Half-Year Report of Audio Pixels Holdings Limited for the Half-Year Ended 30 June 2017

ACN 094 384 273

This Half-Year Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3.

Current Reporting Period:	Half year ended 30 June 2017
Previous Corresponding Period:	Half year ended 30 June 2016

Results for Announcement to the Market

Revenue and Net Profit/(Loss)

		Percentage Change %	Amount
Revenue from ordinary activities	down	3%	To $43,123
(Loss) from ordinary activities after tax attributable to members	down	N/A	To ($4,285,046)
Net (loss) attributable to members	down	N/A	To ($4,285,046)

Dividends (Distributions)

	Amount per security	Franked amount per security
Final dividend	Nil¢	Nil¢
Interim dividend	Nil¢	Nil¢
Record date for determining entitlements to the dividend:		
• final dividend		N/A
• interim dividend		N/A

Brief Explanation of Revenue, Net Profit/(Loss) and Dividends (Distributions)

Refer to Directors' Report.

Directors' Report

The directors of Audio Pixels Holdings Limited submit herewith the financial report for the half-year ended 30 June 2017. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the company during or since the end of the half year are:

Mr Fred Bart (Chairman)
Mr Ian Dennis
Ms Cheryl Bart AO

PRINCIPAL ACTIVITIES

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

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

REVIEW OF OPERATIONS

The Company's primary efforts remained focused on commercializing its groundbreaking 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.

Managing the scope, complexity and magnitude of such an undertaking necessitates careful planning. The Company sought to mitigate the technological and fabrication risks by establishing a four-phase program whereby each phase was independently planned (funded) and executed to address specific functional and fabrication challenges. Each phase was designed to resolve particular challenges while collectively contributing to an end result of a mass-manufacturable commercially viable product. The Company is currently in the latter stages of the fourth and final phase of this program. Throughout this fourth phase management has dedicated enormous efforts and resources toward achieving a reliable and repeatable mass manufacturing process that will meet the uncompromising demands of the consumer electronics, computing, communications, automotive, healthcare, security industries.

A particular focus of the Company during this reporting period has been on the refinement and optimization of the MEMS fabrication process (fabrication of the MEMS transducer responsible for generating the sound waves).

Exhaustive testing and analysis conducted on wafers produced during the earlier stages of fourth phase of the development program exposed an important need to further refine the electro-mechanical "points of contact" that among other purposes serves to suppress contact effects that could play a critical role in the sound quality and reliability of the device.

Overall there is limited industry knowledge as to the intricacies that surface morphology plays in such micro-contacts, in particular under the working conditions of our structures. Therefore, the Company together with its vendor launched a comprehensive investigation into the underlying sciences with the goal of identifying and formulating suitable materials and application techniques that would be needed to attain the specific requirements of the contacting surfaces. The Company, aided by its vendor and a number of global experts utilized highly advanced measurement techniques and third party multimillion dollar test equipment to evaluate and model results run by our vendor.

Ultimately this comprehensive investigation led to several compositions and process techniques that demonstrated the ability to achieve the desired outcome. This information was then "plugged into" the existing wafer fabrication flow for process implementation.

The company credits its MEMS vendors' unyielding commitment to achieve the Company's mass production requirements in keeping the impact of this rather massive undertaking to a bare minimum. During the coming weeks (from the date of this report) and throughout the balance of the current financial quarter, the Company will receive large quantities of wafer batches each containing modifications described above to the process flow. The company is fully organized for rapid test and measurement of these wafers in order to identify the batch or batches of wafers that best comply with the functional requirements of the device. The sanctioned wafers will help to solidify the production process as well to advance the Company's standing objectives of achieving demonstrable product capabilities.

In parallel, throughout the reporting period the company continued to advance performance verification of the combined ASIC and MEMS and the refinement of the chip assembly and packaging process. Management has begun to expand its engineering workforce to better cope with the escalating quantities of wafers and to be better prepared for the commencement of the demonstration phase. During the reporting period a highly skilled engineer was added to the team to provide experienced focused leadership of the measurement and characterization capabilities of the Company.

