



27 February 2019

The Manager
Company Announcements Office
ASX Limited
Exchange Centre
20 Bridge Street
Sydney NSW 2000

Dear Sir,

Preliminary Final Report – Listing Rule 4.3A

The Preliminary Final Report/ Appendix 4E for the year ended 31 December 2018 is attached.

The signed audited Financial Reports for the year ended 31 December 2018 have been included in this release.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Ian Dennis", with a stylized flourish at the end.

Ian Dennis
Director



Preliminary Final Report of Audio Pixels Holdings Limited for the year ended 31 December 2018

ACN 094 384 273

This Preliminary Final Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.3A.

Current Reporting Period: Financial Year ended 31 December 2018

Previous Corresponding Period: Financial Year ended 31 December 2017



Results for Announcement to the Market

		Percentage Change		Amount
		%		\$
Revenue from ordinary activities	up	37.1	to	89,961
Loss from ordinary activities after tax attributable to members	down	23.6	to	(4,519,721)
Net (loss) attributable to members	down	23.6	to	(4,519,721)
		Amount per security		Franked amount per security
Final dividend		Nil		Nil
Interim dividend		Nil		Nil

Net Tangible assets as at 31 December 2018	\$10,336,231
Number of ordinary shares outstanding at year end	28,301,720
NTA per ordinary share at 31 December 2018	36.5 cents
NTA per ordinary share at 31 December 2017	(10.84 cents)

A review of operations is included on pages 3 to 5 of The Directors' Report in the audited financial statements for the year ended 31 December 2018 which are attached.

AUDIO PIXELS HOLDINGS LIMITED
ACN 094 384 273

FINANCIAL REPORT FOR THE YEAR ENDED
31 DECEMBER 2018

AUDIO PIXELS HOLDINGS LIMITED

ACN 094 384 273

CORPORATE DIRECTORY

Directors

Fred Bart (Chairman)
Ian Dennis
Cheryl Bart AO

Company Secretary

Ian Dennis

Registered Office

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

Telephone:- +61(2) 9233 3915
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E-Mail:- iandennis@audiopixels.com.au

Web site

www.audiopixels.com.au

Auditor

Deloitte Touche Tohmatsu
Chartered Accountants
Brindabella Circuit
Brindabella Business Park
Canberra Airport ACT 2609
Australia

Share Registry

Computershare Investor Services Pty Limited
Level 3
60 Carrington Street
Sydney NSW 2000

GPO Box 7045
Sydney NSW 1115
Australia

Telephone 1300 855 080 or
+613 9415 5000 outside Australia
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Israel Office

3 Pekris Street
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ISRAEL 76702

Telephone:- + 972 73 232 4444
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Bankers

St George Bank
200 Barangaroo Avenue
Barangaroo
SYDNEY NSW 2000
Australia

AUDIO PIXELS HOLDINGS LIMITED
ACN 094 384 273

DIRECTORS' REPORT

The Directors of Audio Pixels Holdings Limited submit herewith the financial report of the company for the financial year ended 31 December 2018. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

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

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

AUDIO PIXELS HOLDINGS LIMITED
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DIRECTORS' REPORT (CONTINUED)

Directorships of other listed companies

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

Name	Company	Period of directorship
Fred Bart	Electro Optic Systems Holdings Limited	Since May 2000
	Weebit Nano Limited	Since March 2018
Ian Dennis	Electro Optic Systems Holdings Limited	Since May 2000
Cheryl Bart	Spark Infrastructure Group Limited	November 2005 to May 2015
	SG Fleet Australia Limited	Since February 2014

Principal activities

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

Results

The net loss for the financial year ended to 31 December 2018 was \$4,519,721 (31 December 2017 – \$5,914,957).

Dividends

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

Review of operations

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

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

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

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DIRECTORS' REPORT (CONTINUED)

Review of operations (cont)

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

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

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

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

Perhaps the most noteworthy achievements of this period are associated with acoustic development and testing using wafers that incorporate the newly designed charge suppression mechanism. While the fabricator is in the latter stages of refining the fabrication processes, nonetheless early wafers delivered exhibited performance and reliability that are incomparably superior to anything the Company has received in the past. These early deliveries have enabled the Company to make tremendous strides measuring and refining the drive electronics and acoustic output of the devices. The devices have already been proven to play music! In fact, early results are unprecedented with devices reproducing frequencies below 100Hz (by comparison the very best similar sized analog speakers have a lower limit of roughly 800Hz or 3 octaves above ours). No less exciting has been the recruitment and hiring of additional staff. In order to maintain pace with our recent achievements, the company has effectively doubled its engineering staff over the past two months, recruiting exceptional talent in a diversity of relevant skills.

