



ANNUAL REPORT 2015



CORPORATE DIRECTORY

Directors

Fred Bart (Chairman)
Ian Dennis
Cheryl Bart AO

Company Secretary

Ian Dennis

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Auditor

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Chartered Accountants
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DIRECTOR'S REPORT

The Directors of Audio Pixels Holdings Limited submit herewith the financial report of the company for the financial year ended 31 December 2015. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

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

Name	Particulars
Fred Bart	Chairman and Chief Executive Officer. A director since 5 September 2000. He has been Chairman and Managing Director of numerous private companies since 1980, specialising in manufacturing, property and marketable securities. Mr Bart is also Chairman of Immunovative Therapies Limited, an Israeli company involved in the manufacture of cancer vaccines for the treatment of most forms of cancer. He is a member of the Australian Institute of Company Directors, 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 twenty eight 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 Australian Institute of Company Directors and Chairman 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, Football Federation of Australia (FFA), Ted X Sydney and the Australian Himalayan Foundation. She is immediate past director of ABC (Australian Broadcasting Corporation), SA Power Networks (formerly ETSA Utilities), Spark Infrastructure Limited, and the Local Organising Committee of the 2015 Australian Asian Cup. She is a fellow of the Australian Institute of Company Directors, Patron of SportsConnect and a member of Chief Executive Women. She is a member of the Audit Committee and a member of the Nominations and Remuneration Committee.

Directorships of Other Listed Companies

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

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

Principal Activities

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

Results

The net loss for the financial year ended to 31 December 2015 was \$1,840,940 (31 December 2014 - \$2,796,787).

Dividends

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

DIRECTOR'S REPORT

Review of Operations

This reporting period the company continued its efforts advancing the transition of its cumulative research and development efforts into a mass-produced product. The core of activities centers on the many aspects needed to ensure successful component fabrication as dictated by the fourth, and final phase, of our four-phase commercial product development plan.

The company has already begun to receive production verification wafers. These wafers allow our development teams to examine, test and validate characteristics, progress and compliance of the MEMs chips during and throughout the fabrication process in order to ensure, to the maximum extent possible, successful fabrication of Phase-IV chips.

Among the batches of wafers were structures that were specifically designed to allow greater characterization of the electrical properties of our structures. Among the many development objectives prescribed for Phase-III, was the investigation of the precise electrical characteristics required to meet the exacting conditions of our patented matrix control system.

In order to obtain the level of control needed to play complex music, our proprietary control system calls for the pixels to operate within precisely defined voltage regimes. The influencing factors on these regimes extend beyond the most advanced computational modeling available and therefore actual measurements are required. It should be noted that Phase-III chips were extremely close to meeting the requirements, however slight variances predominantly attributable to manufacturing tolerances, unveiled that further optimization is required to ensure reliable pixel control.

The electrical optimization processes involved the use of a variety of advanced thinfilm coatings, principal among them a technique called ALD (Atomic Layer Deposition). The ALD technique uses a chemical reaction to achieve controlled growth of sub-nanometer thickness films. The ALD process uses a range of materials of differing properties in order to attain and improve the desired electrical characteristics (while at the same time increasing the product's long-term reliability). ALD is routinely used in a wide range of commercial applications including memory and logic devices, sensors, LED's, and in many MEMs applications. Our team has successfully tested a wide variety of ALD coatings enabling refinement of both the design and the fabrication processes as to ensure that Phase-IV chips will meet the company's exacting standards.

As has been well documented Audio Pixels is the first, and so far only company that has successfully implemented DSR (Digital Sound Reconstruction) in a commercially viable manner. DSR utilizes a series of short impulses to construct the desired sound. The absence of any particular frequency from these building blocks, in turn prevents the loudspeakers from reproducing those frequencies. Ensuring our elements produce the expected spectrum of frequencies serves to provide yet another level of assurance as to the anticipated performance of our Phase-IV chips. For this reason the team has undertaken a massive engineering project to extend the thinfilm coating program in order to successfully obtain invaluable impulse response measurements of individual pixels.

In parallel the company continued its close collaboration with its development partners. The company has completed an extensive design review of the integrated mixed signal driver and together with ICSense has advanced Generation-2 design to tape-out. Fabrication of the ASIC controller will begin shortly and proceed in accordance with the prescribed Phase-IV production schedule.

