli company involved in the manufacture of cancer vaccines for the treatment of most forms of cancer. He is a member of the Audit Committee and a member of the Nomination and Remuneration Committee.
Ian Dennis	Non-executive director and Company Secretary. Ian is a chartered accountant with experience as director and secretary in various public listed and unlisted technology companies. He has been involved in the investment banking industry and stockbroking industry for the past thirty years. Prior to that, Ian was with KPMG, Chartered Accountants in Sydney. Appointed to the Board on 5 September 2000. He is a member of the Audit Committee and Nomination and Remuneration Committee.
Cheryl Bart AO	Non-executive director. Appointed to the Board on 26 November 2001. Cheryl Bart is a lawyer and company director. She is non-executive director of SG Fleet Australia Limited, ME Bank, Invictus Games Sydney 2018, Prince's Trust Australia, Football Federation of Australia (FFA), Ted X Sydney and the Australian Himalayan Foundation. She is immediate past director of ABC (Australian Broadcasting Corporation), SA Power Networks (formerly ETSA Utilities), Spark Infrastructure Limited, and the Local Organising Committee of the 2015 Australian Asian Cup. She is a fellow of the Australian Institute of Company Directors, Patron of SportsConnect and a member of Chief Executive Women. She is a member of the Audit Committee and a member of the Nominations and Remuneration Committee.

Directorships of Other Listed Companies

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of directorship
Fred Bart	Electro Optic Systems Holdings Limited	Since May 2000
Ian Dennis	Electro Optic Systems Holdings Limited	Since May 2000
Cheryl Bart	Spark Infrastructure Group Limited	November 2005 to May 2015
	SG Fleet Australia Limited	Since February 2014

Principal Activities

The principal activity of the Company is an investment in Audio Pixels Limited of Israel. Audio Pixels Limited is engaged in the development of digital speakers.

Results

The net loss for the financial year ended to 31 December 2017 was \$5,914,957 (31 December 2016 - \$5,054,771).

Dividends

The directors recommend that no dividend be paid and no amount has been paid or declared by way of dividend since the end of the previous financial year and up to the date of this report.

DIRECTOR'S REPORT

Review of Operations

During the reporting period there were no significant changes in the nature of the company's principal activities which were predominately focused on the refinement of the fabrication processes required to mass produce a commercial version of the Company's proven groundbreaking Micro Electro Mechanical Structures ("MEMS") based digital loudspeaker.

Audio Pixels is a world leader in the digital transformation of sound reproduction; combining the emergence of a multibillion-dollar MEMS device industry together with the multibillion-dollar loudspeaker market that has over the course of a century become an indispensable fixture of daily life throughout a myriad of industries and applications.

The Company's primary efforts remained focused on commercialising its ground breaking MEMS based digital sound wave transducer platform into an industry compliant microchip that will propel audio loudspeakers, systems and ultrasonic sensors from their century old analog origins into the advanced digital era of today.

During this reporting period the Company received MEMS wafers that had already undergone a previous announced refinement of the device's "dissipation layers". The refinements implemented to layers that come into contact with each other during normal operation, were based on results attained from a comprehensive research program aimed at delivering practical solutions for the rather unique operational requirements of our MEMS devices.

As was announced (6 December 2017) these wafers failed to meet a very basic electrical specification, which was ultimately traced to faulty manufacturing processes used to fabricate the internal electrical interconnects of the device. The interconnects (often referred to as "through-silicon via" or TSV's), provide the electrical interconnections between different layers of the chip. The faulty process introduced an imperfection in the interconnect that degraded the device's internal current flow which adversely increased the time it takes for the device to react to the input signals.

Upon discovery the vendor immediately identified and rectified the defective process which they then definitively proved through a number of rapid trial runs. At the same time the vendor launched and fast tracked a new fabrication run of wafers that meet the required specifications. Reflective of the vendor's resolute commitment to ensure the successful completion of the

fabrication development processes, the vendor instituted an unprecedented number of additional verification points throughout the fabrication process. At each such check point wafers are randomly selected and removed and exhaustively tested for compliance by the vendor, the Company, and in some cases third parties' experts. So far all testing conducted including the recently delivered wafers containing "half structures" have all validated and verified that the current fabrication run measurements adhere to our precise specifications. These include specifications pertaining to the newly optimised dissipation layers and electrical interconnects. This was announced to ASX on 26 February 2018.

As was also announced, the Company undertook an exploratory effort to try and develop a method that might repair the electrical properties of the previously received wafers. Utilising highly unconventional techniques the Company managed to rectify individual interconnects, which allowed the combined teams to substantiate that the degradation of the device's internal current flow was directly attributed to (and limited to) the electrical interconnects. The team's attention has since been focused on trying to evolve the intricate techniques used to repair individual interconnects into a workable process that is able to address the many interconnects of a single chip. Despite many associated challenges, the team continues this "rectification effort" at least until such time that the Company receives the newly fabricated wafers from its vendors.

Maturing a reliable manufacturing process for any MEMS device let alone a revolutionary device such as ours, makes it near impossible to accurately predict how long it will take to resolve all the challenges, or even predict if new ones might arise. That being said the progress and unwavering commitment of the Company and its vendor to achieve the Company's mass production requirements are certainly bearing noteworthy results. Among others this is evident by the dramatic reduction in the length of time it now takes to go from start-to-finish of the MEMS fabrication process. The ever-shrinking timeline substantiates the fact that the overwhelming majority of production steps required to fabricate our MEMS chip have been completed and refined into reliable mass manufacturing processes.

The vendor further advises that delivery of the newly fabricated wafers remains on track with their previous advised delivery timelines (as stated in the 6 December 2018 Announcement), whereby they anticipate beginning to deliver the newly fabricated wafers on or about the end of Q1-2018.

DIRECTOR'S REPORT

Throughout the period the Company continued to refine the capabilities of its ASIC, electronic controls, software algorithms, the chip assembly and packaging process as well as our proprietary measurement systems. To better cope with the receipt of what are expected to be fully functioning wafers and the ensuing demonstration and introduction phases, management has been actively seeking to expand its engineering workforce. Management continues to maintain very active communications with its ever growing pool of future customers, ranging from industry conglomerates to start-ups wanting to utilise our devices for a wide range of new and fascinating applications.

The Company continues to expand its intellectual property portfolio, now standing at 32 applications with 102 patents granted in various global jurisdictions. Additionally, during the reporting period two additional applications have been drafted for submission to the applicable patent offices.

Further information concerning the operations and financial condition of the entity can be found in the financial report and in releases made to the Australian Stock Exchange (ASX) during the year.

Changes in State of Affairs

There was no significant change in the state of affairs of the company or the consolidated entity other than that referred to in the financial statements or notes thereto.

Significant Events After Balance Date

There has not been any matter or circumstance that has arisen since the end of the financial year which is not otherwise dealt with in this report or in the financial statements, that has significantly affected or may significantly affect the operations of the company or the consolidated entity, the results of those operations or the state of affairs of the company or the consolidated entity in subsequent financial years.

Future Developments

The consolidated entity will continue to focus on the development of its digital speaker technology.

Environmental Regulations

In the opinion of the directors the company and the consolidated entity is in compliance with all applicable environmental legislation and regulations.

Indemnification and Insurance of Officers and Auditors

During the financial year, the company paid a premium in respect of a contract insuring the Directors and Officers of the Company and any related body corporate against a liability incurred as such a Director or Officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the coverage provided and the amount of the premium. The Company has agreed to indemnify the current Directors, Company Secretary and Executive Officers against all liabilities to other persons that may arise from their position as Directors or Officers of the Company and its controlled entities, except where to do so would be prohibited by law. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has not, during or since the financial year indemnified or agreed to indemnify an auditor of the company or of any related body corporate against any liability incurred as such an auditor.

Directors' Interests and Benefits

The relevant interest of each director in the share capital of the Company as notified by the directors to the Australian Stock Exchange in accordance with Section 205G(1) of the Corporations Act as at the date of this report are:

Name	Ordinary Shares
Fred Bart	5,592,765
Ian Dennis	320,167
Cheryl Bart	500,000

There has been no movement in Directors' shareholdings during the 2017 year apart from the sale by Ian Dennis of 249,883 as part of a Family Law settlement.

DIRECTOR'S REPORT

Remuneration Report (Audited)

Since the end of the previous financial year no director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by directors as shown in the financial statements) because of a contract made by the Company or related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest. There are no employment contracts for any of the directors.

