# 1. Summary of Significant Accounting Policies

## 1(a) 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 27 February 2019.

## 1(b) 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.

## 1(c) Adoption of new and revised Standards

### New and amended IFRS Standards that are effective for the current year

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 its operations and effective for an accounting period that begins on or after 1 January 2018.

New and revised Standards and amendments thereof and Interpretations effective for the current financial year, and which have been applied in the preparation of this general purpose financial report, that are relevant to the Group include:

- AASB 9 *Financial Instruments* and related amending Standards
- AASB 15 *Revenue from Contracts with Customers* and related amending Standards

### AASB 9 *Financial Instruments*

In the current year, the Group has applied AASB 9 *Financial Instruments* (as revised) and the related consequential amendments to other Accounting Standards for the first time. AASB 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) impairment for financial assets and 3) general hedge accounting. Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied AASB 9 in accordance with the transition provisions set out in AASB 9.

### Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of AASB 9) is 1 January 2018. Accordingly, the Group has applied the requirements of AASB 9 to instruments that have not been derecognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

Subsequent to initial recognition, all recognised financial assets that are within the scope of AASB 9 are required to be measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost,
- Debt investments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at fair value through other comprehensive income (FVTOCI),
- All other debt investments and equity investments are subsequently measured at fair value through profit or loss (FVTPL).

## 1. Summary of Significant Accounting Policies (Cont.)

Despite the aforegoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- The Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which AASB 3 *Business Combinations* applies in other comprehensive income,
- The Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Group has not taken any of the elections above.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain or loss previously recognised in other comprehensive income is not subsequently reclassified to profit or loss.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

The directors of the Company reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of AASB 9 has had the following impact on the Group's financial assets as regards their classification and measurement:

- Financial assets classified as held-to-maturity and loans and receivables under AASB 139 that were measured at amortised cost continue to be measured at amortised cost under AASB 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding;

As a result of the above, there was no impact on the Group's financial position, profit or loss, other comprehensive income or total comprehensive income for the period.

### Impairment of financial assets

In relation to the impairment of financial assets, AASB 9 requires an expected credit loss model as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, AASB 9 requires the Group to recognise a loss allowance for expected credit losses ('ECL') on i) trade receivables, ii) debt investments subsequently measured at amortised cost or at FVTOCI, iii) lease receivables, iv) contract assets and v) loan commitments and financial guarantee contracts to which the impairment requirements of AASB 9 apply.

In particular, AASB 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12m ECL. AASB 9 also provides a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets, amounts due from customers and financial guarantee contracts for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of AASB 9 to determine the credit risk of the respective items at the date they were initially recognised, and compared that to the credit risk as at 1 January 2018. No further cumulative additional loss allowance was recognised as a result of this assessment.

### Classification and measurement of financial liabilities

One major change introduced by AASB 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

## 1. Summary of Significant Accounting Policies (Cont.)

Specifically, AASB 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under AASB 139, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

This change in accounting policy has not affected the Group's accounting in relation to the convertible notes as fair values ascribed to these instruments already reflect the Group's own credit risk.

Apart from the above, the application of AASB 9 has had no impact on the classification and measurement of the Group's financial liabilities.

### General hedge accounting

The Group does not undertake hedging activities and hence is not impacted by the changes in relation to hedging.

### Disclosures in relation to the initial application of AASB 9

The table below illustrates the classification and measurement of financial assets and financial liabilities under AASB 9 and AASB 139 at the date of initial application, 1 January 2018.

| Category | Original measurement category under AASB 139 | New measurement category under AASB 9 | Original carrying amount under AASB 139 | Additional loss allowance | New carrying amount under AASB 9 |
|---|---|---|---|---|---|
| Trade and other receivables | Loans and receivables | Financial assets at amortised cost | 3,062,221 | - | 3,062,221 |
| Cash and bank balances | Loans and receivables | Financial assets at amortised cost | 2,700,577 | - | 2,700,577 |
| Trade and other payables | Financial liabilities at amortised cost | Financial liabilities at amortised cost | (887,770) | - | (887,770) |
| Borrowings | Financial liabilities at amortised cost | Financial liabilities at amortised cost | (6,388,489) | - | (6,388,489) |
| Derivative liabilities | Financial liabilities at FVTPL | Financial liabilities at FVTPL | (1,486,884) | - | (1,486,884) |

The application of AASB 9 has had no impact on the financial statements, including the consolidated cash flows of the Group or its earnings per share.