Our patent portfolio continues its organic growth now approaching 70 patents grants. When compared to comparable MEMs undertakings we are on record pace to achieve our objective of introducing an industry altering technology to the world. Our fab's have been able to maintain Phase-IV schedules even though we have increased the number of fabricated wafers 100-fold and staggered fabrication into a half-dozen independent batches. These are among the many activities that when combined with the on schedule delivery of our second-generation ASIC and chip package serve to build Management's confidence that Phase-IV is well on track toward producing publicly demonstrable engineering samples within the early part of the 3rd quarter of this year.

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.

DIRECTOR'S REPORT

Significant Events After Balance Date

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

Future Developments

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

Environmental Regulations

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

Indemnification and Insurance of Officers and Auditors

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

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

Directors' Interests and Benefits

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

Name	Ordinary Shares
Fred Bart	5,441,250
Ian Dennis	570,050
Cheryl Bart	500,000

There has been no movement in Directors shareholdings during the 2015 year.

Remuneration Report (Audited)

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

This report outlines the remuneration arrangements in place for Directors and key management personnel of the Company.

The Directors are responsible for remuneration policies and packages applicable to the Board members of the Company. The entire Board makes up the Nomination and Remuneration Committee. The broad 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 three executives of Audio Pixels Limited in Israel including at will employment and a notice period of three months for termination.

DIRECTOR'S REPORT

Remuneration Report (cont.)

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

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

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

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

	Year ended 31 December 2015 \$	Year ended 31 December 2014 \$	Year ended 31 December 2013 \$	Year ended 31 December 2012 \$	Year ended 31 December 2011 \$
Revenue	25,073	181,583	304,536	161,986	269,534
Net profit /(loss) before tax	(1,840,940)	(2,796,787)	(2,147,576)	(2,615,412)	(2,931,907)
Net profit/(loss) after tax	(1,840,940)	(2,796,787)	(2,147,576)	(2,615,412)	(2,930,697)

	Year ended 31 December 2015 \$	Year ended 31 December 2014 \$	Year ended 31 December 2013 \$	Year ended 31 December 2012 \$	Year ended 31 December 2011 \$
Share price at start of year/period	9.86	3.80	5.60	6.00	4.60
Share price at end of year/period	8.45	9.86	3.80	5.60	6.00
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 2015 \$	31 December 2014 \$
Short-term employee benefits	693,742	690,224
Post employment benefits	150,410	143,625
	844,152	833,849

DIRECTOR'S REPORT

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 1/1/15 No.	Granted as remuneration No.	Received on exercise of options No.	Net other change No.	Balance at 31/12/15 No.
Mr Fred Bart	5,441,250	-	-	-	5,441,250
Mrs Cheryl Bart	500,000	-	-	-	500,000
Mr Ian Dennis	570,050	-	-	-	570,050
Mr Danny Lewin	1,709,092	-	-	-	1,709,092
Mr Yuval Cohen	1,928,971	-	-	-	1,928,971
Mr Shay Kaplan	881,604	-	-	-	881,604

Convertible Note Issued to Key Management Personnel

On 22 June 2015, shareholders approved the issue of a convertible note of \$1.5m to 4F Investments Pty Limited, company controlled by Mr Fred Bart. The terms of the issue were as follows:

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

Transactions with Related Entities

During the year ended 31 December 2015, the Company paid a total of \$107,857 (year ended 31 December 2014 - \$107,734) 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 2015, the Company paid interest of \$62,137 on a convertible note to 4F Investments Pty Limited, a company associated with Mr Fred Bart. The convertible note of \$1.5m was issued on 26 June 2015 following shareholder approval at an Extraordinary General Meeting.

DIRECTOR'S REPORT

Remuneration Report (cont.)

During the year ended 31 December 2015, the Company paid a total of \$41,063 (year ended 31 December 2014 - \$41,016) 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 2014 - \$30,000) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of consulting fees for company secretarial and accounting services.

On 8 May 2014, the company entered into a lease in respect of office premises at Level 12, 75 Elizabeth Street Sydney for a period of forty eight months to 30 March 2018. The company recharges 20% (\$13,559) of the rent to Electro Optic Systems Holdings Limited, a company of which Fred Bart and Ian Dennis are directors, 20% (\$13,559) to 4F Investments Pty Limited, a company controlled by Fred Bart and 40% (\$27,818) to another tenant who is a shareholder in the company.

