

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 2018. 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 a director 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, 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, the Local Organising Committee of the 2015 Australian Asian Cup, Prince's Trust Australia and Football Federation of Australia (FFA). 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 Weebit Nano Limited	Since May 2000 Since March 2018
Ian Dennis	Electro Optic Systems Holdings Limited	Since May 2000
Cheryl Bart	Spark Infrastructure Group Limited SG Fleet Australia Limited	November 2005 to May 2015 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 2018 was \$4,519,721 (31 December 2017 - \$5,914,957).

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.

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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 refinements to the MEMS transducer and its associated fabrication processes required to mass produce a commercial version of the Company's proven groundbreaking MEMS based digital loudspeaker technologies.

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 commercializing 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 its century old analog origins into the advanced digital era of today.

As has been previously reported, this was a period of consequential achievements. Paramount among these achievements has been the introduction and validation of our newly developed charging or charge trapping suppression mechanism. This patent-pending innovation appears to have finally resolved what was considered to be the key technological obstacle hindering our path to product commercialization.

In our efforts to expedite characterization of the newly designed charging suppression mechanisms, simplified structures were designed and fabricated. By removing the pressure generating mechanisms from the device, the simplified structures took less than half the fabrication time, yet still delivered an accurate functional device that mirrored the charging characteristics of the device.

Upon completion of electrical characterization, the company introduced some of the pressure generating elements to the simplified structures. This was done in order to investigate the possible influence the "aerodynamics" might have on the charging suppression mechanisms. Prevailing acoustic theories intimated that the natural actuation of these acoustic enabled "Simplified Structures" would be unable to produce sound. To our astonishment, the test devices not only generated sound, they did so with exceptional efficiency throughout the low (bass) frequency spectrum.

In-depth characterization of the Simplified Structure revealed that with relatively slight adjustments to the structure design, and / or newly developed electronic and algorithmic controls, the simplified structured devices can be evolved into a commercially viable product that offers a number of commercial advantages, not the least of which would be a dramatic reduction in fabrication costs. This effort is underway, running in parallel to our standing technology commercialization plan associated with the full structured devices.

Perhaps the most noteworthy achievements of this period are associated with acoustic development and testing using wafers that incorporate the newly designed charge suppression mechanism. While the fabricator is in the latter stages of refining the fabrication processes, nonetheless early wafers delivered exhibited performance and reliability that are incomparably superior to anything the Company has received in the past. These early deliveries have enabled the Company to make tremendous strides measuring and refining the drive electronics and acoustic output of the devices. The devices have already been proven to play music! In fact, early results are unprecedented with devices reproducing frequencies below 100Hz (by comparison the very best similar sized analog speakers have a lower limit of roughly 800Hz or 3 octaves above ours).

No less exciting has been the recruitment and hiring of additional staff. In order to maintain pace with our recent achievements, the company has effectively doubled its engineering staff over the past two months, recruiting exceptional talent in a diversity of relevant skills.

These achievements (and more) attained during this reporting period contribute to a very positive outlook that the company is rapidly approaching the latter stages of realizing its vision. Specifically, the invention and implementation of an effective and reliable charging suppression mechanism has removed what was previously considered to be 'the' last technical hurdle in the way of production of working full structure devices. Added to this is the exciting discovery related to the "Simplified Structure" design that paves new paths to increased market potential and improved profitability.

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.

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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

In prior year financial statements, the Company noted that there was a contingent liability in relation to a derivative action court case in Israel in relation to BE4 Limited which the Company was defending. On 13 February 2019 the Supreme Court of Israel dismissed the appeal from the lower court and the matter is now concluded.

Apart from the above, 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	5,780,640
Ian Dennis	320,167
Cheryl Bart	500,000

During the year, a company controlled by Fred Bart converted one convertible note of \$1.5m into 154,959 ordinary shares at a price of \$9.68 and one convertible note of \$500,000 into 32,916 ordinary shares at \$15.19.

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.

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Remuneration Report (cont.)