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DIRECTORS' REPORT (CONTINUED)

Review of operations (cont)

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

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

Changes in state of affairs

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

Significant events after balance date

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

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

Future developments

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

Environmental regulations

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

AUDIO PIXELS HOLDINGS LIMITED
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DIRECTORS' REPORT (CONTINUED)

Indemnification and Insurance of Officers and Auditors

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

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

Directors' interests and benefits

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

Name	Ordinary Shares
Fred Bart	5,780,640
Ian Dennis	320,167
Cheryl Bart	500,000

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

Remuneration report (audited)

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

AUDIO PIXELS HOLDINGS LIMITED
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DIRECTORS' REPORT (CONTINUED)

Remuneration report (cont)

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

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

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

Fred Bart – Chairman and Chief Executive Officer
Cheryl Bart – Non executive director
Ian Dennis – Non executive director and company secretary
Danny Lewin – CEO and director of Audio Pixels Limited
Yuval Cohen – Chief Technical Officer of Audio Pixels Holdings Limited
Shay Kaplan – Chief Scientist of Audio Pixels Limited - Retired 21 June 2018

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

AUDIO PIXELS HOLDINGS LIMITED

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DIRECTORS' REPORT (CONTINUED)**Remuneration report (cont)**

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

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

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

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

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

AUDIO PIXELS HOLDINGS LIMITED
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DIRECTORS' REPORT (CONTINUED)

Remuneration report (cont)

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

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

*Shay Kaplan retired on 21 June 2018

Convertible Note issued to Key Management Personnel

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

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

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

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DIRECTORS' REPORT (CONTINUED)

Remuneration report (cont)

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

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

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

AUDIO PIXELS HOLDINGS LIMITED
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DIRECTORS' REPORT (CONTINUED)

Remuneration report (cont)

Transactions with related entities

During the year ended 31 December 2018, the Company paid a total of \$107,857 (year ended 31 December 2017 - \$107,857) to 4F Investments Pty Limited, a company associated with Mr Fred Bart in respect of directors fees and superannuation for Mr Fred Bart and Mrs Cheryl Bart.

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

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

During the year ended 31 December 2018, the Company paid a total of \$41,063 (year ended 31 December 2017 - \$41,063) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of directors fees and superannuation.

During the year, the Company paid \$30,000 (31 December 2017 – \$30,000) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of consulting fees for company secretarial and accounting services.

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DIRECTORS' REPORT (CONTINUED)

Remuneration report (cont)

On 1 June 2018, the company exercised an option to renew a lease in respect of office premises at Suite 3, Level 12, 75 Elizabeth Street Sydney for a period of forty eight months to 30 March 2022. The Company recharged \$28,441 of the rent and other tenancy charges to Electro Optic Systems Holdings Limited, a company of which Fred Bart and Ian Dennis are directors and \$28,441 to 4F Investments Pty Limited, a company controlled by Fred Bart.

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

	Short Term		Post Employment		Total
December 2018	Directors fees/ Salary \$	Non-monetary \$	Superannuation \$	Social Security \$	\$
Fred Bart	61,000	-	5,794	-	66,794
Cheryl Bart	37,500	-	3,563	-	41,063
Ian Dennis	67,500*	-	3,563	-	71,063
Danny Lewin	159,034	54,499	-	38,627	252,160
Yuval Cohen	220,008	21,810	18,996	-	260,814
Shay Kaplan	<u>118,528</u>	<u>23,647</u>	<u>-</u>	<u>28,844</u>	<u>171,019</u>
	<u>663,570</u>	<u>99,956</u>	<u>31,916</u>	<u>67,471</u>	<u>862,913</u>
December 2017					
Fred Bart	61,000	-	5,794	-	66,794
Cheryl Bart	37,500	-	3,563	-	41,063
Ian Dennis	67,500*	-	3,563	-	71,063
Danny Lewin	157,122	37,846	-	51,581	246,549
Yuval Cohen	179,775	39,988	-	55,429	275,192
Shay Kaplan	<u>150,353</u>	<u>44,178</u>	<u>-</u>	<u>49,409</u>	<u>243,940</u>
	<u>653,250</u>	<u>122,012</u>	<u>12,920</u>	<u>156,419</u>	<u>944,601</u>

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

AUDIO PIXELS HOLDINGS LIMITED
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DIRECTORS' REPORT (CONTINUED)

Audit Committee

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

Directors' meetings

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

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

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

Non-audit services

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

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

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

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

AUDIO PIXELS HOLDINGS LIMITED
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DIRECTORS' REPORT (CONTINUED)

Auditor's independence declaration

The auditor's independence declaration is included on page 15.

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

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'I A Dennis', with a long horizontal stroke extending to the right.