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

	Short Term		Post Employment		Total
	Directors fees/ Salary \$	Non-monetary \$	Superannuation \$	Social Security \$	\$
December 2015					
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	141,260	33,798	-	44,722	219,780
Yuval Cohen	156,042	28,012	-	49,476	233,530
Shay Kaplan	135,050	33,580	-	42,292	211,922
	598,352	95,390	12,920	137,490	844,152
December 2014					
Fred Bart	61,000	-	5,718	-	66,718
Cheryl Bart	37,500	-	3,516	-	41,016
Ian Dennis	67,500*	-	3,516	-	71,016
Danny Lewin	139,369	30,195	-	42,597	212,161
Yuval Cohen	153,941	29,135	-	47,178	230,254
Shay Kaplan	133,238	38,346	-	41,100	212,684
	592,548	97,676	12,750	130,875	833,849

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

Audit Committee

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

DIRECTOR'S REPORT

Directors' Meetings

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

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

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

Non-audit Services

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

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

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

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

Auditor's Independence Declaration

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

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

On behalf of the Directors



I A Dennis

Director

Dated at Sydney this 26 day of February 2016

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

26 February 2016

Dear Board Members

Audio Pixels Holdings Limited

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

As lead audit partner for the audit of the financial statements of Audio Pixels Holdings Limited for the year ended 31 December 2015, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely

DELOITTE TOUCHE TOHMATSU

David Black
Partner
Chartered Accountants

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

Report on the Financial Report

We have audited the accompanying financial report of Audio Pixels Holdings Limited, which comprises the statement of financial position as at 31 December 2015, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 12 to 43.

Directors' Responsibility 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 Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Auditor's Independence Declaration

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

Opinion

In our opinion:

- (a) the financial report of Audio Pixels Holdings Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the consolidated entity incurred a net loss of \$1,840,940 (2014:2,796,787) and used net cash in operating activities of \$3,330,625 (2014: \$3,882,688), during the year ended 31 December 2015. Further as at 31 December 2015, the consolidated entity had net current liabilities of \$2,331,351 (2014: net current assets of \$1,183,011). These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast doubt about the company's and the consolidated entity's ability to continue as going concerns and therefore whether they will be able to realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 4 to 7 of the directors' report for the year ended 31 December 2015. 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.

Opinion

In our opinion the Remuneration Report of Audio Pixels Holdings Limited for the year ended 31 December 2015, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



David Black

Partner

Chartered Accountants

Parramatta, 26 February 2016

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 26 day of February 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Consolidated Year ended 31 December 2015 \$	Consolidated Year ended 31 December 2014 \$
Revenue	2	25,073	181,583
Administrative expenses		(949,316)	(845,106)
Amortisation		(76,993)	(67,601)
Depreciation		(70,615)	(74,483)
Directors fees		(136,000)	(136,000)
Exchange gains		1,640,986	1,107,313
Interest paid		(370,764)	-
Fair value movement of derivative liability		334,000	-
Marketing		(22,270)	-
Property expenses		-	(36,226)
(Loss) on sale of property		-	(63,391)
Research and development expenses		(2,215,041)	(2,862,876)
(Loss) before income tax	2	(1,840,940)	(2,796,787)
Income tax benefit	3	-	-
(Loss) for the year		(1,840,940)	(2,796,787)
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit and loss			
Exchange differences arising on translation of foreign operations	14	(1,609,923)	(738,709)
Other comprehensive (loss) for the year, net of tax		(1,609,923)	(738,709)
Total comprehensive (loss) for the year		(3,450,863)	(3,535,496)

Notes to the financial statements are included on pages 18 to 42.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Consolidated Year ended 31 December 2015	Consolidated Year ended 31 December 2014
(Loss) attributable to:			
Owners of the company		(1,840,940)	(2,796,787)
Total comprehensive (loss) attributable to:			
Owners of the company		(3,450,863)	(3,535,496)
Earnings per share			
Basic and diluted (cents per share)	18	(7.16)	(10.88)

Notes to the financial statements are included on pages 18 to 42.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