This report outlines the remuneration arrangements in place for Directors and key management personnel of the Company. The Directors are responsible for remuneration policies and packages applicable to the Board members of the Company. The entire Board makes up the Nomination and Remuneration Committee. The Board remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities.

There are currently no performance based incentives to directors or executives based on the performance of the Company. There are no employment contracts in place with any Director of the Company. There are standard employment contracts for the executives of including at will employment and a notice period of three months for termination.

The key management personnel of Audio Pixels Holdings Limited during the year were:

Fred Bart	Chairman and Chief Executive Officer
Cheryl Bart	Non executive director
Ian Dennis	Non executive director and company secretary
Danny Lewin	CEO and director of Audio Pixels Limited
Yuval Cohen	Chief Technical Officer of Audio Pixels Holdings Limited
Shay Kaplan	Chief Scientist of Audio Pixels Limited

The Directors fees are not dependent on the earnings of the Company and the consequences of the Company's performance on shareholder wealth. On 24 September 2010, the maximum total directors fees were increased to a total of \$250,000 per annum in line with the increased activities of the company. The actual directors fees paid were within the approved limit of \$250,000 per annum approved by shareholders at the Annual General Meeting held on 24 September 2010.

The table below sets out summary information about the Company's earnings and movements in shareholder wealth for the last 5 financial years.

	Year ended 31 December 2017 \$	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$	Year ended 31 December 2014 \$	Year ended 31 December 2013 \$
Revenue	65,624	103,630	25,073	181,583	304,536
Net (loss) before tax	(5,914,957)	(5,054,771)	(1,840,940)	(2,796,787)	(2,147,576)
Net (loss) after tax	(5,914,957)	(5,054,771)	(1,840,940)	(2,796,787)	(2,147,576)

	Year ended 31 December 2017 \$	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$	Year ended 31 December 2014 \$	Year ended 31 December 2013 \$
Share price at start of year/period	14.15	8.45	9.86	3.80	5.60
Share price at end of year/period	16.82	14.15	8.45	9.86	3.80
Dividend Paid	0.00	0.00	0.00	0.00	0.00

DIRECTOR'S REPORT

Remuneration Report (Cont.)

The aggregate compensation of the key management personnel of the company is set out below:

	31 December 2017 \$	31 December 2016 \$
Short-term employee benefits	775,262	737,818
Post employment benefits	169,339	163,284
	<u>944,601</u>	<u>901,102</u>

The following table sets out each key management personnel's equity holdings (represented by holdings of fully paid ordinary shares in Audio Pixels Holdings Limited).

	Balance at 1/1/17 No.	Granted as remuneration No.	Received on exercise of options No.	Net other change No.	Balance at 31/12/17 No.
Mr Fred Bart	5,592,765	-	-	-	5,592,765
Mrs Cheryl Bart	500,000	-	-	-	500,000
Mr Ian Dennis	570,050	-	-	(249,883)	320,167
Mr Danny Lewin	1,709,092	-	-	-	1,709,092
Mr Yuval Cohen	1,928,971	-	-	-	1,928,971
Mr Shay Kaplan	881,604	-	-	-	881,604

Convertible Note Issued to Key Management Personnel

On 22 June 2015, shareholders approved the issue of a convertible note of \$1.5m to 4F Investments Pty Limited, company controlled by Mr Fred Bart. On 31 May 2016 shareholders approved the extension of the note to 31 December 2016. On 28 December 2016, the Company announced that the convertible notes would be extended for a further term of 12 months to 31 December 2017 which received shareholder approval on 31 May 2017. On 29 December 2017, the Company announced that the convertible notes would be extended for a further term of 12 months to 31 December 2018 subject to shareholder approval. The terms of the issue were as follows:

Face Value:	\$1,500,000
Date of issue:	26 June 2015
Interest rate:	8% payable quarterly
Term:	12 months to 31 December 2018 (following extension)
Listing status:	Unlisted
Security:	Unsecured
Conversion terms:	Convertible to ordinary shares based on the lower of the five day volume weighted average share price of Audio Pixels Holdings Limited on the date of the agreement (\$9.68) or the five day volume weighted average share price of Audio Pixels Holdings Limited immediately prior to conversion.

Transactions with Related Entities

During the year ended 31 December 2017, the Company paid a total of \$107,857 (year ended 31 December 2016 - \$107,857) to 4F Investments Pty Limited, a company associated with Mr Fred Bart in respect of directors fees and superannuation for Mr Fred Bart and Mrs Cheryl Bart.

DIRECTOR'S REPORT

Remuneration Report (Cont.)

During the year ended 31 December 2017, the Company paid interest of \$119,407 (year ended 31 December 2016 - \$119,671) on a convertible note to 4F Investments Pty Limited, a company associated with Mr Fred Bart. The convertible note of \$1.5m was issued on 26 June 2015 following shareholder approval at an Extraordinary General Meeting. The convertible note was extended twice during the year ended 31 December 2016, the most recent of which being on 28 December 2016, which was approved by shareholders. On 29 December 2017, The Company announced a further extension to 31 December 2018, subject to shareholder approval.

During the year ended 31 December 2017, the Company paid a total of \$41,063 (year ended 31 December 2016 - \$41,063) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of directors fees and superannuation.

During the year, the Company paid \$30,000 (31 December 2016 - \$30,000) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of consulting fees for company secretarial and accounting services.

On 8 May 2014, the company entered into a lease in respect of office premises at Level 12, 75 Elizabeth Street Sydney for a period of forty eight months to 30 March 2018. The Company recharged \$22,954 of the rent and other tenancy charges to Electro Optic Systems Holdings Limited, a company of which Fred Bart and Ian Dennis are directors and \$24,762 to 4F Investments Pty Limited, a company controlled by Fred Bart.

The following table sets out the remuneration of each key management personnel of the Company:

	Short Term		Post Employment		Total
	Directors fees/ Salary \$	Non-monetary \$	Superannuation \$	Social Security \$	
December 2017					
Fred Bart	61,000	-	5,794	-	66,794
Cheryl Bart	37,500	-	3,563	-	41,063
Ian Dennis	67,500*	-	3,563	-	71,063
Danny Lewin	157,122	37,846	-	51,581	246,549
Yuval Cohen	179,775	39,988	-	55,429	275,192
Shay Kaplan	150,353	44,178	-	49,409	243,940
	653,250	122,012	12,920	156,419	944,601
December 2016					
Fred Bart	61,000	-	5,794	-	66,794
Cheryl Bart	37,500	-	3,563	-	41,063
Ian Dennis	67,500*	-	3,563	-	71,063
Danny Lewin	152,420	36,606	-	49,034	238,060
Yuval Cohen	168,369	30,782	-	53,967	253,118
Shay Kaplan	145,771	37,870	-	47,363	231,004
	632,560	105,258	12,920	150,364	901,102

* The amounts disclosed for Ian Dennis include directors fees of \$37,500 and consulting fees of \$30,000.

Audit Committee

The Audit Committee was formally constituted on 29 August 2014 with all three directors appointed to the Audit Committee. Ian Dennis was appointed chair of the Audit Committee.

DIRECTOR'S REPORT

Directors' Meetings

During the year the Company held three meetings of directors, two meetings of the Audit Committee and no meetings of the Nomination and Remuneration Committee. The attendances of the directors at meetings of the Board were:

Directors	Board of directors		Audit committee		Nomination and Remuneration committee	
	Held	Attended	Held	Attended	Held	Attended
Mr Fred Bart	3	3	2	2	-	-
Mrs Cheryl Bart	3	3	2	2	-	-
Mr Ian Dennis	3	3	2	2	-	-

All current board members are on the Audit Committee and the Nomination and Remuneration Committee.

Non-audit Services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 4 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services disclosed in Note 4 to the financial statements do not compromise the external auditors' independence for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- None of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Auditor's Independence Declaration

The auditor's independence declaration is included on page 9.

Signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors



I A Dennis

Director

Dated at Sydney this 28 day of February 2018

The Board of Directors
Audio Pixels Holdings Limited
Suite 2, Level 12
75 Elizabeth Street
SYDNEY NSW 2000

28 February 2018

Dear Board Members

Audio Pixels Holdings Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Audio Pixels Holdings Limited.

As lead audit partner for the audit of the financial statements of Audio Pixels Holdings Limited for the year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

David Salmon.

David Salmon
Partner
Chartered Accountants

Independent Auditor's Report to the members of Audio Pixels Holdings Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Audio Pixels Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial report, which indicates that the Group incurred a net loss of \$5,914,957 and had a net cash outflow from operating activities of \$3,561,391, during the year ended 31 December 2017. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's and Group's ability to continue as going concerns. Our opinion is not modified in respect of this matter.