I A Dennis
Director

Dated at Sydney this 27 day of February 2019

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

27 February 2019

Dear Board Members

Auditor's Independence Declaration to Audio Pixels Holdings Limited

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

As lead audit partner for the audit of the financial report of Audio Pixels Holdings Limited for the year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours faithfully

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

David Salmon

David Salmon
Partner
Chartered Accountants

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Audio Pixels Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Recoverability of goodwill and intangible assets</p> <p>Audio Pixels Holdings Limited (AKP) acquired goodwill and an intangible asset as part of the acquisition of Audio Pixels Limited (AKL). The intangible asset relates to in process digital speaker technology.</p> <p>As at 31 December 2018, the carrying amount of goodwill is \$2,326,483 and the intangible asset, \$483,848 as disclosed in Notes 7 and 8.</p> <p>The goodwill and intangible asset are subject to impairment testing annually and whenever an impairment indicator is identified. The determination of the recoverable amount is subject to management judgement including:</p> <ul style="list-style-type: none"> • Cash flow projections; • Expected future growth in the product market; and • Discount rates applied. 	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Assessing the status of the technology development based on discussions with management; • Challenging the underlying assumptions reflected in management’s cash flow forecasts. This included agreeing assumptions to underlying documentation, sensitising key judgemental inputs and assessing the reasonableness of forecast cash flows; • Assessing the historical accuracy of forecasts prepared by management; • Assessing the recoverable amount of net assets of the company in the context of the current market capitalisation (considering trading volumes); and • Engaging with our experts to assess the appropriateness of management’s processes and policies in the development of the cash flow model as well as testing the mathematical accuracy and the reasonableness of assumptions used. <p>We also assessed the appropriateness of the disclosures in Notes 7 and 8 to the financial statements.</p>
<p>Convertible notes – early conversion of existing notes to equity</p> <p>AKP had on issue convertible notes with a face value of \$8,000,000 during the financial year. In November 2018, the convertible note terms were varied in relation to notes with a face value of \$5,000,000. In November and December 2018, all convertible notes were converted to equity. The accounting for the variation in terms and the early conversion of the notes to equity is complex due to judgements involved in:</p> <ul style="list-style-type: none"> • Accounting for the variation in terms in relation to the notes with a face value of \$5,000,000; and • Inputs to the fair value calculation of the embedded derivatives on the modification and conversion date are subject to judgement and estimation. 	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Assessing management’s determination of the fair value of the instruments on modification (date of variation) and conversion date and challenging management on the application of inputs to this computation; • Assessing the modification of terms resulting in the early conversion of the notes and assessing the accounting treatment thereof; and • Obtaining and recalculating the conversion journal entries prepared by management. <p>We also assessed the appropriateness of the disclosures in Notes 11 and 15 to the financial statements including with regard to the requirements of AASB 9 <i>Financial Instruments</i>.</p>

Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 12 of the Directors' Report for the year ended 31 December 2018.

In our opinion, the Remuneration Report of Audio Pixels Holdings Limited, for the year ended 31 December 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

David Salmon

David Salmon
Partner
Chartered Accountants
Canberra, 27 February 2019

AUDIO PIXELS HOLDINGS LIMITED
ACN 094 384 273

DIRECTORS' DECLARATION

The directors declare that:

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

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

On behalf of the Directors



I A Dennis
Director

Dated at Sydney this 27 day of February 2019.

AUDIO PIXELS HOLDINGS LIMITED
ACN 094 384 273

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Consolidated Year ended 31 December 2018	Consolidated Year ended 31 December 2017
Revenue	2	<u>86,961</u>	<u>65,624</u>
Administrative expenses		(916,399)	(750,704)
Amortisation		(79,159)	(79,637)
Depreciation		(70,881)	(79,639)
Directors fees and superannuation		(148,920)	(148,920)
Exchange (losses)/ gains		2,723,660	(1,767,526)
Interest expense		(1,511,514)	(593,179)
Fair value movement of derivative liability		(940,264)	(157,996)
Gain/ (Loss) on amendment of terms of convertible notes		(525,415)	285,600
Loss on sale of property, plant and equipment		(198)	-
Marketing		(3,983)	(16,906)
Research and development expenses		<u>(3,133,609)</u>	<u>(2,671,674)</u>
(Loss) before income tax	2	(4,519,721)	(5,914,957)
Income tax benefit	3	-	-
(Loss) for the year		<u>(4,519,721)</u>	<u>(5,914,957)</u>
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit and loss			
Exchange differences arising on translation of foreign operations	14	<u>(2,461,611)</u>	<u>1,676,117</u>
Other comprehensive income/(loss) for the year, net of tax		<u>(2,461,611)</u>	<u>1,676,117</u>
Total comprehensive (loss) for the year		<u>(6,981,332)</u>	<u>(4,238,840)</u>

Notes to the financial statements are included on pages 26 to 78.