### AASB 15 Revenue from Contracts with Customers

The Group has applied AASB 15 Revenue from Contracts with Customers (as amended) for the first time in the current period. AASB 15 introduces a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in AASB 15 to deal with specific scenarios. Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

AASB 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Group has adopted the terminology used in AASB 15 to describe such balances.

Apart from providing more extensive disclosures on the Group's revenue transactions, the application of AASB 15 has not had any impact on the financial position and/or financial performance of the Group. This is because the Group's revenue is primarily interest received which is outside the scope of AASB 15.

# 1. Summary of Significant Accounting Policies (Cont.)

## New and revised AASB Standards in issue but not yet effective

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 future years that are relevant to the Group include:

- AASB 16 *Leases*
- Annual Improvements to AASB Standards 2015-2017 Cycle *Amendments to* AASB 3 *Business Combinations*, AASB 11 *Joint Arrangements*, AASB 12 *Income Taxes* and AASB 23 *Borrowing Costs*
- Amendments to AASB 19 *Employee Benefits Plan Amendment, Curtailment or Settlement* AASB 10 *Consolidated Financial Statements* and AASB 28 (amendments) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- IFRIC 23 *Uncertainty over Income Tax Treatments*

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

## AASB 16 *Leases*

### General impact of application of AASB 16 Leases

AASB 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. AASB 16 will supersede the current lease guidance including AASB 117 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of AASB 16 for the Group will be 1 January 2019.

The Group has chosen the modified retrospective application of AASB 16 in accordance with AASB 16:C5(b). Consequently, the Group will apply the Standard retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application.

In contrast to lessee accounting, AASB 16 substantially carries forward the lessor accounting requirements in AASB 117.

### Impact of the new definition of a lease

The Group will make use of the practical expedient available on transition to AASB 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with AASB 117 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. AASB 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in AASB 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first time application of AASB 16, the Group has carried out an implementation assessment. The assessment has shown that the new definition in AASB 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

### Impact on Lessee Accounting

*Operating leases*

AASB 16 will change how the Group accounts for leases previously classified as operating leases under AASB 117, which were off balance sheet.

On initial application of AASB 16, for all leases (except as noted below), the Group will:

a) Recognise right of use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;

b) Recognise depreciation of right of use assets and interest on lease liabilities in the consolidated statement of profit or loss;

c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rentfree period) will be recognised as part of the measurement of the right of use assets and lease liabilities whereas under AASB 117 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight line basis.

Under AASB 16, right of use assets will be tested for impairment in accordance with AASB 136 Impairment of Assets.

## 1. Summary of Significant Accounting Policies (Cont.)

This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short term leases (lease term of 12 months or less) and leases of low value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight line basis as permitted by AASB 16.

As at 31 December 2018, the Group has non cancellable operating lease commitments of $456,144. (See Note 26)

A preliminary assessment indicates that all of these arrangements relate to leases other than short term leases and leases of low value assets, and hence the Group will recognise a right of use asset of $424,881 and a corresponding lease liability of $424,881 in respect of all these leases. The impact on profit or loss is to decrease administrative expenses by $41,885, to increase depreciation by $10,622 and to increase interest expense by $31,263.

Under AASB 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under AASB 16 would be to reduce the cash generated by operating activities and to increase net cash used in financing activities.

## 1(d) 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 $4,519,721 (2017: $5,914,957). Net cash used by operating activities was $4,592,413 (2017: $3,561,391). As at 31 December 2018, the consolidated entity had cash of $11,019,092 (2017: $2,700,577) of which $54,959 (2017: $53,092) is restricted as it secures future lease payments. The cash will become unrestricted once the contracts are concluded or renegotiated.

During the period, the company had $8,000,000 of convertible notes on issue converted into fully paid ordinary shares. In addition, on 30 October 2018 the company completed a placement of $769,231 ordinary shares at $13.00 per share to raise $10,000,000 which will be used to provide working capital.

In the opinion of the directors, the ability of the consolidated entity to continue as a going concern and pay its 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. The directors consider that the company has a number for 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.

In the opinion of the directors, the consolidated entity can continue as a going concern and pay its debts as and when they become due and payable.

Given the current financial position, performance and prospects of the consolidated entity the directors believe it is appropriate to prepare the financial report on the going concern basis.

## 1(e) Revenue Recognition

Interest revenue is recognised on an accrual basis.