Management continues to remain intimately involved with the marketplace. Beyond continual direct confidential customer conversations, a number of market trends continue to evolve that further validate the underlying rational behind Audio Pixels; that consumers and industry alike are craving for solutions that improve their sound experience. Most noticeably perhaps is the acceleration in investment and adoption of higher resolution audio formats, platforms and offerings. Renowned device manufacturers including Sony, Samsung, LG and HTC to name but a few have added high-resolution audio (HRA) capabilities to their devices. All three major Music labels (Universal Music Group, Sony Music and the Warner Music Group), the Recording Industry Association of America (RIAA) and the Digital Entertainment Group (DEG), announced their support for studio-quality hi-res audio music streaming. This prompted the major music providers such as Pandora, Rhapsody/Napster and HD Tracks to launch high-resolution music streaming services, with Spotify rumoured to be not far behind (Apple's commitment to High Resolution remains unclear). Of course the catch behind all this activity is that ultimately one needs hardware that is capable of reproducing the detail that is contained in the high resolution audio files. With no known direct competitive threat on the horizon Audio Pixels appears to have endless opportunities to fulfill this market demand.

Intellectual Property

The company continues to expand it intellectual property portfolio, now standing at 35 applications with 98 patents granted in various global jurisdictions. Additionally during the reporting period several patents have either been submitted for application or are in the process of being authored including relevant to the technological advancements described above.

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 half year.

Auditor's independence declaration

The auditor's independence declaration is included on page 6 of the half-year financial report.

Signed in accordance with a resolution of the directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors

I A Dennis
Director
Sydney, 29 August 2017

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The Board of Directors
Audio Pixels Holdings Limited
Level 12
75 Elizabeth Street
Sydney NSW 2000

29 August 2017

Dear Board Members

Audio Pixels Holdings Limited

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

As lead audit partner for the review of the financial statements of Audio Pixels Holdings Limited for the half-year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

David Salmon

David Salmon
Partner
Chartered Accountants
Canberra, 29 August 2017

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

We have reviewed the accompanying half-year financial report of Audio Pixels Holdings Limited, which comprises the condensed consolidated statement of financial position as at 30 June 2017, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 9 to 21.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Audio Pixels Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Audio Pixels Holdings Limited would be in the same terms if given to the directors as at the time of this auditor's review report.

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Member of Deloitte Touche Tohmatsu Limited.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Audio Pixels Holdings Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial report, which indicates that the consolidated entity incurred a net loss during the half-year of $4,285,046 (2016: $4,724,282). Net cash used in operating activities was $1,411,192 (2016: $1,784,938). As at 30 June 2017, the consolidated entity had net current liabilities of $2,755,873 (31 December 2016: net current assets of $239,476). These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast doubt about the consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

David Salmon

David Salmon
Partner
Chartered Accountants
Canberra, 29 August 2017

Directors' Declaration

The directors declare that:

a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position as at 30 June 2017 and the performance for the half year ended on that date of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors

I A Dennis
Director
Sydney, 29 August 2017

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 30 June 2017

	Note	Consolidated Half-year ended 30 June 2017 $	Consolidated Half-year ended 30 June 2016 $
Revenue	2(a)	43,123	44,534
Administrative expenses		(505,231)	(520,457)
Amortisation		(39,976)	(40,432)
Depreciation		(37,939)	(35,961)
Directors' benefits		(74,460)	(74,460)
Exchange losses		(1,427,004)	(303,896)
Fair value movement on derivative liability		(601,796)	(1,725,558)
Interest expense		(285,978)	(295,217)
Loss on extension of convertible notes		-	(206,736)
Marketing expenses		(4,738)	-
Research and development		(1,351,047)	(1,566,099)
(Loss) before income tax expense	2	(4,285,046)	(4,724,282)
Income tax expense		-	-
(Loss) for the period	3	(4,285,046)	(4,724,282)
Other Comprehensive Income			
Items that may be reclassified subsequently to profit and loss			
Exchange differences arising on translation of foreign operations		1,324,072	326,723
Income tax relating to components of other comprehensive income		-	-
Other comprehensive (loss)/ income for the period (net of tax)		1,324,072	326,723
Total Comprehensive (loss) for the period		(2,960,974)	(4,397,559)
(Loss) attributable to:			
Owners of the company		(4,285,046)	(4,724,282)
		(4,285,046)	(4,724,282)
Total comprehensive (loss) attributable to:			
Owners of the company		(2,960,974)	(4,397,559)
		(2,960,974)	(4,397,559)
(Loss) per share:			
Basic (cents per share)	4	(15.93 cents)	(18.00 cents)
Diluted (cents per share)	4	(15.93 cents)	(18.00 cents)