AUDIO PIXELS HOLDINGS LIMITED
ACN 094 384 273

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Consolidated Year ended 31 December 2018	Consolidated Year ended 31 December 2017
(Loss) attributable to:			
Owners of the company		<u>(4,519,721)</u>	<u>(5,914,957)</u>
Total comprehensive (loss) attributable to:			
Owners of the company		<u>(6,981,332)</u>	<u>(4,238,840)</u>
Earnings per share			
Basic and diluted (cents per share)	19	(16.67)	(21.99)

Notes to the financial statements are included on pages 26 to 78.

AUDIO PIXELS HOLDINGS LIMITED
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT
31 DECEMBER 2018

	Note	Consolidated December 2018 \$	Consolidated December 2017 \$
CURRENT ASSETS			
Cash and cash equivalents	5	11,019,092	2,700,577
Trade and other receivables	6	<u>173,565</u>	<u>3,046,113</u>
TOTAL CURRENT ASSETS		<u>11,192,657</u>	<u>5,746,690</u>
NON CURRENT ASSETS			
Goodwill	7	2,326,483	2,189,025
Intangible asset	8	483,848	513,773
Property, plant and equipment	9	329,858	324,610
Trade and other receivables	6	<u>5,525</u>	<u>16,108</u>
TOTAL NON CURRENT ASSETS		<u>3,145,714</u>	<u>3,043,516</u>
TOTAL ASSETS		<u>14,338,371</u>	<u>8,790,206</u>
CURRENT LIABILITIES			
Trade and other payables	10	987,849	887,770
Borrowings	11	-	6,388,489
Derivative liability	11	-	1,486,884
Provisions	12	<u>203,960</u>	<u>240,319</u>
TOTAL CURRENT LIABILITIES		<u>1,191,809</u>	<u>9,003,462</u>
TOTAL LIABILITIES		<u>1,191,809</u>	<u>9,003,462</u>
NET ASSETS/ (LIABILITIES)		<u>13,146,562</u>	<u>(213,256)</u>
EQUITY			
Issued capital	13	66,217,433	45,228,931
Reserves	15	(25,043,740)	(21,934,777)
Accumulated losses	16	<u>(28,027,131)</u>	<u>(23,507,410)</u>
Equity attributable to owners of the company		<u>13,146,562</u>	<u>(213,256)</u>
TOTAL EQUITY		<u>13,146,562</u>	<u>(213,256)</u>

Notes to the financial statements are included on pages 26 to 78

AUDIO PIXELS HOLDINGS LIMITED
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR
ENDED 31 DECEMBER 2018

<u>December 2018 – Consolidated</u>	Issued Capital	Equity Settled Option Reserve	Exchange translation reserve	Minority Acquisition Reserve	Convertible Note Equity Reserve	Accumul- ated Losses	Total
	\$	\$	\$	\$		\$	\$
Balance at 1 January 2018	45,228,931	4,512,898	(1,575,876)	(25,538,692)	666,893	(23,507,410)	(213,256)
Other comprehensive income for the year	-	-	<u>(2,461,611)</u>	-	-	-	<u>(2,461,611)</u>
(Loss) for the year	-	-	-	-	-	<u>(4,519,721)</u>	<u>(4,519,721)</u>
Issue of shares for cash	9,500,003	-	-	-	-	-	9,500,003
Issue of shares on conversion of convertible notes	10,773,402	-	-	-	-	-	10,773,402
Transfer from reserve	715,097	-	-	-	(715,097)	-	-
Recognition of share based payments	-	19,541	-	-	-	-	19,541
Equity reserve on issue of convertible notes	-	-	-	-	<u>48,204</u>	-	<u>48,204</u>
Balance at 31 December 2018	<u>66,217,433</u>	<u>4,532,439</u>	<u>(4,037,487)</u>	<u>(25,538,692)</u>	-	<u>(28,027,131)</u>	<u>13,146,562</u>
<u>December 2017 – Consolidated</u>	Issued Capital	Equity Settled Option Reserve	Exchange translation reserve	Minority Acquisition Reserve	Convertible Note Equity Reserve	Accumul- ated Losses	Total
	\$	\$	\$	\$		\$	\$
Balance at 1 January 2017	45,228,931	4,512,898	(3,251,993)	(25,538,692)	-	(17,592,453)	3,358,691
Other comprehensive income for the year	-	-	<u>1,676,117</u>	-	-	-	<u>1,676,117</u>
(Loss) for the year	-	-	-	-	-	<u>(5,914,957)</u>	<u>(5,914,957)</u>
Equity reserve on issue of convertible notes	-	-	-	-	<u>666,893</u>	-	<u>666,893</u>
Balance at 31 December 2017	<u>45,228,931</u>	<u>4,512,898</u>	<u>(1,575,876)</u>	<u>(25,538,692)</u>	<u>666,893</u>	<u>(23,507,410)</u>	<u>(213,256)</u>

Notes to the financial statements are included on pages 26 to 78.