Our procedures in relation to going concern included, but were not limited to:

- Inquiring of management and the directors in relation to events and conditions that may impact the assessment on the Group's ability to continue as a going concern;
- Challenging the assumptions contained in management's cash flow forecast in relation to the Group's ability to continue as a going concern; and
- Assessing the adequacy of the disclosure related to going concern in Note 1 (b).

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Recoverability of goodwill and intangible assets <p>Audio Pixels Holdings Limited (AKP) acquired goodwill and an intangible asset as part of the acquisition of Audio Pixels Limited (AKL). The intangible asset relates to in process digital speaker technology.</p> <p>As at 31 December 2017, the carrying amount of goodwill is \$2,189,025 and the intangible asset, \$513,773 as disclosed in Notes 7 and 8.</p> <p>The goodwill and intangible asset are subject to impairment testing annually and whenever an impairment indicator is identified. The determination of the recoverable amount is subject to management judgement including:</p> <ul style="list-style-type: none"> • Cash flow projections; • Expected future growth in the product market; and • Discount rates. 	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Assessing the status of the technology development based on discussions with management; • Challenging the underlying assumptions reflected in management's cash flow forecasts. This included agreeing assumptions to underlying documentation, sensitising key judgmental inputs and assessing cashflows; • Assessing the historical accuracy of the forecasts prepared by management; • Assessing the recoverable amount of net assets of the company in the context of the current market capitalisation (considering trading volumes); and • Engaging with our experts to assess the appropriateness of management's processes and policies in the development of the cash flow model as well as testing the mathematically accuracy and the reasonableness of assumptions used. <p>We also assessed the appropriateness of the disclosures in Notes 7 and 8 to the financial statements.</p>
Convertible Notes <p>AKP had on issue convertible notes with a face value of \$3,000,000 during the financial year. On 29 December 2017, these convertible notes were extended to 31 December 2018. In addition, on 29 December 2017, new convertible notes with a face value of \$4,500,000 were issued.</p> <p>As at 31 December 2017, the carrying amount of the debt component of these convertible notes is \$6,388,489 and the carrying amount of the embedded derivative component of the convertible notes is \$1,486,884 as disclosed in Note 11. The equity component of the new convertible notes issued is \$666,893 as</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Evaluating management's determination that the extensions constituted an extinguishment of the original instrument through understanding the terms of the original and extension agreements; • Inspecting management's valuations for the convertible notes (including the embedded derivative component); • Assessing the independence, competence and objectivity of management's expert used in performing the valuations; and • Engaging with our experts to assess the reasonableness of assumptions used in the

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>disclosed in Note 14.</p> <p>The accounting for, and valuation of the convertible notes is complex due to judgements involved in:</p> <ul style="list-style-type: none"> • Determining whether the extensions are modifications to or extinguishments of the original instrument; • Determining the classification of the embedded derivative component based on the terms of the instrument; and • Inputs to the fair value calculations of the embedded derivatives, including the volatility of the share price. 	<p>valuation and the accounting treatment of the convertible notes.</p> <p>We also assessed the appropriateness of the disclosures in Notes 11 and 14 to the financial statements.</p>

Other Information

The directors are responsible for the other information. The other information comprises the Corporate Directory, Directors' Report and ASX Additional Information, which we obtained prior to the date of this auditor's report, the other information also includes the annual report (but does not include the financial report and our auditor's report thereon) which is expected to be made available to us after that date.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting 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 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 financial report 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 to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors 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.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 7 of the Directors' Report for the year ended 31 December 2017.

In our opinion, the Remuneration Report of Audio Pixels Holdings Limited, for the year ended 31 December 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

David Salmon

David Salmon
Partner
Chartered Accountants
Canberra, 28 February 2018

DIRECTORS' DECLARATION

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe the company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and give a true and fair view of the financial position and performance of the company and the consolidated entity;
- (c) the directors have been given the declarations required by s.295A of the Corporations Act 2001; and
- (d) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements.

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

On behalf of the Directors



I A Dennis

Director

Dated at Sydney this 28 day of February 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Consolidated Year ended 31 December 2017	Consolidated Year ended 31 December 2016
		\$	\$
Revenue	2	65,624	103,630
Administrative expenses		(750,704)	(1,108,384)
Amortisation		(79,637)	(80,483)
Depreciation		(79,639)	(73,493)
Directors fees and superannuation		(148,920)	(148,920)
Exchange (losses)/ gains		(1,767,526)	350,531
Interest expense		(593,179)	(419,595)
Fair value movement of derivative liability		(157,996)	(511,648)
Gain/ (Loss) on derecognition of convertible notes		285,600	(223,400)
Marketing		(16,906)	(21,233)
Research and development expenses		(2,671,674)	(2,921,776)
(Loss) before income tax	2	(5,914,957)	(5,054,771)
Income tax benefit	3	-	-
(Loss) for the year		(5,914,957)	(5,054,771)
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit and loss			
Exchange differences arising on translation of foreign operations	14	1,676,117	(136,506)
Other comprehensive (loss) for the year, net of tax		1,676,117	(136,506)
Total comprehensive (loss) for the year		(4,238,840)	(5,191,277)

Notes to the financial statements are included on pages 21 to 46.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Consolidated Year ended 31 December 2017	Consolidated Year ended 31 December 2016
(Loss) attributable to:			
Owners of the company		(5,914,957)	(5,054,771)
Total comprehensive (loss) attributable to:			
Owners of the company		(4,238,840)	(5,191,277)
Earnings per share			
Basic and diluted (cents per share)	18	(21.99)	(19.02)

Notes to the financial statements are included on pages 21 to 46.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Note	Consolidated December 2017 \$	Consolidated December 2016 \$
CURRENT ASSETS			
Cash and cash equivalents	5	2,700,577	5,083,948
Trade and other receivables	6	3,046,113	86,118
TOTAL CURRENT ASSETS		5,746,690	5,170,066
NON CURRENT ASSETS			
Goodwill	7	2,189,025	2,300,905
Intangible asset	8	513,773	639,850
Property, plant and equipment	9	324,610	166,587
Trade and other receivables	6	16,108	11,873
TOTAL NON CURRENT ASSETS		3,043,516	3,119,215
TOTAL ASSETS		8,790,206	8,289,281
CURRENT LIABILITIES			
Trade and other payables	10	887,770	471,870
Borrowings	11	6,388,489	2,648,387
Derivative liability	11	1,486,884	1,169,870
Provisions	12	240,319	640,463
TOTAL CURRENT LIABILITIES		9,003,462	4,930,590
TOTAL LIABILITIES		9,003,462	4,930,590
NET (LIABILITIES)/ASSETS		(213,256)	3,358,691
EQUITY			
Issued capital	13	45,228,931	45,228,931
Reserves	14	(21,934,777)	(24,277,787)
Accumulated losses	15	(23,507,410)	(17,592,453)
Equity attributable to owners of the company		(213,256)	3,358,691
TOTAL EQUITY		(213,256)	3,358,691

Notes to the financial statements are included on pages 21 to 46.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

December 2017 - Consolidated	Issued Capital \$	Equity Settled Option Reserve \$	Exchange translation reserve \$	Minority Acquisition Reserve \$	Convertible Note Equity Reserve \$	Accumulated Losses \$	Total \$
Balance at 1 January 2017	45,228,931	4,512,898	(3,251,993)	(25,538,692)	-	(17,592,453)	3,358,691
Other comprehensive income for the year	-	-	1,676,117	-	-	-	1,676,117
(Loss) for the year	-	-	-	-	-	(5,914,957)	(5,914,957)
Equity reserve on issue of convertible notes	-	-	-	-	666,893	-	666,893
Balance at 31 December 2017	45,228,931	4,512,898	(1,575,876)	(25,538,692)	666,893	(23,507,410)	(213,256)

December 2016 - Consolidated	Issued Capital \$	Equity Settled Option Reserve \$	Exchange translation reserve \$	Minority Acquisition Reserve \$	Convertible Note Equity Reserve \$	Accumulated Losses \$	Total \$
Balance at 1 January 2016	37,398,942	4,512,898	(3,115,487)	(25,538,692)	-	(12,537,682)	719,979
Other comprehensive income for the year	-	-	(136,506)	-	-	-	(136,506)
(Loss) for the year	-	-	-	-	-	(5,054,771)	(5,054,771)
Share placement at \$6.60	7,829,989	-	-	-	-	-	7,829,989
Balance at 31 December 2016	45,228,931	4,512,898	(3,251,993)	(25,538,692)	-	(17,592,453)	3,358,691