## 1(f) Financial assets

### Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- Those to be measured at amortised cost.

The classification depends on the Group's business model for managing financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. The Group reclassifies debt investments when and only when its business model for managing those assets changes.

### Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Measurement of cash and cash equivalents and trade and other receivables remains at amortised cost consistent with the comparative period.

## 1. Summary of Significant Accounting Policies (Cont.)

### Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- Fair value through other comprehensive income (FVOCI): Assets that are held for collecting contractual cash flows and through sale on specified dates. A gain or loss on a debt investment that is subsequently measured at FVOCI is recognised in other comprehensive income. No such assets are currently held by the Group.
- Fair value through profit or loss (FVPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the statement of profit or loss within other gains/(losses) in the period in which it arises. No such assets are currently held by the Group.

### Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value. Changes in the fair value of financial assets at fair value through profit or loss are recognised in other expenses in the statement of profit or loss as applicable.

### Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, and lease receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

## 1(g) Financial Liabilities

### Interest bearing liabilities

All loans and borrowings are initially recognised at fair value, being the amount received less attributable transaction costs. After initial recognition, interest bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of profit or loss over the period of the borrowings on an effective interest basis.

### Trade and other payables

Liabilities are recognised for amounts to be paid for goods or services received. Trade payables are settled on terms aligned with the normal commercial terms in the Group's countries of operation.

### Derivative liabilities

Derivative liabilities are initially recognised at fair value on issue. After initial recognition, they are subsequently measured at fair value through profit or loss.

### Classification as debt or equity

During the year the Company had 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.

## 1. Summary of Significant Accounting Policies (Cont.)

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.

## 1(h) 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.

## 1(i) 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.

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.

## 1(j) 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.

## 1(k) 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.

## 1(l) 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 acquire, and the fair value of the acquirer's previously held equity interest in the acquire (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 acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

## 1. Summary of Significant Accounting Policies (Cont.)

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.

## 1(m) 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.

## 1(n) 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 settles its current tax assets and liabilities on a net basis.

### 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.

## 1(o) 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.

## 1. Summary of Significant Accounting Policies (Cont.)

### 1(p) 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.

### 1(q) 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.

### 1(r) 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.

### 1(s) 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 |

# 1. Summary of Significant Accounting Policies (Cont.)

## 1(t) 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.

## 1(u) 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 and conversion of borrowings and derivative liability

The directors made a critical judgement in relation to the interest rate applied in valuing the borrowing and the expected share price volatility used to value the derivative liability included in Note 11. Furthermore significant judgements were made in determining the impact of the change in conversion terms for all convertible note on issue.

#### 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 -$2,447,750 (non-current assets)
- Intercompany receivable - $29,122,871 (included in current assets).

| | Consolidated Year ended 31 December 2018 $ | Consolidated Year ended 31 December 2017 $ |
|---|---|---|
| **2. (Loss) from Operations** | | |
| **(a) Revenue** | | |
| Interest received - other entities | 86,961 | 65,624 |
| Total revenue | 86,961 | 65,624 |
| **(b) Expenses** | | |
| Amortisation | 79,159 | 79,637 |
| Depreciation | 70,881 | 79,639 |
| Interest expense | 1,511,514 | 593,179 |
| Rental payments | 147,906 | 123,375 |
| Rental amounts recharged to sub tenants | (113,763) | (97,533) |
| Net rental expense | 34,143 | 25,842 |
| Fair value movement in derivative liability | 940,264 | 157,996 |
| Employee benefits expense: | | |
| Salary and other employee benefits | 1,390,360 | 1,137,068 |
| Share based payments | 19,541 | - |
| Superannuation | 31,916 | 12,920 |
| | 1,441,817 | 1,149,988 |

## 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) | - | - |
| 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 | (4,519,721) | (5,914,957) |
| Amortisation | 79,159 | 79,637 |
| Share based payments | 19,541 | - |
| Convertible note adjustments | 2,446,233 | 224,009 |
| | (1,974,788) | (5,611,311) |

## 3. Income Taxes (Cont.)

| | 31 December 2018 $ | 31 December 2017 $ |
|---|---|---|
| Income tax expense calculated at 30% | (592,436) | (1,683,363) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 237,099 | 159,975 |
| Deferred tax benefit not brought to account | 355,337 | 1,523,388 |
| | - | - |