AUDIO PIXELS HOLDINGS LIMITED
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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Consolidated Year ended 31 December 2018 \$	Consolidated Year ended 31 December 2017 \$
Cash flows from operating activities			
Payments to suppliers and employees		(4,148,731)	(3,387,969)
Interest paid		(530,959)	(239,046)
Interest received		<u>86,961</u>	<u>65,624</u>
Net cash (used by) operating activities	17	<u>(4,592,729)</u>	<u>(3,561,391)</u>
Cash flows from investing activities			
Payment for property, plant and equipment		(46,043)	(263,958)
Proceeds from sale of property, plant and equipment		<u>316</u>	<u>-</u>
Net cash (outflows) from investing activities		<u>(45,727)</u>	<u>(263,958)</u>
Cash flows from financing activities			
Proceeds from share placement	13	9,500,003	-
Convertible note		<u>3,500,000</u>	<u>1,500,000</u>
Net cash provided by financing activities		<u>13,000,003</u>	<u>1,500,000</u>
Net increase/ (decrease) in cash and cash equivalents held		8,361,547	(2,325,349)
Cash and cash equivalents at the beginning of the financial year		2,700,577	5,083,948
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		<u>(43,032)</u>	<u>(58,022)</u>
Cash and cash equivalents at the end of the financial year	5	<u>11,019,092</u>	<u>2,700,577</u>

Notes to the financial statements are included on pages 26 to 78.

AUDIO PIXELS HOLDINGS LIMITED
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

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

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).

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

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

Despite the foregoing, 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.

AUDIO PIXELS HOLDINGS LIMITED
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

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

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.

AUDIO PIXELS HOLDINGS LIMITED
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

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

AUDIO PIXELS HOLDINGS LIMITED
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

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

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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

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

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.

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*

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

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

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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

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

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.

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.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

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

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 of financing options available to it at this stage of the commercialisation of the product;
- the successful completion of the development stage of the technology; and
- the future trading prospects of the consolidated entity including obtaining commercial contracts.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

1(d) Going Concern (cont)

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.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

1(f) Financial Assets (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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

1(f) Financial Assets (cont)

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.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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1(g) Financial Liabilities Cont)

The value of a conversion option classified as a derivative liability instrument is recognised at fair value on issue. The derivative liability is subsequently measured at fair value through profit or loss.

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

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

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.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

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.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

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.

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.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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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).

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

1(n) Income Tax (cont)

Deferred tax

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

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

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

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

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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

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(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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

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.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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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

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

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).

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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1(u) Critical accounting judgements (cont)

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)

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

	Consolidated Year ended 31 December 2018 \$	Consolidated Year ended 31 December 2017 \$
2. (Loss) from operations		
(a) Revenue		
Interest received – other entities	<u>86,961</u>	<u>65,624</u>
Total revenue	<u>86,961</u>	<u>65,624</u>
(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	<u>(113,763)</u>	<u>(97,533)</u>
Net rental expense	<u>34,143</u>	<u>25,842</u>
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	<u>31,916</u>	<u>12,920</u>
	<u>1,441,817</u>	<u>1,149,988</u>
3. Income taxes		
(a) Income tax recognised in profit or loss		
Tax expense comprises:		
Tax expense/(income) – prior year	-	-
Deferred tax expense/(income)	<u>-</u>	<u>-</u>
Total tax expense/(income)	<u>-</u>	<u>-</u>
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:		
(Loss) from operations	(4,519,721)	(5,914,957)
Amortisation	79,159	79,637
Share based payments	19,541	-
Convertible note adjustments	<u>2,446,233</u>	<u>224,009</u>
	<u>(1,974,788)</u>	<u>(5,611,311)</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

	31 December 2018	31 December 2017
	\$	\$
3. Income taxes (Cont)		
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	<u>355,337</u>	<u>1,523,388</u>
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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 brought to account as assets:

Tax losses – revenue	5,768,269	5,412,932
Tax losses – capital	168,038	168,038
Temporary differences	<u>54,246</u>	<u>60,080</u>
	<u>5,990,553</u>	<u>5,641,050</u>

(c) Franking account balance

Adjusted franking account balance	<u>86,721</u>	<u>86,721</u>
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(d) Israeli Tax Ruling

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

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

	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	<u>2,993</u>	<u>2,704</u>
	<u>41,381</u>	<u>39,953</u>
(ii) Network firm of the parent entity auditor		
Audit or review of the financial statements	18,167	17,998
Taxation service	<u>2,019</u>	<u>2,000</u>
	<u>20,186</u>	<u>19,998</u>