Notes to the financial statements are included on pages 21 to 46.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Consolidated Year ended 31 December 2017 \$	Consolidated Year ended 31 December 2016 \$
Cash flows from operating activities			
Payments to suppliers and employees		(3,387,969)	(4,126,693)
Interest paid		(239,046)	(179,507)
Interest received		65,624	103,630
Net cash (used by) operating activities	16	(3,561,391)	(4,202,570)
Cash flows from investing activities			
Payment for property, plant and equipment		(263,958)	(72,700)
Net cash (outflows) from investing activities		(263,958)	(72,700)
Cash flows from financing activities			
Proceeds from placement	13	-	7,829,989
Convertible note		1,500,000	-
Net cash provided by financing activities		1,500,000	7,829,989
Net increase/(decrease) in cash and cash equivalents held		(2,325,349)	3,554,719
Cash and cash equivalents at the beginning of the financial year		5,083,948	1,523,016
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		(58,022)	6,213
Cash and cash equivalents at the end of the financial year	5	2,700,577	5,083,948

Notes to the financial statements are included on pages 21 to 46.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Summary of Significant Accounting Policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AASBS"). Compliance with AASBS ensures that the financial statements and notes comply with International Financial Reporting Standards ("IFRS"). For the purposes of preparing the consolidated financial statements, the Company is a for profit entity.

The financial statements were authorised for issue by the Directors on 28 February 2018.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of the derivative liability. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are expressed in Australian dollars.

(a) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the borrowing using the effective interest rate method.

(b) Going concern

The financial report has been prepared on the going concern basis which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The consolidated entity incurred a net loss during the year of \$5,914,957 (2016: \$5,054,771) and as at 31 December 2017 had net current liabilities of \$3,256,772 (2016: net current assets of \$239,476). Net cash used by operating activities was \$3,561,391 (2016: \$4,202,570). As at 31 December 2017, the consolidated entity had cash of \$2,700,577 (2016: \$5,083,948) of which \$53,092 (2016 - \$52,036) is restricted as it secures future lease payments. The cash will become unrestricted once the contracts are concluded or renegotiated. Further, in the

event that they are not converted to ordinary shares or the maturity date extended, the consolidated entity has \$7,500,000 due on convertible notes on 31 December 2018.

In the opinion of the directors, the ability of the company and consolidated entity to continue as going concerns and pay their debts as and when they become due and payable is dependent upon:

- the ability of the company to secure additional funding from existing or new investors to fund continued development and enable the repayment of convertible notes to the extent that they are not converted to ordinary shares. The directors consider that the company has a number of financing options available to it at this stage of the commercialisation of the product;
- the successful completion of the development stage of the technology; and
- the future trading prospects of the consolidated entity including obtaining commercial contracts.

If the company and the consolidated entity are unable to achieve successful outcomes in relation to the above matters, significant uncertainty would exist as to the ability of the company and the consolidated entity to continue as going concerns and therefore, they may be required to realise their assets and extinguish their liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

No adjustments have been made to the financial report relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company and the consolidated entity not continue as going concerns.

(c) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments maturing within less than 3 months at the date of acquisition, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

(d) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Summary of Significant Accounting Policies (Cont.)

Provisions made in respect of short term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to the reporting date.

Defined contribution plans - Contributions to defined benefit contribution superannuation plans are expensed when incurred.

(e) Financial assets

Financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of the initial recognition.

Loans and receivables

Trade receivables, loans and other receivables are recorded at amortised cost less impairment.

(f) Financial instruments issued by the company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement and the definition of a financial liability and an equity instrument.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest

Interest is classified as an expense consistent with the Statement of Financial Position classification of the related debt.

(g) Foreign currency

Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value and historic cost that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit and loss in the period they arise.

Foreign operations

On consolidation, the assets and liabilities of the consolidated entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in profit and loss on disposal of the foreign operation.

(h) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Summary of Significant Accounting Policies (Cont.)

(i) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of goodwill impairment testing, there was one cash-generating unit, relating to the digital speakers segment. The cash-generating unit is tested for impairment annually. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(j) Impairment of assets

At each reporting date, the entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

(k) Income Tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the assets and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Summary of Significant Accounting Policies (Cont.)

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in profit or loss, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(l) Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately. The intangible asset acquired is written off on a straight line basis. Expenditure on research activities is recognised as an expense in the period in which it is incurred.

(m) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is

more representative of the time pattern in which economic benefits from the leased asset are consumed.

(n) Payables

Trade payable and other accounts payable are recognised when the entity becomes obliged to make future payments resulting from the purchase of goods and services.

(o) Provisions

Provisions are recognised when the entity has a present obligation as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(p) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

All intragroup assets and liabilities, equity, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Summary of Significant Accounting Policies (Cont.)

(q) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straightline method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sales in the present condition. Management must be committed to the sale, which should be expected to qualify as a completed sale within one year from the date of classification. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

The following estimated useful lives are used in the calculation of depreciation:

Computers and related equipment	5 to 15 years
Leasehold improvements	3 to 5 years
Office furniture and equipment	5 to 15 years

(r) Financial liabilities

Classification as debt or equity

The Company has on issue convertible notes. The component parts of the convertible notes issued by the Group are classified separately as borrowings, derivative liability and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument. A conversion option that will be settled by the exchange of a fixed

amount of cash or another financial asset for a variable number of the Company's own equity instruments is a derivative liability instrument. The value of a conversion option classified as a derivative liability instrument is recognised at fair value on issue. The derivative liability is subsequently measured at fair value through profit or loss.

The conversion option classified as equity is determined by deducting the amount of liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity and is not subsequently remeasured. This will remain in equity until the conversion option is exercised or at maturity. No gain or loss is recognised in profit or loss upon expiration or conversion.

On initial recognition, the face borrowing or liability component is measured at fair value. This is subsequently recognised on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

(s) Revenue Recognition

Revenue comprises interest income on bank deposits. Interest income received is recognised on an accrual basis.

(t) Application of New and Revised Accounting Standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current year.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

- AASB 2016-1 Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses
- AASB 2016 -2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107
- AASB 2017-2 Amendments to Australian Accounting Standards - Further Annual Improvements 2014-2016 Cycle

The application of the above has not had any material impact on the amounts recognised in the consolidated financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Summary of Significant Accounting Policies (Cont.)

(t) Application of New and Revised Accounting Standards (Cont.)

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments, and the relevant amending standards	1 Jan 2018	31 Dec 2018
AASB 15 Revenue from Contracts with Customers AASB 2014-5	1 Jan 2018	31 Dec 2018
Amendments to Australian Accounting Standards arising from AASB 15 and AASB 2015-8 Amendments to Australian Accounting Standards - Effective Date of AASB 15		
AASB 2016-3 Amendments to Australian Accounting Standards - Clarifications to AASB 15		
AASB 16 Leases	1 Jan 2019	31 Dec 2019
2017-1 Amendments to Australian Accounting Standards - Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments	1 Jan 2018	31 Dec 2018
2017-5 Amendments to Australian Accounting Standards - Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections	1 Jan 2018	31 Dec 2018
AASB 2016-5 Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions	1 Jan 2018	31 Dec 2018

The directors are still assessing the impact of AASB 9, AASB 15 and AASB 16. The directors anticipate that the adoption of all other Standards and Interpretations in future periods will have no material financial impact on the financial statements of the company or the consolidated entity but may change disclosures made.

(u) Share based payments

Equity-settled share-based payments are measured at fair value at the date of the grant. Fair value is measured by use of a Black-Scholes Option Pricing model. The expected life used in the model has been adjusted, based on management best estimates, for the effects of non-transferability, exercise restrictions and behavioural considerations. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Summary of Significant Accounting Policies (Cont.)

(v) Critical accounting judgements

In the application of the consolidated entity's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making these judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Intangible asset/Goodwill

The directors made a critical judgement in relation to the value of the intangible asset included in Note 8 and the impairment model used in assessing the carrying amount of the goodwill (see Note 7).

Deferred tax

The directors made a critical judgement in relation to not recognising the deferred tax balances described in Note 3(b). Given the current stage of development, the directors do not currently consider it's probable that sufficient taxable amounts will be available against which deductible temporary differences can be utilised.

Valuation of face borrowing and derivative liability

The directors made a critical judgement in relation to the interest rate applied in valuing the face borrowing and the expected share price volatility used to value the derivative liability included in Note 11.

Functional Currency

The directors made a critical judgement in relation to the functional currency of Audio Pixels Holdings Limited. The directors consider AUD to be the appropriate functional currency, as financing activities of the entity occur in AUD.