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 23% (2017:25%) 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 | 5,768,269 | 5,412,932 |
| Tax losses - capital | 168,038 | 168,038 |
| Temporary differences | 54,246 | 60,080 |
| | 5,990,553 | 5,641,050 |

### (c) Franking account balance

| | | |
|---|---|---|
| Adjusted franking account balance | 86,721 | 86,721 |

### (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.

| | 31 December 2018 $ | 31 December 2017 $ |
|---|---|---|
| **4. Remuneration of Auditors** | | |
| (i) Auditor of the parent entity | | |
| Audit or review of the financial statements | 38,388 | 37,249 |
| Taxation service | 2,993 | 2,704 |
| | 41,381 | 39,953 |
| (ii) Network firm of the parent entity auditor | | |
| Audit or review of the financial statements | 18,167 | 17,998 |
| Taxation service | 2,019 | 2,000 |
| | 20,186 | 19,998 |

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

## 5. Cash and Cash Equivalents

| | 31 December 2018 $ | 31 December 2017 $ |
|---|---|---|
| Cash on hand and at bank | 11,019,092 | 2,700,577 |
| Weighted average interest rate received on cash | 2.24% | 0.36% |

## 6. Trade and Other Receivables

| | 31 December 2018 $ | 31 December 2017 $ |
|---|---|---|
| Current | | |
| GST receivable | 65,347 | 10,167 |
| Convertible note proceeds receivable | - | 3,000,000 |
| Prepayments and other debtors | 108,218 | 35,946 |
| | 173,565 | 3,046,113 |
| Non Current | | |
| Other debtors | 5,525 | 16,108 |

Other debtors comprise security deposits with government bodies.

| | 31 December 2018 $ | 31 December 2017 $ |
|---|---|---|

## 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. | 2,326,483 | 2,189,025 |
| Balance at 1 January | 2,189,025 | 2,300,905 |
| Net foreign currency exchange | 137,458 | (111,880) |
| Balance at 31 December | 2,326,483 | 2,189,025 |

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. | 868,000 | 868,000 |
| Exchange differences on translation | 201,221 | 151,987 |
| Less accumulated amortisation | (585,373) | (506,214) |
| | 483,848 | 513,773 |

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.

| | 31 December 2018 $ | 31 December 2017 $ |
|---|---|---|
| **9. Property, Plant and Equipment** | | |
| Computers and related equipment - at cost | 394,491 | 351,372 |
| Less accumulated depreciation | (374,022) | (331,920) |
| | 20,469 | 19,452 |
| Leasehold improvements - at cost | 360,094 | 324,269 |
| Less accumulated depreciation | (252,699) | (216,887) |
| | 107,395 | 107,382 |
| Office furniture and equipment - at cost | 1,201,446 | 1,059,881 |
| Less accumulated depreciation | (999,452) | (862,105) |
| | 201,994 | 197,776 |
| Total net book value of Property, Plant and Equipment | 329,858 | 324,610 |
| **Cost** | | |
| **Computers and related equipment** | | |
| Balance at 1 January | 351,372 | 362,977 |
| Additions | 13,064 | 18,586 |
| Disposals | (7,157) | (4,744) |
| Net foreign currency exchange differences | 37,212 | (25,447) |
| Balance as at 31 December | 394,491 | 351,372 |
| **Leasehold improvements** | | |
| Balance at 1 January | 324,269 | 241,873 |
| Additions | 1,484 | 105,997 |
| Disposals | - | (4,760) |
| Net foreign currency exchange differences | 34,341 | (18,841) |
| Balance as at 31 December | 360,094 | 324,269 |

## 9. Property, Plant and Equipment (Cont.)

| | 31 December 2018 $ | 31 December 2017 $ |
|---|---|---|
| **Office furniture and equipment** | | |
| Balance at 1 January | 1,059,881 | 1,043,341 |
| Additions | 31,495 | 139,375 |
| Disposals | (2,175) | (38,732) |
| Net foreign currency exchange differences | 112,245 | (84,103) |
| Balance as at 31 December | 1,201,446 | 1,059,881 |
| | | |
| **Accumulated depreciation** | | |
| **Computers and related equipment - at cost** | | |
| Balance as at 1 January | (331,920) | (344,624) |
| Net foreign currency exchange differences | (35,861) | 24,637 |
| Disposals | 7,157 | 3,994 |
| Depreciation expense | (13,398) | (15,927) |
| Balance at 31 December | (374,022) | (331,920) |
| | | |
| **Leasehold improvements** | | |
| Balance as at 1 January | (216,887) | (226,061) |
| Net foreign currency exchange differences | (14,274) | 17,988 |
| Disposals | - | 911 |
| Depreciation expense | (21,538) | (9,725) |
| Balance at 31 December | (252,699) | (216,887) |
| | | |
| **Office furniture and equipment** | | |
| Balance as at 1 January | (862,105) | (910,919) |
| Net foreign currency exchange differences | (103,037) | 75,893 |
| Disposals | 1,635 | 26,908 |
| Depreciation expense | (35,945) | (53,987) |
| Balance at 31 December | (999,452) | (862,105) |