	Note	Consolidated December 2015 \$	Consolidated December 2014 \$
CURRENT ASSETS			
Cash and cash equivalents	5	1,523,016	1,875,504
Trade and other receivables	6	43,726	79,200
TOTAL CURRENT ASSETS		1,566,742	1,954,704
NON CURRENT ASSETS			
Goodwill	7	2,166,391	2,124,068
Intangible asset	8	712,524	710,346
Property, plant and equipment	9	165,578	147,300
Trade and other receivables	6	6,837	6,117
TOTAL NON CURRENT ASSETS		3,051,330	2,987,831
TOTAL ASSETS		4,618,072	4,942,535
CURRENT LIABILITIES			
Trade and other payables	10	470,230	353,008
Borrowings	11	2,902,956	-
Provisions	12	524,907	418,685
TOTAL CURRENT LIABILITIES		3,898,093	771,693
TOTAL LIABILITIES		3,898,093	771,693
NET ASSETS		719,979	4,170,842
EQUITY			
Issued capital	13	37,398,942	37,398,942
Reserves	14	(24,141,281)	(22,531,358)
Accumulated losses	15	(12,537,682)	(10,696,742)
Equity attributable to owners of the company		719,979	4,170,842
TOTAL EQUITY		719,979	4,170,842

Notes to the financial statements are included on pages 18 to 42.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

December 2015 - Consolidated	Issued Capital \$	Equity Settled Option Reserve \$	Exchange translation reserve \$	Minority Acquisition Reserve \$	Accumulated Losses \$	Total \$
Balance at 1 January 2015	37,398,942	4,512,898	(1,505,564)	(25,538,692)	(10,696,742)	4,170,842
Other comprehensive income for the year	-	-	(1,609,923)	-	-	(1,609,923)
(Loss) for the year	-	-	-	-	(1,840,940)	(1,840,940)
Balance at 31 December 2015	37,398,942	4,512,898	(3,115,487)	(25,538,692)	(12,537,682)	719,979

December 2014 - Consolidated	Issued Capital \$	Equity Settled Option Reserve \$	Exchange translation reserve \$	Minority Acquisition Reserve \$	Accumulated Losses \$	Total \$
Balance at 1 January 2014	37,398,942	4,512,898	(766,855)	(25,538,692)	(7,899,955)	7,706,338
Other comprehensive income for the year	-	-	(738,709)	-	-	(738,709)
(Loss) for the year	-	-	-	-	(2,796,787)	(2,796,787)
Balance at 31 December 2014	37,398,942	4,512,898	(1,505,564)	(25,538,692)	(10,696,742)	4,170,842

Notes to the financial statements are included on pages 18 to 42.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	Consolidated Year ended 31 December 2015 \$	Consolidated Year ended 31 December 2014 \$
Cash flows from operating activities			
Receipts from customers		-	153,682
Payments to suppliers and employees		(3,221,890)	(4,080,390)
Interest paid		(133,808)	-
Interest received		25,073	44,020
Net cash (used by) operating activities	16	(3,330,625)	(3,882,688)
Cash flows from investing activities			
Payment for property, plant and equipment		(75,696)	(39,930)
Receipts from sale of property		-	1,436,609
Net cash inflows/(outflows) from investing activities		(75,696)	1,396,679
Cash flows from financing activities			
Convertible note		3,000,000	-
Net cash provided by financing activities		3,000,000	-
Net (decrease) in cash and cash equivalents held		(406,321)	(2,486,009)
Cash and cash equivalents at the beginning of the financial year		1,875,504	4,271,573
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		53,833	89,940
Cash and cash equivalents at the end of the financial year	5	1,523,016	1,875,504

Notes to the financial statements are included on pages 18 to 42.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. Summary of Significant Accounting Policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ("A-IFRS"). Compliance with A-IFRS 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 26 February 2016.

Basis of preparation

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

(a) Borrowings

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

(b) Going concern

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

The consolidated entity incurred a net loss during the year of \$1,840,940 (2014: \$2,796,787) and as at 31 December 2015 had net current liabilities of \$2,231,351 (2014: net current assets of \$1,183,011). Net cash used by operating activities was \$3,330,625 (2014: \$3,882,688). As at 31 December 2015, the consolidated entity had cash of \$1,523,016 (2014: \$1,875,504) of which \$32,841 (2014 - \$29,744) is restricted as it secures future lease payments. The cash will become unrestricted if the contracts are concluded or renegotiated. Further, in the

event that they are not converted to ordinary shares, the consolidated entity has \$3,000,000 due on convertible notes in May and June 2016.