Investment in subsidiary and intercompany receivable

The directors made a critical judgement in relation to the recoverability of the investment in subsidiary - Audio Pixels Limited and the receivable from this subsidiary. The assessment of the recoverability of these assets is considered concurrently with the recoverability of the intangible asset/goodwill. These assets are discussed in Note 23 as part of current and non-current assets:

- Investment in subsidiary -\$2,428,209 (non-current assets)
- Intercompany receivable - \$22,985,266 (included in current assets)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	Consolidated Year ended 31 December 2017 \$	Consolidated Year ended 31 December 2016 \$
2. (Loss) from Operations		
(a) Revenue		
Interest received - other entities	65,624	103,630
Total revenue	<u>65,624</u>	<u>103,630</u>
(b) Expenses		
Amortisation	79,637	80,483
Depreciation	79,639	73,493
Interest expense	593,179	419,595
Rental payments	123,375	116,770
Rental amounts recharged to sub tenants	(97,533)	(93,248)
Net rental expense	<u>25,842</u>	<u>23,522</u>
Fair value movement in derivative liability	(157,996)	511,648
Employee benefits expense:		
Salary and other employee benefits	1,137,068	1,579,756
Superannuation	12,920	12,920
	<u>1,149,988</u>	<u>1,592,676</u>

3. Income Taxes

(a) Income tax recognised in profit or loss

Tax expense comprises:		
Tax expense/(income) - prior year	-	-
Deferred tax expense/(income)	-	-
Total tax expense/(income)	<u>-</u>	<u>-</u>

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

(Loss) from operations	(5,914,957)	(5,054,771)
Amortisation	79,637	80,483
Convertible note adjustments	224,009	915,301
	<u>(5,611,311)</u>	<u>(4,058,987)</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	31 December 2017 \$	31 December 2016 \$
3. Income Taxes (Cont.)		
Income tax expense calculated at 30%	(1,683,363)	(1,217,696)
Effect of different tax rates of subsidiaries operating in other jurisdictions	159,975	189,622
Deferred tax benefit not brought to account	1,523,388	1,028,074
	-	-

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law and 25% under Israeli law. There has been no change in the corporate tax rate when compared with the previous reporting period.

(b) Unrecognised deferred tax balances

The following deferred tax assets have not been bought to account as assets:

Tax losses - revenue	5,412,932	3,889,544
Tax losses - capital	168,038	168,030
Temporary differences	60,080	(160,166)
	5,641,050	3,897,408

(c) Franking account balance

Adjusted franking account balance	86,721	86,721
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(d) Israeli Tax Ruling

On July 16th 2012 a Tax Ruling was issued by the Israeli Tax Authorities (ITA) under which the ITA confirmed that the Merger carried out between Audio Pixels Ltd, a private Israeli company (P.C 513853606) and Audio Pixels Holdings Limited, a public Australian company, complied with the conditions stipulated in Section 103T of the Israeli Ordinance. Consequently, the transfer of the rights by the transferring rights holders in exchange for the issuance of shares in the Australian company is not taxable at the date of the Merger pursuant to the provisions of Section 103T of the Israeli Ordinance.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	31 December 2017 \$	31 December 2016 \$
4. Remuneration of Auditors		
(i) Auditor of the parent entity		
Audit or review of the financial statements	37,249	36,225
Taxation service	2,704	3,575
	<hr/> 39,953	<hr/> 39,800
(ii) Network firm of the parent entity auditor		
Audit or review of the financial statements	17,998	18,625
Taxation service	2,000	2,070
	<hr/> 19,998	<hr/> 20,695

The auditor of Audio Pixels Holdings Limited is Deloitte Touche Tohmatsu.

5. Cash and Cash Equivalents

Cash on hand and at bank	2,700,577	5,083,948
Weighted average interest rate received on cash	0.36%	2.21%

6. Trade and Other Receivables

Current		
GST receivable	10,167	8,827
Convertible note proceeds receivable	3,000,000	-
Prepayments and other debtors	35,946	77,291
	<hr/> 3,046,113	<hr/> 86,118
Non Current		
Other debtors	16,108	11,873

Other debtors comprise security deposits with government bodies.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	31 December 2017 \$	31 December 2016 \$
7. Goodwill		
Being goodwill acquired on the acquisition of Audio Pixels Limited. The goodwill is allocated to the cash generating unit of digital speakers by Audio Pixels Limited of Israel.		
	<u>2,189,025</u>	<u>2,300,905</u>
Balance at 1 January	2,300,905	2,166,391
Net foreign currency exchange	(111,880)	134,514
Balance at 31 December	<u>2,189,025</u>	<u>2,300,905</u>

The recoverable amount of this cash generating unit is determined based on a fair value less costs of disposal calculation which uses cash flow projections based on financial budgets approved by the directors covering an 11 year period, with a growth rate reflecting the expected future growth in the product market, and a discount rate of 24% per annum. The assumed growth rate is based on the forecast future global MEMS market. Given the nature of the product, the forecast cash flows are managements' best estimate and reflect the risks inherent in the initial take up of the product. The cash flow projections used in the impairment model extend beyond 5 years as the intangible assets generating the cash flows within relate to new technology and hence reflect a longer operating cycle and time to market. Cash flow projections during the budget period are based on the same expected gross margins and raw materials price inflation during the budget period and factor in a probability of the viability of the product. The fair value less costs of disposal calculation is sensitive to changes in the percentage likelihood of completion. Increases in the percentage likelihood of completion increases the recoverable amount and vice versa. Movements in the value of the goodwill are a result of the retranslation of the goodwill from the functional currency of the cash generating unit to which it is attributed.

8. Intangible Asset

Being the independent valuation of In Process Development determined at the acquisition date of 24 September 2010 by Ernst & Young, Israel in their report dated 17 August 2011.

Exchange differences on translation	868,000	868,000
Less accumulated amortisation	151,987	198,427
	(506,214)	(426,577)
	<u>513,773</u>	<u>639,850</u>

The intangible asset is allocated to the digital speaker cash-generating unit when assessed for impairment. Refer to Note 7 for commentary on cash-generating unit.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	31 December 2017 \$	31 December 2016 \$
9. Property, Plant and Equipment		
Computers and related equipment - at cost	351,372	362,977
Less accumulated depreciation	(331,920)	(344,624)
	<u>19,452</u>	<u>18,353</u>
Leasehold improvements - at cost	324,269	241,873
Less accumulated depreciation	(216,887)	(226,061)
	<u>107,382</u>	<u>15,812</u>
Office furniture and equipment - at cost	1,059,881	1,043,341
Less accumulated depreciation	(862,105)	(910,919)
	<u>197,776</u>	<u>132,422</u>
Total net book value of Property, Plant and Equipment	<u>324,610</u>	<u>166,587</u>
Cost		
Computers and related equipment		
Balance at 1 January	362,977	356,676
Additions	18,586	4,364
Disposals	(4,744)	(3,068)
Net foreign currency exchange differences	(25,447)	5,005
Balance as at 31 December	<u>351,372</u>	<u>362,977</u>
Leasehold improvements		
Balance at 1 January	241,873	226,429
Additions	105,997	12,266
Disposals	(4,760)	-
Net foreign currency exchange differences	(18,841)	3,178
Balance as at 31 December	<u>324,269</u>	<u>241,873</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	31 December 2017 \$	31 December 2016 \$
9. Property, Plant and Equipment (Cont.)		
Office furniture and equipment		
Balance at 1 January	1,043,341	973,609
Additions	139,375	56,070
Disposals	(38,732)	-
Net foreign currency exchange differences	(84,103)	13,662
Balance as at 31 December	<u>1,059,881</u>	<u>1,043,341</u>
Accumulated depreciation		
Computers and related equipment - at cost		
Balance as at 1 January	(344,624)	(327,468)
Net foreign currency exchange differences	24,637	(4,705)
Disposals	3,994	3,068
Depreciation expense	(15,927)	(15,519)
Balance at 31 December	<u>(331,920)</u>	<u>(344,624)</u>
Leasehold improvements		
Balance as at 1 January	(226,061)	(223,338)
Net foreign currency exchange differences	17,988	(2,124)
Disposals	911	-
Depreciation expense	(9,725)	(599)
Balance at 31 December	<u>(216,887)</u>	<u>(226,061)</u>
Office furniture and equipment		
Balance as at 1 January	(910,919)	(841,330)
Net foreign currency exchange differences	75,893	(12,214)
Disposals	26,908	-
Depreciation expense	(53,987)	(57,375)
Balance at 31 December	<u>(862,105)</u>	<u>(910,919)</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	31 December 2017 \$	31 December 2016 \$
10. Trade and Other Payables		
Current		
Trade payables and accruals	887,770	471,870

The payables are non interest bearing and have an average credit period of 30 days.