| | 31 December 2018 $ | 31 December 2017 $ |
|---|---|---|
| **10. Trade and Other Payables** | | |
| Current | | |
| Trade payables and accruals | 987,849 | 887,770 |

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 was obtained at the next Annual General Meeting of the Company held on 7 May 2018.

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

These notes were unsecured, not listed and were 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. These convertible notes were converted to 309,918 ordinary shares on 7 November 2018, following receipt of agreement to the early conversion from noteholders.

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 that was obtained at the Annual General Meeting of the Company held on 7 May 2018.

These new convertible notes had a term of 12 months to 31 December 2018, were 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).

On 7 November 2018, the Directors agreed with all the holders of the $5m convertible note to exercise their notes earlier at a discounted price of $15.19. Shareholder approval was required for the $500,000 of convertible notes held by 4F Investments Pty Limited and this was received on 21 December 2018. $4.5m of these convertible notes were converted to 296,246 ordinary shares on 7 November 2018 and the remaining $500,000 of convertible notes were converted to 32,916 ordinary shares on 21 December 2018.

| | 31 December 2018 $ | 31 December 2017 $ |
|---|---|---|

## 11. Borrowings (Cont.)

| | | |
|---|---|---|
| **Borrowings - Convertible note** | | |
| Carrying amount at start of period | 6,388,489 | 2,648,387 |
| Face value of notes issued | 500,000 | 4,500,000 |
| Gain on derecognition of convertible notes | - | (444,618) |
| Amortised interest expense | 980,554 | 351,613 |
| $3m of notes converted to equity at $9.68 | (2,929,321) | - |
| $5m of notes converted to equity at $15.19 | (4,891,518) | - |
| Convertible note equity reserve - fair value initially recognised | (48,204) | (666,893) |
| Current Liability at end of period | - | 6,388,489 |
| | | |
| **Derivative liability** | | |
| Carrying value at start of the period | 1,486,884 | 1,169,870 |
| Loss on derecognition of convertible notes | - | 159,018 |
| Conversion to equity | (2,427,148) | - |
| Fair value movement | 940,264 | 157,996 |
| Derivative liability | - | 1,486,884 |
| Total borrowings | - | 7,875,373 |

## 12. Provisions

| | | |
|---|---|---|
| Employee benefits | 203,960 | 240,319 |

## 13. Issued Capital

Issued and paid up capital

| | | |
|---|---|---|
| Fully paid Ordinary Shares | | |
| Balance at the beginning of the financial year | 45,228,931 | 45,228,931 |
| Placement for cash at $13.00 per share | 9,500,003 | - |
| Conversion of $3m of convertible notes at $9.68 | 5,416,932 | - |
| Conversion of $5m of convertible notes at $15.19 | 5,356,470 | - |
| Transfer from convertible note equity reserve | 715,097 | - |
| Balance at the end of the financial year | 66,217,433 | 45,228,931 |

| Fully paid Ordinary Shares | Number | Number |
|---|---|---|
| Balance at the beginning of the financial year | 26,893,409 | 26,893,409 |
| Placement for cash at $13.00 per share | 769,231 | - |
| Conversion of $3m notes at $9.68 | 309,918 | - |
| Conversion of $5m notes at $15.19 | 329,162 | - |
| Balance at the end of the financial year | 28,301,720 | 26,893,409 |

## 13. Issued Capital (Cont.)

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.

## 14. Employee Share Option Plan

The consolidated entity has an ownership-based compensation scheme for employees (including directors) of the company. In accordance with the provisions of the scheme, as approved by shareholders at a previous annual general meeting, employees with more than three months service with the company may be granted options to purchase ordinary shares at exercise prices determined by the directors based on market prices at the time the issue of options were made.

Each share option converts to one ordinary share in Audio Pixels Holdings Limited. No amounts are paid or payable by the recipient on receipt of the options. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of expiry.