Notes to the financial statements are included on pages 14 to 21.

Condensed Consolidated Statement of Financial Position as at 30 June 2017

	Note	Consolidated 30 June 2017 $	Consolidated 31 Dec 2016 $
Current Assets			
Cash and cash equivalents		3,384,294	5,083,948
Trade and other receivables		101,995	86,118
Total Current Assets		3,486,289	5,170,066
Non-Current Assets			
Goodwill	10	2,210,922	2,300,905
Intangible	11	560,434	639,850
Property, plant and equipment		360,280	166,587
Trade and other receivables		21,954	11,873
Total Non-Current Assets		3,153,590	3,119,215
Total Assets		6,639,879	8,289,281
Current Liabilities			
Trade and other payables		960,511	471,870
Borrowings	12	2,815,155	2,648,387
Derivative liability	12	1,771,666	1,169,870
Provisions		694,830	640,463
Total Current Liabilities		6,242,162	4,930,590
Total Liabilities		6,242,162	4,930,590
Net Assets		397,717	3,358,691
Equity			
Issued capital	7	45,228,931	45,228,931
Reserves	8	(22,953,715)	(24,277,787)
(Accumulated losses)	3	(21,877,499)	(17,592,453)
Total Equity		397,717	3,358,691

Notes to the financial statements are included on pages 14 to 21.

Condensed Consolidated Statement of Changes in Equity for the half-year ended 30 June 2017

	Issued Capital $	Equity Settled Share Option Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Minority Acquisition Reserve $	Total $
Consolidated						
Balance at 1 January 2017	45,228,931	4,512,898	(3,251,993)	(17,592,453)	(25,538,692)	3,358,691
Other comprehensive Income for the period	-	-	1,324,072	-	-	1,324,072
(Loss) for the period	-	-	-	(4,285,046)	-	(4,285,046)
Total comprehensive (loss) for the period	-	-	1,324,072	(4,285,046)	-	(2,960,974)
Balance at 30 June 2017	45,228,931	4,512,898	(1,972,921)	(21,877,499)	(25,538,692)	397,717

	Issued Capital $	Equity Settled Share Option Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Minority Acquisition Reserve $	Total $
Consolidated						
Balance at 1 January 2016	37,398,942	4,512,898	(3,115,487)	(12,537,682)	(25,538,692)	719,979
Other comprehensive income for the period	-	-	326,723	-	-	326,723
(Loss) for the period	-	-	-	(4,724,282)	-	(4,724,282)
Total comprehensive (loss) income for the period	-	-	326,723	(4,724,282)	-	(4,397,559)
Share placement at $6.60	7,829,989	-	-	-	-	7,829,989
Balance at 30 June 2016	45,228,931	4,512,898	(2,788,764)	(17,261,964)	(25,538,692)	4,152,409

Notes to the financial statements are included on pages 14 to 21.

Condensed Consolidated Cash flow statement for the half-year ended 30 June 2017

	Consolidated Half-year ended 30 June 2017 $	Consolidated Half-year ended 30 June 2016
Cash Flows From Operating Activities		
Payments to suppliers and employees	(1,454,315)	(1,829,472)
Interest and bill discounts received	43,123	44,534
Net cash (used in) operating activities	(1,411,192)	(1,784,938)
Cash Flows From Investing Activities		
Payment for property, plant and equipment	(241,025)	(45,939)
Net cash (used in) investing activities	(241,025)	(45,939)
Cash Flows From Financing Activities		
Proceeds from placement	-	7,829,989
Net cash provided by financing activities	-	7,829,989
Net (Decrease)/ Increase In Cash Held	(1,652,217)	5,999,112
Cash and cash equivalents at the beginning of the half-year	5,083,948	1,523,016
Effects of exchange fluctuations on the balances of cash held in foreign currencies	(47,437)	(7,103)
Cash and cash equivalents at the end of the half-year	3,384,294	7,515,025

Notes to the financial statements are included on pages 14 to 21.