11. Borrowings

On 4 May 2015, the Company announced its intention to issue two convertible notes of \$1,500,000 each at a coupon rate of 8% per annum, raising \$3,000,000.

One convertible note was issued to an unrelated party on 28 May 2015 and one convertible note was issued to 4F Investments Pty Limited, a company associated with Mr Fred Bart. The convertible note to 4F Investments Pty Limited received shareholder approval at an Extraordinary General Meeting held on 22 June 2015 and was issued on 26 June 2015.

The unrelated party holding one convertible note of \$1,500,000 agreed to extend their convertible note to 31 December 2016 on 22 March 2016. On 31 May 2016 shareholders approved the extension of the convertible note to 4F Investments Pty Limited to 31 December 2016.

On 28 December 2016, the Company reached agreement with both holders of the convertible notes to extend the expiry date by 12 months to 31 December 2017. Shareholder approval for the extension of the convertible note held by 4F Investments Pty Limited was received at the Annual General Meeting of the Company held on 31 May 2017.

On 29 December 2017, the Company reached agreement with both holders of the convertible notes to extend the expiry date by 12 months to 31 December 2018. Shareholder approval for the extension of the convertible note held by 4F Investments Pty Limited will be sought at the next Annual General Meeting of the Company.

For accounting purposes these extensions have been treated as the derecognition of the original convertible notes and the recognition of two new convertible note instruments. The difference in valuation is recognised as a gain or loss in the profit and loss.

The two convertible notes initially issued on 28 May 2015 and 22 June 2015 amounting to \$3,000,000 now have a term of 12 months to 31 December 2018. These notes are unsecured, not listed and are convertible to ordinary shares based on the lower of the five day volume weighted average share price of Audio Pixels Holdings Limited on the date of the original agreement (\$9.68) or the five day volume weighted average share price of Audio Pixels Holdings Limited immediately prior to conversion.

On 5 January 2018, The Company announced it had raised \$4,500,000 from a new convertible note issue to sophisticated unrelated investors pursuant to agreements dated 29 December 2017. In addition, 4F Investments Pty Limited, a company associated with Mr Fred Bart also agreed to take up a further \$500,000 of convertible notes on the same terms and conditions subject to shareholder approval at the next Annual General Meeting of the Company.

These new convertible notes have a term of 12 months to 31 December 2018, are unsecured, not listed and convertible into ordinary shares based on the five day volume weighted average share price of Audio Pixels Holdings Limited on the date of the agreement (\$16.71).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	31 December 2017 \$	31 December 2016 \$
11. Borrowings (Cont.)		
Borrowings - Convertible note		
Carrying amount at start of period	2,648,387	2,735,439
Face value of notes issued	4,500,000	-
Gain on derecognition of convertible notes	(444,618)	(267,305)
Convertible note equity reserve - fair value initially recognised	(666,893)	-
	<hr/>	<hr/>
Amortised interest	6,036,876	2,468,134
Current Liability at end of period	351,613	180,253
	<hr/>	<hr/>
	6,388,489	2,648,387
Derivative liability		
Carrying value at start of the period	1,169,870	167,517
Loss on derecognition of convertible notes	159,018	490,705
Fair value movement to the end of the reporting period	157,996	511,648
Derivative liability	<hr/>	<hr/>
Total borrowings	1,486,884	1,169,870
	<hr/>	<hr/>
	7,875,373	3,818,257
12. Provisions		
Employee benefits	<hr/>	<hr/>
	240,319	640,463

13. Issued Capital

Issued and paid up capital

Fully paid Ordinary Shares		
Balance at the beginning of the financial year	45,228,931	37,398,942
Placement for cash at \$6.60 per share	-	7,829,989
Balance at the end of the financial year	<hr/>	<hr/>
	45,228,931	45,228,931

	Number	Number
Fully paid Ordinary Shares	26,893,409	25,707,047
Balance at the beginning of the financial year	-	1,186,362
Placement for cash at \$6.60 per share	<hr/>	<hr/>
Balance at the end of the financial year	26,893,409	26,893,409

Fully paid ordinary shares carry one vote per share and carry the rights to dividends.

Changes in the Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefor the company does not have a limited amount of authorised capital and issued shares do not have a par value.

In 2016, a share placement occurred. 151,515 shares were issued to a company associated with Fred Bart. 1,034,847 shares were issued to unrelated parties.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	31 December 2017 \$	31 December 2016 \$
14. Reserves		
Foreign currency translation		
Balance at the beginning of the financial year	(3,251,993)	(3,115,487)
Translation of foreign operations	1,676,117	(136,506)
Balance at end of financial year	<u>(1,575,876)</u>	<u>(3,251,993)</u>
Foreign currency translation		
Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit and loss on the disposal of the foreign operation.		
Equity settled option reserve		
Balance at the beginning of the financial year	4,512,898	4,512,898
Balance at end of financial year	<u>4,512,898</u>	<u>4,512,898</u>
The above equity-settled option reserve relates to share options granted by the Company.		
Minority acquisition reserve		
Balance at the beginning of the financial year	(25,538,692)	(25,538,692)
Balance at end of financial year	<u>(25,538,692)</u>	<u>(25,538,692)</u>
The non-controlling interest reserve comprises amounts related to the acquisition of a non-controlling interest shareholding in a subsidiary company in a prior period.		
Convertible Note Equity Reserve		
Balance at the beginning of the financial year	-	-
Increase as a result of derivative liability recognised on the issue of convertible notes treated as equity	666,893	-
Balance at end of financial year	<u>666,893</u>	<u>-</u>
Total Reserves	(21,934,777)	(24,277,787)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	31 December 2017 \$	31 December 2016 \$
15. Accumulated Losses		
Balance at the beginning of the financial year	(17,592,453)	(12,537,682)
(Loss) for the year attributable to owners of the company	(5,914,957)	(5,054,771)
Balance at the end of the financial year	<u>(23,507,410)</u>	<u>(17,592,453)</u>

16. Notes to the Statement of Cash Flows

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than 3 months at the date of acquisition. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash and cash equivalents	2,700,577	5,083,948
	<u>53,092</u>	<u>52,036</u>

(c) Reconciliation of (loss) for the period to net cash flows from operating activities

(Loss) after related income tax	(5,914,957)	(5,054,771)
Amortisation	79,637	80,483
Convertible note adjustments	224,009	915,301
Depreciation	79,639	73,493
Foreign exchange gains	1,918,755	(286,844)
Changes in assets and liabilities		
(Increase)/ decrease in assets		
Current trade and other receivables	40,005	(42,392)
Non-current trade and other receivables	(4,235)	(5,036)
Increase /(decrease) in liabilities		
Provisions	(400,144)	115,556
Current trade payables	415,900	1,640
Net cash (used in) operating activities	<u>(3,561,391)</u>	<u>(4,202,570)</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

17. Related Party Transactions

(a) Directors

The Directors of Audio Pixels Holdings Limited in office during the year were Fred Bart, Ian Dennis and Cheryl Bart.

(b) KMP Remuneration

The aggregate compensation of the key management personnel of the company is set out below:

	31 December 2017 \$	31 December 2016 \$
Short-term employee benefits	775,262	737,818
Post employment benefits	169,339	163,284
	<hr/> <hr/> 944,601	<hr/> <hr/> 901,102

The remuneration above relates to directors fees, consultancy fees and superannuation paid to entities associated with Fred Bart, Cheryl Bart and Ian Dennis and the remuneration of the three senior executives of Audio Pixels Limited in Israel.

(c) Transactions with related entities

During the year ended 31 December 2017, the Company paid a total of \$107,857 (year ended 31 December 2016 - \$107,857) to 4F Investments Pty Limited, a company associated with Mr Fred Bart in respect of directors fees and superannuation for Mr Fred Bart and Mrs Cheryl Bart.

During the year ended 31 December 2017, the Company paid a total of \$41,063 (year ended 31 December 2016 - \$41,063) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of directors fees and superannuation.

During the year ended 31 December 2017, the Company paid interest of \$119,407 (year ended 31 December 2016 - \$119,671) on a convertible note to 4F Investments Pty Limited, a company associated with Mr Fred Bart. The convertible note of \$1.5m was issued on 26 June 2015 following shareholder approval at an Extraordinary General Meeting. The convertible note was extended twice during the year ended 31 December 2016 and once during the year ended 31 December 2017, the most recent of which being on 29 December 2017, which is subject to shareholder approval. The note now expires on or before 31 December 2018.