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

5. Cash and cash equivalents

Cash on hand and at bank	<u>11,019,092</u>	<u>2,700,577</u>
Weighted average interest rate received on cash	<u>2.24%</u>	<u>0.36%</u>

6. Trade and other receivables

Current		
GST receivable	65,347	10,167
Convertible note proceeds receivable	-	3,000,000
Prepayments and other debtors	<u>108,218</u>	<u>35,946</u>
	<u>173,565</u>	<u>3,046,113</u>
Non Current		
Other debtors	<u>5,525</u>	<u>16,108</u>

Other debtors comprise security deposits with government bodies.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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	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.	<u>2,326,483</u>	<u>2,189,025</u>
Balance at 1 January	2,189,025	2,300,905
Net foreign currency exchange	<u>137,458</u>	<u>(111,880)</u>
Balance at 31 December	<u>2,326,483</u>	<u>2,189,025</u>

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

8. Intangible asset		
Being the independent valuation of In Process Development determined at the acquisition date of 24 September 2010 by Ernst & Young, Israel in their report dated 17 August 2011.	868,000	868,000
Exchange differences on translation	201,221	151,987
Less accumulated amortisation	<u>(585,373)</u>	<u>(506,214)</u>
	<u>483,848</u>	<u>513,773</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

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

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

	31 December 2018	31 December 2017
	\$	\$
9. Property, Plant and Equipment (cont)		
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	<u>112,245</u>	<u>(84,103)</u>
Balance as at 31 December	<u>1,201,446</u>	<u>1,059,881</u>
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	<u>(13,398)</u>	<u>(15,927)</u>
Balance at 31 December	<u>(374,022)</u>	<u>(331,920)</u>
Leasehold improvements		
Balance as at 1 January	(216,887)	(226,061)
Net foreign currency exchange differences	(14,274)	17,988
Disposals	-	911
Depreciation expense	<u>(21,538)</u>	<u>(9,725)</u>
Balance at 31 December	<u>(252,699)</u>	<u>(216,887)</u>
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	<u>(35,945)</u>	<u>(53,987)</u>
Balance at 31 December	<u>(999,452)</u>	<u>(862,105)</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

		31 December 2018	31 December 2017
		\$	\$
10. Trade and other payables			
	Current		
	Trade payables and accruals	<u>987,849</u>	<u>887,770</u>

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.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

31 December 2018	31 December 2017
\$	\$

11. Borrowings (cont)

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.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

	31 December 2018	31 December 2017
	\$	\$
11. Borrowings (cont)		
Borrowings – Convertible notes		
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	<u>(48,204)</u>	<u>(666,893)</u>
Current Liability at end of period	<u>-</u>	<u>6,388,489</u>
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	<u>940,264</u>	<u>157,996</u>
Derivative liability	<u>-</u>	<u>1,486,884</u>
Total borrowings	<u>-</u>	<u>7,875,373</u>
12. Provisions		
Employee benefits	<u>203,960</u>	<u>240,319</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

	31 December 2018	31 December 2017
	\$	\$
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	<u>715,097</u>	-
Balance at the end of the financial year	<u>66,217,433</u>	<u>45,228,931</u>
		<u>Number</u>
Fully paid Ordinary Shares		
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	<u>329,162</u>	-
Balance at the end of the financial year	<u>28,301,720</u>	<u>26,893,409</u>

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.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

31 December **31 December**
2018 **2017**
\$ **\$**

14. Employee Share Option Plan (cont)

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 quantitative 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	Weighted average exercise price \$	2017	Weighted average exercise price \$
	Number		Number	
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	-	-	-	-

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

				31 December 2018 \$	31 December 2017 \$	
14. Employee Share Option Plan (cont)						
	(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.

(ii) Granted during the year

	Number	Grant date	Expiry date	Exercise Price	Fair value at grant date
2018					
Staff options	<u>203,000</u>	<u>17/12/18</u>	<u>17/12/21*</u>	<u>16.20</u>	<u>\$1,421,406</u>
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

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

31 December	31 December
2018	2017
\$	\$

14. Employee Share Option Plan (cont)

* 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	<u>203,000</u>	<u>17/12/18</u>	<u>17/12/21</u>	<u>\$16.20</u>	<u>1,421,406</u>
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.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

	31 December	31 December
	2018	2017
	\$	\$
15. Reserves		
Foreign currency translation		
Balance at the beginning of the financial year	(1,575,876)	(3,251,993)
Translation of foreign operations	<u>(2,461,611)</u>	<u>1,676,117</u>
Balance at end of financial year	<u>(4,037,487)</u>	<u>(1,575,876)</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

	31 December	31 December
	2018	2017
	\$	\$

15. **Reserves (cont)**

Foreign currency translation

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit and loss on the disposal of the foreign operation.