The number of options granted is determined by the directors and takes into account the company's and individual achievements against both qualitative and quantitive criteria.

On 13 January 2011, shareholders approved the adoption of an Employee Share Option Plan.

### (a) Unlisted Options issued under the Employee Share Option Plan

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Number | Weighted average exercise price $ | Number | Weighted average exercise price $ |
| Balance at the beginning of the financial year (i) | - | - | - | - |
| Granted during the year (ii) | 203,000 | 16.20 | - | |
| Exercised during the year (iii) | - | - | - | - |
| Lapsed during the year (iv) | - | - | - | - |
| Balance at the end of the financial year (v) | 203,000 | 16.20 | - | - |
| Exercisable at end of the year | - | - | - | - |

#### (i) Balance at the beginning of the year

| | Number | Grant date | Expiry date | Exercise Price | Fair value at grant date |
|---|---|---|---|---|---|
| **2018** | - | - | - | - | - |
| **2017** | - | - | - | - | - |

Staff options carry no rights to dividends and no voting rights.

## 14. Employee Share Option Plan (Cont.)

### (ii) Granted during the year

| | Number | Grant date | Expiry date | Exercise Price | Fair value at grant date |
|---|---|---|---|---|---|
| **2018** | | | | | |
| Staff options | 203,000 | 17/12/18 | 17/12/21* | 16.20 | $1,421,406 |
| **2017** | | | | | |
| None | - | - | - | - | - |

The options issued were priced using the Black-Scholes Option Pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural conditions. Expected volatility is based on the historical share price volatility.

The following inputs were used in the model for the option grants made on 17 December 2018:

| | |
|---|---|
| Dividend yield | - |
| Expected volatility (linearly interpolated) | 65.40% |
| Risk free interest rate | 1.96% |
| Expected life of options | 1,095 days * |
| Grant date share price | $15.90 |
| Exercise price | $16.20 |

* These options commence to vest after 17 December 2020 and continuous employment on the basis of one twelfth of the total number each month in the twelve month period to 17 December 2021.

### (iii) Exercised during the year

There were no options exercised during the year.

### (iv) Lapsed during the year

No Staff options lapsed during the year.

### (v) Balance at the end of the financial year

| | Number | Grant date | Expiry date | Exercise Price | Fair value at grant date |
|---|---|---|---|---|---|
| **2018** | | | | | |
| Staff options | 203,000 | 17/12/18 | 17/12/21 | $16.20 | 1,421,406 |
| **2017** | | | | | |
| Staff options | - | - | - | - | - |

Staff options carry no rights to dividends and no voting rights.

All options granted to staff on 17 December 2018 commence to vest after 17 December 2020 and continuous employment on the basis of one twelfth of the total number each month in the twelve month period to 17 December 2021.

The difference between the total market value of the options issued during the financial year, at the date of issue, and the total amount received from the employees (nil) is recognised in the financial statements over the vesting period as disclosed in Note 15 to the financial statements.

## 15. Reserves

| | 31 December 2018 $ | 31 December 2017 $ |
|---|---|---|
| **Foreign currency translation** | | |
| Balance at the beginning of the financial year | (1,575,876) | (3,251,993) |
| Translation of foreign operations | (2,461,611) | 1,676,117 |
| Balance at end of financial year | (4,037,487) | (1,575,876) |

**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.

| | 31 December 2018 $ | 31 December 2017 $ |
|---|---|---|
| **Equity settled option reserve** | | |
| Balance at the beginning of the financial year | 4,512,898 | 4,512,898 |
| Add share based payments in respect of options | 19,541 | - |
| Balance at end of financial year | 4,532,439 | 4,512,898 |

The above equity-settled option reserve relates to share options granted by the Company.

| | 31 December 2018 $ | 31 December 2017 $ |
|---|---|---|
| **Minority acquisition reserve** | | |
| Balance at the beginning of the financial year | (25,538,692) | (25,538,692) |
| Balance at end of financial year | (25,538,692) | (25,538,692) |

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.