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

- the ability of the company to raise capital from existing or new shareholders to fund continued development and enable the repayment of convertible note to the extent that they are not converted to ordinary shares;
- the completion of the development stage of the technology; and
- the future trading prospects of the consolidated entity including obtaining commercial contracts.

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

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

(c) Cash and cash equivalents

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

(d) Employee benefits

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

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. Summary of Significant Accounting Policies (Cont.)

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

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

(e) Financial assets

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

Loans and receivables

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

(f) Financial instruments issued by the company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments

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

Interest

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

(g) Foreign currency

Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency

monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value and historic cost that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

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

Foreign operations

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

(h) Goods and Services Tax

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

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

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

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

(i) Goodwill

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. Summary of Significant Accounting Policies (Cont.)

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

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

(j) Impairment of assets

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

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

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

unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

(k) Income Tax

Current tax

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

Deferred tax

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

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

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

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

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 2015

1. Summary of Significant Accounting Policies (Cont.)

(l) Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately. The intangible assets are written off on a straight line basis over 14 years. Expenditure on research activities is recognised as an expense in the period in which it is incurred.

(m) Leasing

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

The Group as lessor

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

The Group as lessee

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

(n) Payables

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

(o) Provisions

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

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

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

(p) Basis of consolidation

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

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. Summary of Significant Accounting Policies (Cont.)

(q) Property, plant and equipment

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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

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

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

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

(r) Financial liabilities

Classification as debt or equity

The component parts of compound instruments (convertible notes) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Conversion options 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. Conversion options that will be settled by the exchange by the exchange of a fixed amount of cash or another financial asset for a variable number of the Company's own equity instruments is a derivative

liability instrument. The conversion option classified as a derivative liability instrument's value is estimated at fair value on issue. The derivative liability is then accounted for at fair value through profit or loss.

The face borrowing or liability component is determined by deducting the amount of the conversion option liability component from the fair value of the instrument as a whole. This is recognised as an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible notes using the effective interest method.

(s) Revenue Recognition

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

(t) Application of New and Revised Accounting Standards

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

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

- Annual Improvements 2010-2012 and 2011-2013 Cycles: AASB 2014-1 Amendments to Australian Accounting Standards Part A - Annual Improvements 2010-2012 and 2011-2013 Cycles makes various amendments to Australian Accounting Standards. Most notably, items that will impact disclosure requirements under AASB 8 Operating Segments, AASB 119 Employee Benefits, and AASB 124 Related Party Disclosure.
- AASB 2014-1 Amendments to Australian Accounting Standards Part C - Materiality

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. Summary of Significant Accounting Policies (Cont.)

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

Standards and Interpretations in issue not yet adopted

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

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments, and the relevant amending standards	1 Jan 2018	31 Dec 2018
AASB 16 Leases	1 Jan 2019	31 Dec 2019
AASB 2014-4 Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation	1 Jan 2016	31 Dec 2016
AASB 15 Revenue from Contracts with Customers AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15 and AASB 2015-8 Amendments to Australian Accounting Standards - Effective Date of AASB 15	1 Jan 2018	31 Dec 2018
AASB 2015-1 Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle	1 Jan 2016	31 Dec 2016
AASB2015-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB101	1 Jan 2016	31 Dec 2016
AASB2015-3 Amendments to Australian Accounting Standards arising from the withdrawal of AASB1031 Materiality	1 Jan 2016	31 Dec 2016

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

(u) Share based payments

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

1. Summary of Significant Accounting Policies (Cont.)

(v) Critical accounting judgements

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

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

Key sources of estimation uncertainty

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

Intangible asset/Goodwill

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

Deferred tax

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

	Consolidated Year ended 31 December 2015 \$	Consolidated Year ended 31 December 2014 \$
2. (Loss) from Operations		
(a) Revenue		
Interest received - other entities	25,073	44,020
Management fees - other	-	1,600
Rental income	-	135,963
Total revenue	25,073	181,583
(b) Expenses		
Loss on sale of property	-	63,391
Amortisation	76,993	67,601
Depreciation	70,615	74,483
Interest paid	370,764	-
Fair value movement in derivative liability	(334,000)	-
Employee benefits expense:		
Other employee benefits	1,506,529	1,464,298
Superannuation	12,920	12,750
	1,519,449	1,477,048