Equity settled option reserve

Balance at the beginning of the financial year	4,512,898	4,512,898
Add share based payments in respect of options	<u>19,541</u>	<u>-</u>
Balance at end of financial year	<u>4,532,439</u>	<u>4,512,898</u>

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

Minority acquisition reserve

Balance at the beginning of the financial year	(25,538,692)	(25,538,692)
Balance at end of financial year	<u>(25,538,692)</u>	<u>(25,538,692)</u>

The non-controlling interest reserve comprises amounts related to the acquisition of a non-controlling interest shareholding in a subsidiary company in a prior period.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

	31 December 2018	31 December 2017
	\$	\$
15. Reserves (cont)		
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	<u>(715,097)</u>	<u>-</u>
Balance at end of financial year	<u>-</u>	<u>666,893</u>
Total Reserves	<u>(25,043,740)</u>	<u>(21,934,777)</u>
16. Accumulated losses		
Balance at the beginning of the financial year	(23,507,410)	(17,592,453)
(Loss) for the year attributable to owners of the company	<u>(4,519,721)</u>	<u>(5,914,957)</u>
Balance at the end of the financial year	<u>(28,027,131)</u>	<u>(23,507,410)</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

	31 December 2018	31 December 2017
	\$	\$
17. Notes to the statement of cash flows		
(a) Reconciliation of cash and cash equivalents		
<p>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:</p>		
Cash and cash equivalents	<u>11,019,092</u>	<u>2,700,577</u>
(b) Restricted cash		
Cash held as security for future lease payments	<u>54,959</u>	<u>53,092</u>
<p>Restricted cash amounts are included in the cash and cash equivalents amounts above.</p>		
(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	<u>100,079</u>	<u>415,900</u>
Net cash (used in) operating activities	<u>(4,592,729)</u>	<u>(3,561,391)</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

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	<u>99,387</u>	<u>169,339</u>
	<u>862,913</u>	<u>944,601</u>

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.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

31 December 31 December
2018 2017

18. Related Party Transactions (cont)

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.

19. Earnings per Share

Basic (loss) per share	<u>(16.67) cents</u>	<u>(21.99) cents</u>
Diluted (loss) per share (b)	<u>(16.67) cents</u>	<u>(21.99) cents</u>
 (Loss) (a)	 (4,519,721)	 (5,914,957)
 Weighted average number of Ordinary Shares	 <u>27,112,427</u>	 <u>26,893,409</u>

- (a) (Loss) used in the calculation of basic earnings per share are the same as the net (loss) in the Statement of profit or loss and other comprehensive income.
- (b) There 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.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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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.

	31 December 2018	31 December 2017
Segment Revenues		
Digital speakers	<u>86,961</u>	<u>65,624</u>
Total of all segments	<u>86,961</u>	<u>65,624</u>
Segment Results		
Digital speakers	<u>(4,519,721)</u>	<u>(5,914,957)</u>
(Loss) before income tax	(4,519,721)	(5,914,557)
Income tax gain/ (expense)	-	-
(Loss) for the period	<u>(4,519,721)</u>	<u>(5,914,957)</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

20. **Segment Information (cont)**

Segment Assets and Liabilities

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

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	<u>150,040</u>	<u>159,276</u>	<u>46,403</u>	<u>263,958</u>
Total all segments	150,040	159,276	46,403	263,958
Unallocated	-	-	-	-
Consolidated	<u>150,040</u>	<u>159,276</u>	<u>46,403</u>	<u>263,958</u>

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

20. **Segment Information (cont)**

Information on Geographical Segments
31 December 2018

Geographical Segments	Revenue from External Customers	Segment Assets	Acquisition of Segment Assets
	\$	\$	\$
Australia	86,168	13,473,871	-
Israel	<u>793</u>	<u>864,500</u>	<u>46,403</u>
Total	<u>86,961</u>	<u>14,338,371</u>	<u>46,403</u>

Information on Geographical Segments
31 December 2017

Geographical Segments	Revenue from External Customers	Segment Assets	Acquisition of Segment Assets
	\$	\$	\$
Australia	65,624	8,028,778	-
Israel	<u>-</u>	<u>761,428</u>	<u>263,958</u>
Total	<u>65,624</u>	<u>8,790,206</u>	<u>263,958</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

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	<u>11,019,092</u>	<u>2,700,577</u>

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.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

21. Financial risk management objectives and policies (cont)
(a) Interest rate risk (cont)

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.

(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	-	-

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

21. Financial risk management objectives and policies (cont)

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%	<u>(144,973)</u>	<u>(168,427)</u>	<u>(144,973)</u>	<u>(168,427)</u>

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.