1. Significant accounting policies

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS34 "Interim Financial Reporting". The half-year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report and any public announcements made by the company during the interim reporting period in accordance with continuous disclosure requirements under the Corporations Act 2001.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are expressed in Australian dollars, unless otherwise stated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2016 annual financial report for the financial period ended 31 December 2016. These accounting policies are consistent with Australian Accounting Standards and International Reporting Standards.

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

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

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

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior half-years.

1. Significant accounting policies (cont)

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 half-year of $4,285,046 (2016: $4,724,282). Net cash used in operating activities was $1,411,192 (2016: $1,784,938). As at 30 June 2017, the consolidated entity had net current liabilities of $2,755,873 (31 December 2016: $239,476). As at 30 June 2017 the consolidated entity had cash of $3,384,294 (31 December 2016: $5,083,948) of which $53,683 (2016: $51,762) is restricted as it secures future lease payments. The cash will become unrestricted once the contracts are concluded or renegotiated. Further, in the event that they are not converted to ordinary shares, the consolidated entity has convertible notes of $3,000,000 which are currently due to mature on 31 December 2017.

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

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

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

	Consolidated Half-year to 30 June 2017 $	Consolidated Half-year to 30 June 2016 $

2. (Loss) for the period

(Loss) from ordinary activities before income tax includes the following items of revenue and expense:

(a) Revenue

Interest received	43,123	44,354
Total revenue	43,123	44,354

(b) Expenses

Amortisation	39,976	40,432
Interest expense	285,978	295,217
Depreciation of property, plant and equipment	37,939	35,961

3. (Accumulated losses)

Balance at beginning of financial period	(17,592,453)	(12,537,682)
Net (loss) for the period	(4,285,046)	(4,724,282)
Balance at end of financial period	(21,877,499)	(17,261,964)

4. (Loss) Per Share

	2017 ¢ per share	2016 ¢ per share
Basic EPS	(15.93 cents)	(18.00 cents)
Diluted EPS	(15.93 cents)	(18.00 cents)

Basic (Loss) per Share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	Half-year to 30 June 2017 $	Half-year to 30 June 2016 $
(Loss) (a)	(4,285,046)	(4,724,282)

	2017 No.	2016 No.
Weighted average number of ordinary shares used in the calculation of basic earnings per share	26,893,409	26,248,613

(a) Earnings used in the calculation of basic earnings per share is the same as net (loss) in the Statement of Profit and Loss and Other Comprehensive Income.

Diluted (Loss) per Share

There were no options outstanding as at 30 June 2017. Accordingly as the consolidated entity made a loss in the period, as required by AASB 133 the basic loss per share is the same as diluted (loss) per share.

5. Net tangible assets per security

	30 June 2017 ¢ per share	30 June 2016 ¢ per share
Net tangible assets /(liabilities) per security	(0.09 cents)	4.58 cents

6. Segment information

The Company acted as the parent company for its subsidiaries in the half year period ended 30 June 2017. The company owns a 100% equity interest in Audio Pixels Technologies Pty Limited of Australia and Audio Pixels Limited of Israel. These subsidiaries are involved in the development of digital speakers. Accordingly the directors are of the opinion that the consolidated entity operates in one segment.