During the year, the Company paid \$30,000 (31 December 2016 - \$30,000) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of consulting fees for company secretarial and accounting services.

On 8 May 2014, the company entered into a lease in respect of office premises at Level 12, 75 Elizabeth Street Sydney for a period of forty eight months to 30 March 2018. The company recharged \$22,955 of the rent and other tenancy charges to Electro Optic Systems Holdings Limited, a company of which Fred Bart and Ian Dennis are directors, \$22,762 to 4F Investments Pty Limited, a company controlled by Fred Bart and \$45,910 to another tenant who is a shareholder in the company.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	31 December 2017	31 December 2016
18. Earnings per Share		
Basic (loss) per share	(21.99) cents	(19.02) cents
Diluted (loss) per share (b)	(21.99) cents	(19.02) cents
(Loss) (a)	(5,914,957)	(5,054,771)
Weighted average number of Ordinary Shares	<u>26,893,409</u>	<u>26,571,894</u>

- (a) (Loss) used in the calculation of basic earnings per share are the same as the net (loss) in the Statement of profit or loss and other comprehensive income.
- (b) There are potential ordinary shares to be issued in relation to the convertible notes of \$3m which expire on 31 December 2018. The convertible note holders have the option of receiving their \$3m back with interest or converting their convertible notes into ordinary shares based on the lower of the five day volume weighted average share price of Audio Pixels Holdings Limited on the date of the agreement (\$9.68) or the five day volume weighted average share price of Audio Pixels Holdings Limited immediately prior to conversion. The convertible notes have not been included in dilutive EPS, as they are anti-dilutive.
- (c) There are potential ordinary shares to be issued in relation to the convertible notes of \$4.5m which expire on 31 December 2018. The convertible note holders have the option of receiving their \$4.5m back with interest or converting their convertible notes into ordinary shares based on the five day volume weighted average share price of Audio Pixels Holdings Limited on the date of the agreement (\$16.71). The convertible notes have not been included in dilutive EPS, as they are anti-dilutive.

19. Segment Information

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess performance.

The identification of the Group's reportable segments has not changed from those disclosed in the previous 2016 report.

The consolidated entity operates in Australia and Israel.

Products and services within each segment

Digital speakers

The subsidiary company in Israel is developing a digital speaker and has not reached the stage of generating any revenue from the technology.

Segment Revenues

Digital speakers	65,624	103,630
Total of all segments	<u>65,624</u>	<u>103,630</u>

Segment Results

Digital speakers	(5,914,957)	(5,054,771)
(Loss) before income tax	(5,914,557)	(5,054,771)
Income tax gain/ (expense)	-	-
(Loss) for the period	<u>(5,914,957)</u>	<u>(5,054,771)</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

19. Segment Information (Cont.)

Segment Assets and Liabilities

	Assets		Liabilities	
	31 December 2017 \$	31 December 2016 \$	31 December 2017 \$	31 December 2016 \$
Digital speakers	8,790,206	8,289,281	9,003,462	4,930,591
Total all segments	8,790,206	8,289,281	9,003,462	4,930,591
Unallocated	-	-	-	-
Consolidated	8,790,206	8,289,281	9,003,462	4,930,591

Assets used jointly by reportable segments are allocated on the basis of the revenue earned by the individual reportable segments.

Other Segment Information

	Depreciation and amortisation of segment assets		Acquisition of segment assets	
	31 December 2017 \$	31 December 2016 \$	31 December 2017 \$	31 December 2016 \$
Digital speakers	159,276	153,976	263,958	72,700
Total all segments	159,276	153,976	263,958	72,700
Unallocated	-	-	-	-
Consolidated	159,276	153,976	263,958	72,700

Information on Geographical Segments

Geographical Segments	Revenue from External Customers \$	Segment Assets \$	Acquisition of Segment Assets \$
31 December 2017			
Australia	65,624	8,028,778	-
Israel	-	761,428	263,958
Total	65,624	8,790,206	263,958
31 December 2016			
Australia	103,630	4,543,183	-
Israel	-	3,746,098	72,700
Total	103,630	8,289,281	72,700

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

20. Financial Risk Management Objectives and Policies

The consolidated entity's principal financial instruments comprise receivables, payables, borrowings, derivative liabilities, cash and short term deposits.

Due to the small size of the group significant risk management decisions are taken by the board of directors. These risks include market risk (including fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Directors do not plan to eliminate risk altogether, rather they plan to identify and respond to risks in a way that creates value for the company and its shareholders. Directors and shareholders appreciate that in order for the consolidated entity to compete and grow, a long term strategy needs to involve risk taking for reward.

The consolidated entity does not use derivative financial instruments to hedge these risk exposures.

Risk Exposures and Responses

(a) Interest rate risk

The Group's exposure to market interest rates relates primarily to the consolidated entity's cash holdings and short term deposits.

At balance date, the consolidated entity had the following mix of financial assets exposed to Australian interest rate risk that are not designated in cash flow hedges:

	31 December 2017 \$	31 December 2016 \$
Financial assets		
Cash and cash equivalents	2,700,577	5,083,948

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing and the mix of fixed and variable interest rates.

At 31 December 2017, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax (loss) and equity would have been affected as follows:

Judgements of reasonably possible movements	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	31 December 2017 \$	31 December 2016 \$	31 December 2017 \$	31 December 2016 \$
Consolidated entity				
+1% (100 basis points)	27,006	50,839	27,006	50,839
-0.5% (50 basis points)	(3,710)	(25,420)	(3,710)	(25,420)

The movements in profits are due to higher/lower interest rates on cash and cash equivalents balances. The cash and cash equivalents balances were lower in December 2017 than in December 2016 and accordingly the sensitivity is lower.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

20. Financial Risk Management Objectives and Policies (Cont.)

(b) Foreign currency risk

The consolidated entity has a foreign currency risk since the acquisition of Audio Pixels Limited. Audio Pixels Limited operates in Israel and all transfer of funds to Audio Pixels Limited are denominated in US dollars. The consolidated entity does not hedge its US dollar exposure.

The carrying amounts of the Group's foreign currency (US\$) denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		Assets	
	31 December 2017 \$	31 December 2016 \$	31 December 2017 \$	31 December 2016 \$
Cash and cash equivalents	-	-	406,585	745,611
Trade and other receivables	-	-	35,946	77,291
Trade and other payables	850,406	374,591	-	-

All US\$ denominated financial instruments were translated to A\$ at 31 December 2017 at the exchange rate of 0.7805 (2016: 0.7197).

At 31 December 2017 and 31 December 2016, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

Judgements of reasonably possible movements	Post Tax Loss Higher/(Lower)		Equity Higher/(Lower)	
	2017 \$	2016 \$	2017 \$	2016 \$
Consolidated				
AUD/USD +10%	290,884	344,768	290,884	344,768
AUD/USD -5%	(168,427)	(199,603)	(168,427)	(199,603)

Management believes the balance date risk exposures are representative of risk exposure inherent in financial instruments.

(c) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The consolidated entity has adopted a policy of only dealing with creditworthy counterparties which are continuously monitored.

The credit risk on liquid funds is limited because the counterparties are major banks with high credit-ratings assigned by international credit agencies.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

20. Financial Risk Management Objectives and Policies (Cont.)

(d) Liquidity risk management

The consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The consolidated entity's investments in money market instruments all have a maturity of less than 3 months.

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate risk management framework for the management of the consolidated entity's short, medium and long term funding and liquidity requirements. The consolidated entity manages liquidity by maintaining adequate cash reserves by continuously monitoring forecast and actual cash flows and managing maturity profiles of financial assets.

The following tables detail the consolidated entity's remaining contractual maturity for its non-derivative financial assets and non-derivative financial liabilities. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets and financial liabilities including interest that will be earned on these assets except where the consolidated entity anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate %	Less than 1 month \$	1-3 months \$	3 months to 1 year \$	1-5 years \$
31 December 2017					
Assets					
Non interest bearing	0.00	306,095	-	-	-
Fixed rate instruments	0.36	2,394,462	-	-	-
Liabilities					
Convertible notes	8.00	-	150,000	7,950,000	-
31 December 2016					
Assets					
Non interest bearing	0.00	714,569	-	-	-
Fixed rate instruments	2.21	4,378,720	18,375	84,306	499,633
Liabilities					
Convertible notes	8.00	-	60,000	3,180,000	-

All financial liabilities are expected to be settled under commercial terms of within 12 months. The derivative liability amount if converted will be settled in equity, so no associated cash outflows.