(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.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

21. Financial risk management objectives and policies (cont)

(d) Liquidity risk management (cont)

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 Fixed rate instruments	0.00	225,827	-	-	-
	2.24	2,039,617	9,041,050	-	-
Liabilities					
Convertible notes	0.00	-	-	-	-
31 December 2017					
Assets					
Non interest bearing Fixed rate instruments	0.00	306,095	-	-	-
	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.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

21. Financial risk management objectives and policies (cont)

(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.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

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	<u>2,447,750</u>	<u>2,428,209</u>
Total assets	<u>42,234,161</u>	<u>30,739,452</u>
Liabilities		
Current liabilities	119,730	7,912,737
Non-current liabilities	<u>-</u>	<u>-</u>
Total liabilities	<u>119,730</u>	<u>7,912,737</u>
Net assets	<u>42,114,431</u>	<u>22,826,715</u>
Equity		
Issued capital	66,217,433	45,228,931
Reserves	(21,006,253)	(20,358,901)
(Accumulated losses)	<u>(3,096,749)</u>	<u>(2,043,315)</u>
Total equity	<u>42,114,431</u>	<u>22,826,715</u>
Financial performance		
(Loss) for the period	(1,053,434)	(2,635,205)
Other comprehensive income	<u>-</u>	<u>-</u>
	<u>(1,053,434)</u>	<u>(2,635,205)</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**

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	<u>-</u>	<u>-</u>
	<u>456,144</u>	<u>31,125</u>

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.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

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
Tel: (02) 9233 3915
Fax: (02) 9232 3411
www.audiopixels.com.au

The Company has 10 (2017: 11) employees.

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ASX ADDITIONAL INFORMATION

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

HOME EXCHANGE

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

SUBSTANTIAL SHAREHOLDERS

At 22 February 2019 the following substantial shareholders were registered:

	Ordinary Shares	Percentage of total Ordinary Shares
Fred Bart Group	5,780,640	20.43%

VOTING RIGHTS

At 22 February 2019 there were 2,187 holders of fully paid ordinary shares.

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

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

- (a) on a show of hands every person present in the capacity of a Member or a proxy, attorney or representative (or in more than one of these capacities) has one vote; and

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ASX ADDITIONAL INFORMATION (Cont)

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

OTHER INFORMATION

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

DISTRIBUTION OF SHAREHOLDINGS

At 22 February 2019 the distribution of ordinary shareholdings were:

Range	Ordinary Shareholders	Number of Shares
1-1,000	1,258	480,762
1,001 – 5,000	549	1,382,306
5,001 – 10,000	186	1,542,460
10,001 – 100,000	159	4,258,320
100,001 and over	<u>35</u>	<u>20,637,872</u>
	<u>2,187</u>	<u>28,301,720</u>

There were 24 ordinary shareholders with less than a marketable parcel.

There is no current on-market buy-back.

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TWENTY LARGEST ORDINARY SHAREHOLDERS

At 22 February 2019 the 20 largest ordinary shareholders held 65.60% of the total issued fully paid quoted ordinary shares of 28,301,720.

Shareholder	Fully Paid Ordinary Shares	Percentage of Total
1. Altshuler Shacham Trusts Ltd	3,717,244	13.14%
2. Landed Investments (NZ) Limited	3,565,000	12.60%
3. HSBC Custody Nominees (Australia) Limited	1,661,444	5.87%
4. Link Traders (Aust) Pty Limited	1,528,347	5.40%
5. BNP Paribus Nominees Pty Ltd	1,336,446	4.72%
6. Frederick Bart	994,325	3.51%
7. Bart Superannuation Pty Limited	744,295	2.63%
8. James John Bart	716,013	2.53%
9. Kam Superannuation Fund Pty Limited	650,000	2.30%
10. Jamber Investments Pty Ltd	515,000	1.82%
11. Cheryl Bart	500,000	1.77%
12. Decante Pty Limited <JM Ehrlich Super Fund A/C>	400,000	1.41%
13. Citicorp Nominees Pty Limited	398,839	1.41%
14. JP Morgan Nominees Australia Pty Limited	386,212	1.36%
15. Brent McCarty, Yvonne McCarty and Zeljko Unkovich	304,014	1.07%
16. Brigadier Pty Limited <Ian Dennis Super Fund A/C>	272,600	0.96%
17. Nicole Bart	250,000	0.88%
18. Larron Pty Ltd <Jennings Family A/C>	225,000	0.80%
19. Norlip Pty Ltd <Norbert Lipton S/F A/C>	204,320	0.72%
20. Mr Lee K Lau	197,498	0.70%
	<u>18,566,597</u>	<u>65.60%</u>