| | 31 December 2018 $ | 31 December 2017 $ |
|---|---|---|
| **Convertible Note Equity Reserve** | | |
| Balance at the beginning of the financial year | 666,893 | - |
| Increase as a result of derivative recognised on the issue of convertible notes treated as equity | 48,204 | 666,893 |
| Transfer to contributed equity on conversion | (715,097) | - |
| Balance at end of financial year | - | 666,893 |
| **Total Reserves** | **(25,043,740)** | **(21,934,777)** |

| | 31 December 2018 $ | 31 December 2017 $ |
|---|---|---|

## 16. Accumulated Losses

| | 31 December 2018 $ | 31 December 2017 $ |
|---|---|---|
| Balance at the beginning of the financial year | (23,507,410) | (17,592,453) |
| (Loss) for the year attributable to owners of the company | (4,519,721) | (5,914,957) |
| Balance at the end of the financial year | (28,027,131) | (23,507,410) |

## 17. 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 | 11,019,092 | 2,700,577 |

**(b) Restricted cash**

| | | |
|---|---|---|
| Cash held as security for future lease payments | 54,959 | 53,092 |

Restricted cash amounts are included in the cash and cash equivalents amounts above.

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

| | | |
|---|---|---|
| (Loss) after related income tax | (4,519,721) | (5,914,957) |
| Amortisation | 79,159 | 79,637 |
| Convertible note adjustments | 2,446,233 | 224,009 |
| Depreciation | 70,881 | 79,639 |
| Foreign exchange gains | (2,635,871) | 1,918,755 |
| Loss on sale of property, plant and equipment | 198 | - |
| Share based payments | 19,541 | - |
| Changes in assets and liabilities | | |
| (Increase)/ decrease in assets | | |
| Current trade and other receivables | (127,452) | 40,005 |
| Non-current trade and other receivables | 10,583 | (4,235) |
| Increase /(decrease) in liabilities | | |
| Provisions | (36,359) | (400,144) |
| Current trade payables | 100,079 | 415,900 |
| Net cash (used in) operating activities | (4,592,729) | (3,561,391) |

## 18. 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 2018 $ | 31 December 2017 $ |
|---|---|---|
| Short-term employee benefits | 763,526 | 775,262 |
| Post employment benefits | 99,387 | 169,339 |
| | 862,913 | 944,601 |

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 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 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 ended 31 December 2018, the Company paid interest of $125,918 (year ended 31 December 2017 - $119,407) on a convertible note 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, 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 $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.

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **19. Earnings per Share** | | |
| Basic (loss) per share | (16.67) cents | (21.99) cents |
| Diluted (loss) per share (b) | (16.67) cents | (21.99) cents |
| (Loss) (a) | (4,519,721) | (5,914,957) |
| Weighted average number of Ordinary Shares | 27,112,427 | 26,893,409 |

(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 were potential ordinary shares in relation to the convertible notes of $8m which were converted during the financial year. 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 issue of 203,000 unlisted employee options issued on 17 December 2018 at an exercise price of $16.20. These options expire on 17 December 2023. The unlisted employee options have not been included in dilutive EPS, as they are anti-dilutive.

## 20. 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 2017 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 | 86,961 | 65,624 |
| Total of all segments | 86,961 | 65,624 |
| **Segment Results** | | |
| Digital speakers | (4,519,721) | (5,914,957) |
| (Loss) before income tax | (4,519,721) | (5,914,557) |
| Income tax gain/ (expense) | - | - |
| (Loss) for the period | (4,519,721) | (5,914,957) |

## 20. Segment Information (Cont.)

### Segment Assets and Liabilities

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | 31 December 2018 $ | 31 December 2017 $ | 31 December 2018 $ | 31 December 2017 $ |
| Digital speakers | 14,338,371 | 8,790,206 | 1,191,809 | 9,003,462 |
| Total all segments | 14,338,371 | 8,790,206 | 1,191,809 | 9,003,462 |
| Unallocated | - | - | - | - |
| Consolidated | 14,338,371 | 8,790,206 | 1,191,809 | 9,003,462 |

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 2018 $ | 31 December 2017 $ | 31 December 2018 $ | 31 December 2017 $ |
| Digital speakers | 150,040 | 159,276 | 46,403 | 263,958 |
| Total all segments | 150,040 | 159,276 | 46,403 | 263,958 |
| Unallocated | - | - | - | - |
| Consolidated | 150,040 | 159,276 | 46,403 | 263,958 |

### Information on Geographical Segments

| Geographical Segments | Revenue from External Customers $ | Segment Assets $ | Acquisition of Segment Assets $ |
|---|---|---|---|
| **31 December 2018** | | | |
| Australia | 86,168 | 13,473,871 | - |
| Israel | 793 | 864,500 | 46,403 |
| Total | 86,961 | 14,338,371 | 46,403 |
| **31 December 2017** | | | |
| Australia | 65,624 | 8,028,778 | - |
| Israel | - | 761,428 | 263,958 |
| Total | 65,624 | 8,790,206 | 263,958 |