(e) Commodity price risk

The consolidated entity has no exposure to commodity price risk.

(f) Other price risks

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

21. Financial Instruments

Fair value of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

Financial liabilities

- (a) The original convertible note with a face value of \$3,000,00 derivative liability is valued as sold call options with a strike price of \$9.68 using the Black-Scholes option pricing model. An input into the Black-Scholes option pricing model is the expected share price volatility over the remaining term of the options. The expected share price volatility used in the option valuation at reporting date was 50.00% which was based on historical share price volatility.
- (b) The new convertible note with a face value of \$4,500,000 derivative liability is valued as sold call options with a strike price of \$16.71 using the Black-Scholes option pricing model. An input into the Black-Scholes option pricing model is the expected share price volatility over the remaining term of the options. The expected share price volatility used in the option valuation at reporting date was 59.65% which was based on historical share price volatility

The fair value of the derivative liability is sensitive to changes in share price volatility. Increases in volatility increase the fair value of the derivative liability and vice versa.

The fair value hierarchy was Level 3. A movement schedule is included in Note 11.

22. Subsequent Events

The Directors are not aware of any significant events since the end of the financial year and up to the date of this report.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	31 December 2017 \$	31 December 2016 \$	
23. Parent Entity Disclosures			
Financial position			
Assets			
Current assets	28,311,243	26,282,355	
Non-current assets	2,428,209	2,428,209	
	<td style="text-align: right;">30,739,452</td> <td style="text-align: right;">28,710,564</td>	30,739,452	28,710,564
Liabilities			
Current liabilities	7,912,737	3,915,537	
Non-current liabilities	-	-	
	<td style="text-align: right;">7,912,737</td> <td style="text-align: right;">3,915,537</td>	7,912,737	3,915,537
Net assets	22,826,715	24,795,027	
Equity			
Issued capital	45,228,931	45,228,931	
Reserves	(20,358,901)	(21,025,794)	
(Accumulated losses)/Retained earnings	(2,043,315)	591,890	
	<td style="text-align: right;">22,826,715</td> <td style="text-align: right;">24,795,027</td>	22,826,715	24,795,027
Financial performance			
(Loss) for the period	(2,635,205)	(1,181,840)	
Other comprehensive income	-	-	
	<td style="text-align: right;">(2,635,205)</td> <td style="text-align: right;">(1,181,840)</td>	(2,635,205)	(1,181,840)

24. Controlled Entity

Name of Entity	Country of Incorporation	31 December 2017 %	31 December 2016 %
Parent Entity			
Audio Pixels Holdings Limited	Australia		
Controlled Entities			
Audio Pixels Limited	Israel	100.00	100.00
Audio Pixels Technologies Pty Limited - incorporated on 11 May 2016	Australia	100.00	100.00

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

25. Leases

Operating leases - leasing arrangements (the Company as lessee)

On 8 May 2014, the parent company entered into a lease in respect of office premises at Level 12, 75 Elizabeth Street Sydney for a period of forty eight months from 31 March 2014 to 30 March 2018. The company recharges 20% of the rent and other tenancy charges to Electro Optic Systems Holdings Limited, a company of which Fred Bart and Ian Dennis are directors, 20% to 4F Investments Pty Limited, a company controlled by Fred Bart and 40% to another tenant who is a shareholder in the Company.

	31 December 2017 \$	31 December 2016 \$
Non-cancellable operating lease payables		
Not longer than 1 year	31,125	102,321
Longer than 1 year and not longer than 5 years	-	21,879
Longer than 5 years	-	-
	31,125	124,200

The Company recovers 80% of the lease payments and other tenancy charges from director related entities and another party on a month to month basis.

26. Contingent Liability

The parent company has been advised of a potential derivative action in Israel by an individual shareholder of BE4 Limited (a company with no financial interest in Audio Pixels Holdings Limited), an Israeli company in bankruptcy proceedings. The Central District Court of Israel dismissed the motion to file a derivative action against Audio Pixels Limited and impose costs and expenses on the petitioner. At the date of this report the period in which to appeal the decision is still open. The Directors do not believe the Company has a case to answer, and is prepared to vigorously defend any action if commenced.

27. Commitments

The subsidiary company, Audio Pixels Limited of Israel has entered into various purchase orders and commitments of \$451,745 (2016: \$1,754,896) with various strategic partners which will become payable once qualified products are delivered to the company.

28. Additional Company Information

Audio Pixels Holdings Limited is a listed public company, incorporated and operating in Australia.

Registered Office and Principal Place of Business

Suite 3, Level 12
75 Elizabeth Street
Sydney NSW 2000
Australia

Tel: (02) 9233 3915
Fax: (02) 9232 3411

www.audiopixels.com.au

The Company has 11 (2016: 11) employees in Israel.

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Listing Rules and not disclosed elsewhere in this report.

Home Exchange

The Company's ordinary shares are quoted on the Australian Stock Exchange Limited under the trading symbol "AKP". The Home Exchange is Sydney. The Company also has a Level 1 American Depository Receipts (ADR) program and quotation on the OTC market in the United State of America under the code "ADPXY" which is under the NASDAQ International Designation program.

Substantial Shareholders

At 21 February 2018 the following substantial shareholders were registered:

	Ordinary Shares	Percentage of total Ordinary Shares
Fred Bart Group	5,592,765	20.80%

Voting Rights

At 21 February 2018 there were 2,208 holders of fully paid ordinary shares.

Rule 74 of the Company's Constitution stipulates the voting rights of members as follows:

"Subject to any rights or restrictions for the time being attached to any class or classes of shares and to this Constitution:

- (a) on a show of hands every person present in the capacity of a Member or a proxy, attorney or representative (or in more than one of these capacities) has one vote; and
- (b) On a poll every person present who is a Member or proxy, attorney or representative has member present has:
 - (i) For each fully paid share that the person holds or represents - one vote; and
 - (ii) For each share other than a fully paid share that the person holds or represents - that proportion of one vote that the amount paid (not credited) on the shares bears to the total amount paid and payable on the share (excluding amounts credited)."

Other Information

In accordance with Listing Rule 4.10.19, the Company has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives.

Distribution of Shareholdings

At 21 February 2018 the distribution of ordinary shareholdings were:

Range	Ordinary Shareholders	Number of Shares
1-1,000	1,278	504,296
1,001 - 5,000	548	1,418,051
5,001 - 10,000	187	1,545,200
10,001 - 100,000	161	4,581,881
100,001 and over	34	18,843,981
	2,208	26,893,409

There were 32 ordinary shareholders with less than a marketable parcel.

There is no current on-market buy-back.

TWENTY LARGEST ORDINARY SHAREHOLDERS

Twenty Largest Ordinary Shareholders

At 21 February 2018 the 20 largest ordinary shareholders held 62.85% of the total issued fully paid quoted ordinary shares of 26,893,409.

Shareholder	Fully Paid Ordinary Shares	Percentage of Total
1. Altshuler Shacham Trusts Ltd	3,768,078	14.01%
2. Landed Investments (NZ) Limited	3,565,000	13.26%
3. HSBC Custody Nominees (Australia) Limited	1,196,645	4.45%
4. BNP Paribus Nominees Pty Ltd	1,161,438	4.32%
5. Frederick Bart	994,325	3.70%
6. Link Traders (Aust) Pty Limited	897,532	3.34%
7. Bart Superannuation Pty Limited	744,295	2.77%
8. Kam Superannuation Fund Pty Limited	650,000	2.42%
9. Jamber Investments Pty Ltd	508,050	1.89%
10. Cheryl Bart	500,000	1.86%
11. Altshuler Shacham Trusts Limited <Yuval Cohen A/C>	498,152	1.85%
12. Decante Pty Limited <JM Ehrlich Super Fund A/C>	400,000	1.49%
13. Brent McCarty, Yvonne McCarty and Zeljan Unkovich	304,014	1.12%
14. Altshuler Shacham Trusts Limited <D Lewin A/C>	278,273	1.03%
15. Brigadier Pty Limited <Ian Dennis Super Fund A/C>	272,600	1.01%
16. James John Bart	256,074	0.95%
17. Nicole Bart	250,000	0.93%
18. Citicorp Nominees Pty Limited	234,297	0.87%
19. Larron Pty Ltd <Jennings Family A/C>	225,000	0.84%
20. Australian Executor Trustees Limited <No 1 A/C>	198,350	0.74%
	16,902,123	62.85%





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