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 - Retired 21 June 2018

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 2018 \$	Year ended 31 December 2017 \$	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$	Year ended 31 December 2014 \$
Revenue	86,961	65,624	103,630	25,073	181,583
Net (loss) before tax	(4,519,721)	(5,914,957)	(5,054,771)	(1,840,940)	(2,796,787)
Net (loss) after tax	(4,519,721)	(5,914,957)	(5,054,771)	(1,840,940)	(2,796,787)

	Year ended 31 December 2018 \$	Year ended 31 December 2017 \$	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$	Year ended 31 December 2014 \$
Share price at start of year/period	16.82	14.15	8.45	9.86	3.80
Share price at end of year/period	20.22	16.82	14.15	8.45	9.86
Dividend Paid	0.00	0.00	0.00	0.00	0.00

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

	31 December 2018 \$	31 December 2017 \$
Short-term employee benefits	763,526	775,262
Post employment benefits	99,387	169,339
	<u>862,913</u>	<u>944,601</u>

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Remuneration Report (cont.)

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 1/1/18 No.	Granted as remuneration No.	Received on exercise of options No.	Net other change No.	Balance at 31/12/18 No.
Mr Fred Bart	5,592,765	-	-	187,875	5,780,640
Mrs Cheryl Bart	500,000	-	-	-	500,000
Mr Ian Dennis	320,167	-	-	-	320,167
Mr Danny Lewin	1,709,092	-	-	(278,273)	1,430,819
Mr Yuval Cohen	1,928,971	-	-	(498,152)	1,430,819
Mr Shay Kaplan*	881,604	-	-	(881,064)	-

*Shay Kaplan retired on 21 June 2018

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.

The convertible note was exercised on 7 November 2018 and resulted in the issue of 154,959 ordinary shares to 4F Investments Pty Limited.

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Remuneration Report (cont.)

On 7 May 2018, shareholders approved the issue of a convertible note of \$500,000 to 4F Investments Pty Limited, company controlled by Mr Fred Bart. The terms of the issue were as follows:

Face Value:	\$500,000
Date of initial issue:	7 May 2018
Interest rate:	8% payable quarterly
Term:	7 months to 31 December 2018
Listing status:	Unlisted
Security:	Unsecured
Conversion terms:	Convertible to ordinary shares at \$16.71

On 7 November 2018, 4F Investments Pty Limited agreed to exercise their convertible note earlier at a discounted price of \$15.19. The convertible note was subsequently exercised on 21 December 2018 after obtaining shareholder approval at an Extraordinary General Meeting on that day and resulted in the issue of 32,916 ordinary shares to 4F Investments Pty Limited. The discounted conversion price of \$15.19 was the same conversion price as the other holders of this series of convertible notes who also agreed to convert their notes early.

Transactions with Related Entities

During the year ended 31 December 2018, the Company paid a total of \$107,857 (year ended 31 December 2017 - \$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 interest of \$125,918 (year ended 31 December 2017 - \$119,407) on convertible notes to 4F Investments Pty Limited, a company associated with Mr Fred Bart.

During the year, a company controlled by Fred Bart, 4F Investments Pty Limited, converted one convertible note of \$1.5m into 154,959 ordinary shares at a price of \$9.68 on 7 November 2018 and converted one convertible note of \$500,000 into 32,916 ordinary shares at \$15.19 on 21 December 2018 after shareholder approval was received.

During the year ended 31 December 2018, the Company paid a total of \$41,063 (year ended 31 December 2017 - \$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 2017 - \$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 1 June 2018, the company exercised an option to renew a lease in respect of office premises at Suite 3, Level 12, 75 Elizabeth Street Sydney for a period of forty eight months to 30 March 2022. The Company recharged \$28,441 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 \$28,441 to 4F Investments Pty Limited, a company controlled by Fred Bart.

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Remuneration Report (Cont.)

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 2018					
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	159,034	54,499	-	38,627	252,160
Yuval Cohen	220,008	21,810	18,996	-	260,814
Shay Kaplan	118,528	23,647	-	28,844	171,019
	663,570	99,956	31,916	67,471	862,913
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

*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.

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.

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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 10.

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 27 day of February 2019