# 21. Financial Risk Management Objectives and Policies

The consolidated entity's principal financial instruments held during the year 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 2018 $ | 31 December 2017 $ |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 11,019,092 | 2,700,577 |

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 2018, 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 2018 $ | 31 December 2017 $ | 31 December 2018 $ | 31 December 2017 $ |
| **Consolidated entity** | | | | |
| +1% (100 basis points) | 110,191 | 27,006 | 110,191 | 27,006 |
| -0.5% (50 basis points) | (55,095) | (3,710) | (55,095) | (3,710) |

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 2018 than in December 2017 and accordingly the sensitivity is lower.

## 21. 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 2018 $ | 31 December 2017 $ | 31 December 2018 $ | 31 December 2017 $ |
| Cash and cash equivalents | - | - | 1,518,208 | 406,585 |
| Trade and other receivables | - | - | 74,268 | 35,946 |
| Trade and other payables | 933,743 | 850,406 | - | - |

All US$ denominated financial instruments were translated to A$ at 31 December 2018 at the exchange rate of 0.7058 (2017: 0.7805).

At 31 December 2018 and 31 December 2017, 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) | |
|---|---|---|---|---|
| | 2018 $ | 2017 $ | 2018 $ | 2017 $ |
| **Consolidated** | | | | |
| AUD/USD +10% | 307,883 | 290,884 | 307.883 | 290,884 |
| AUD/USD -5% | (144,973) | (168,427) | (144,973) | (168,427) |

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.

# 21. 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 2018** | | | | | |
| **Assets** | | | | | |
| Non interest bearing | 0.00 | 225,827 | - | - | - |
| Fixed rate instruments | 2.24 | 2,039,617 | 9,041,050 | - | - |
| **Liabilities** | | | | | |
| Convertible notes | 0.00 | - | - | - | - |
| **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 | - |

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.

# 22. 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 $3,000,000 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.

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.

# 23. Subsequent Events

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

# 24. Parent Entity Disclosures

| | 31 December 2018 $ | 31 December 2017 $ |
|---|---|---|
| **Financial position** | | |
| Assets | | |
| Current assets | 39,786,411 | 28,311,243 |
| Non-current assets | 2,447,750 | 2,428,209 |
| Total assets | 42,234,161 | 30,739,452 |
| Liabilities | | |
| Current liabilities | 119,730 | 7,912,737 |
| Non-current liabilities | - | - |
| Total liabilities | 119,730 | 7,912,737 |
| Net assets | 42,114,431 | 22,826,715 |
| Equity | | |
| Issued capital | 66,217,433 | 45,228,931 |
| Reserves | (21,006,253) | (20,358,901) |
| (Accumulated losses) | (3,096,749) | (2,043,315) |
| Total equity | 42,114,431 | 22,826,715 |
| **Financial performance** | | |
| (Loss) for the period | (1,053,434) | (2,635,205) |
| Other comprehensive income | - | - |
| | (1,053,434) | (2,635,205) |

## 25. Controlled Entity

| Name of Entity | Country of Incorporation | 31 December 2018 % | 31 December 2017 % |
|---|---|---|---|
| **Parent Entity** | | | |
| Audio Pixels Holdings Limited | Australia | | |
| **Controlled Entities** | | | |
| Audio Pixels Limited | Israel | 100.00 | 100.00 |
| Audio Pixels Technologies Pty Limited | Australia | 100.00 | 100.00 |

## 26. Leases

### Operating leases - leasing arrangements (the Company as lessee)

On 1 June 2018, the parent 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 from 31 March 2018 to 30 March 2022. 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 2018 $ | 31 December 2017 $ |
|---|---|---|
| **Non-cancellable operating lease payables** | | |
| Not longer than 1 year | 140,352 | 31,125 |
| Longer than 1 year and not longer than 5 years | 315,792 | - |
| Longer than 5 years | - | - |
| | 456,144 | 31,125 |

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.

## 27. Commitments

The subsidiary company, Audio Pixels Limited of Israel has entered into various purchase orders and commitments of \$286,427 (2017: \$451,745) 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

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Fax: (02) 9232 3411

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The Company has 10 (2017: 11) employees.