7. Share capital

	30 June 2017 $	**31 December 2016 $**
Issued and paid up capital		
Fully paid Ordinary Shares		
Balance at the beginning of the financial period	45,228,931	37,398,942
Placement for cash at $6.60 per share	-	7,829,989
Balance at the end of the financial period	45,228,931	45,228,931
Fully paid Ordinary Shares	**Number**	**Number**
Balance at the beginning of the financial period	26,893,409	25,707,047
Placement for cash at $6.60 per share	-	1,186,362
Balance at the end of the financial period	26,893,409	26,893,409

8. Reserves

Minority acquisition reserve	(25,538,692)	(25,538,692)
Equity settled share option reserve	4,512,898	4,512,898
Foreign currency translation reserve	(1,927,921)	(3,251,993)
	(22,953,715)	(24,277,787)

9. Related party transactions

During the period, the Company paid a total of $53,929 (six month period ended 30 June 2016 - $53,929) 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 period, the Company paid a total of $20,531 (six month period ended 30 June 2016 - $20,531) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of directors' fees and superannuation for Mr Ian Dennis.

During the period, the Company paid a total of $15,000 (six month period ended 30 June 2016 - $15,000) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of consulting fees for secretarial and accounting services.

As disclosed in note 12, during the period the company had on issue a convertible note to 4F Investments Pty Ltd, a company associated with Mr Fred Bart. During the period, the Company paid a total of $59,605 (six month period ended 30 June 2016 – $59,836) to 4F Investments Pty Limited, in respect of interest on the convertible note of $1,500,000 at 8%. The convertible note of $1.5m was issued on 26 June 2015 following shareholder approval at an Extraordinary General Meeting. The convertible note was extended twice during the year ended 31 December 2016, the most recent of which being on 28 December 2016, which was approved by shareholders at the Annual General Meeting held on 31 May 2017.

10. Goodwill

	30 June 2017 $	31 December 2016 $
Goodwill paid on the acquisition of subsidiary company, Audio Pixels Limited of Israel		
Balance at the beginning of the period	2,300,905	2,166,391
Add Exchange differences on translation	(89,983)	134,514
	2,210,922	2,300,905

11. Intangible asset

	30 June 2017 $	31 December 2016 $
Based on independent valuation performed by Ernst & Young, Israel as at the acquisition date, 24 September 2010		
Intangible	868,000	868,000
Add Exchange differences on translation	158,987	198,427
Less amortisation	(466,553)	(426,577)
	560,434	639,850

12. 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 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. On 31 May 2017 shareholders approved the extension of the convertible note to 4F Investments Pty Limited to 31 December 2017. For accounting purposes these extensions have been treated as the derecognition of the original convertible notes and the recognition of two new convertible note instruments.

The two convertible notes on issue at 30 June 2017 have a term to 31 December 2017, are unsecured, not listed and are convertible to ordinary shares based on the lower of the five day volume weighted average share price of Audio Pixels Holdings Limited on the date of the original agreement ($9.68) or the five day volume weighted average share price of Audio Pixels Holdings Limited immediately prior to conversion.

	30 June 2017 $	**31 December 2016 $**
Borrowings – Convertible note		
Carrying amount at start of period	2,648,387	2,735,439
Gain on derecognition of convertible notes	-	(267,305)
	2,648,387	2,468,134
Add – accrued interest expense	166,768	180,253
Current Liability at end of period	2,815,155	2,648,387
Derivative liability		
Carrying value at start of the period	1,169,870	167,517
Loss on derecognition of convertible notes	-	490,705
Fair value movement to the end of the reporting period	601,796	511,648
Derivative liability	1,771,666	1,169,870
Total borrowings	4,586,821	3,818,257

13. Subsequent events

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

14. Commitments

At 30 June 2017 the Consolidated entity has entered into agreements with strategic suppliers for delivery of certain components which on delivery of components meeting the required specifications of the Consolidated entity will result in final payments being due of $1,208,639 (31 December 2016 - A$1,754,896).

Information on Audit or Review

This half yearly report is based on accounts to which one of the following applies.

- ☐ The accounts have been audited.
- ☒ The accounts have been subject to review.
- ☐ The accounts are in the process of being audited or subject to review.
- ☐ The accounts have not yet been audited or reviewed.

Description of likely dispute or qualification if the accounts have not yet been audited or subject to review or are in the process of being audited or subjected to review.

Not applicable

Description of dispute or qualification if the accounts have been audited or subjected to review.

Not applicable