3. Income Taxes

(a) Income tax recognised in profit or loss

Tax expense comprises:

Tax expense/(income) - prior year	-	-
Deferred tax expense/(income)	-	-
Total tax expense/(income)	-	-

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

(Loss) from operations	(1,840,940)	(2,796,787)
Amortisation	76,993	67,601
Convertible note adjustments	(200,192)	-
Loss on sale of property	-	63,391
	(1,964,139)	(2,665,795)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

	31 December 2015 \$	31 December 2014 \$
3. Income Taxes (Cont.)		
Income tax expense calculated at 30%	(589,242)	(799,739)
Effect of different tax rates of subsidiaries operating in other jurisdictions	145,329	175,310
Deferred tax benefit not brought to account	443,913	624,429
	-	-

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

(b) Unrecognised deferred tax balances

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

Tax losses - revenue	2,861,471	2,417,588
Tax losses - capital	168,030	168,038
Temporary differences	(131,227)	(104,671)
	2,898,274	2,480,955

(c) Franking account balance

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

	31 December 2015 \$	31 December 2014 \$
4. Remuneration of Auditors		
(i) Auditor of the parent entity		
Audit or review of the financial statements	35,125	32,300
Taxation service	3,000	2,500
	38,125	34,800
(ii) Network firm of the parent entity auditor		
Audit or review of the financial statements	19,410	17,614
Taxation service	4,270	5,594
	23,680	23,208

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

5. Cash and Cash Equivalents

Cash on hand and at bank	1,523,016	1,875,504
Weighted average interest rate received on cash	0.97%	1.97%

6. Trade and Other Receivables

Current		
GST receivable	6,973	8,116
Prepayments and other debtors	36,753	71,084
	43,726	79,200
Non Current		
Other debtors	6,837	6,117

Other debtors comprise security deposits with government bodies.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

	31 December 2015 \$	31 December 2014 \$
7. Goodwill		
Being goodwill acquired on the acquisition of Audio Pixels Limited. The goodwill is allocated to the cash generating unit of digital speakers by Audio Pixels Limited of Israel.	2,166,391	2,124,068
Balance at 1 January	2,124,068	1,992,314
Net foreign currency exchange	42,323	131,754
Balance at 31 December	2,166,391	2,124,068

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 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 directors believe that any reasonable possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying value to exceed the aggregate recoverable amount of the cash generating unit. 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 Research and 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	190,618	111,447
Less accumulated amortisation	(346,094)	(269,101)
	712,524	710,346

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

	31 December 2015 \$	31 December 2014 \$
9. Property, Plant and Equipment		
Computers and related equipment - at cost	356,676	296,039
Less accumulated depreciation	(327,468)	(274,730)
	29,208	21,309
Leasehold improvements - at cost	226,429	199,132
Less accumulated depreciation	(222,338)	(198,722)
	4,091	410
Office furniture and equipment - at cost	973,609	829,720
Less accumulated depreciation	(841,330)	(704,139)
	132,279	125,581
Total net book value of Property, Plant and Equipment	165,578	147,300
Cost		
Computers and related equipment		
Balance at 1 January	296,039	255,609
Additions	25,755	17,997
Net foreign currency exchange differences	34,882	22,433
Balance as at 31 December	356,676	296,039
Leasehold improvements		
Balance at 1 January	199,132	183,065
Additions	3,831	-
Net foreign currency exchange differences	23,466	16,067
Balance as at 31 December	226,429	199,132

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

	31 December 2015 \$	31 December 2014 \$
9. Property, Plant and Equipment (Cont.)		
Office furniture and equipment		
Balance at 1 January	829,720	742,611
Additions	46,110	21,933
Net foreign currency exchange differences	97,779	65,176
Balance as at 31 December	973,609	829,720
Accumulated depreciation		
Computers and related equipment - at cost		
Balance as at 1 January	(274,730)	(237,415)
Net foreign currency exchange differences	(33,508)	(21,530)
Depreciation expense	(19,230)	(15,785)
Balance at 31 December	(327,468)	(274,730)
Leasehold improvements		
Balance as at 1 January	(198,722)	(182,604)
Net foreign currency exchange differences	(23,428)	(16,031)
Depreciation expense	(188)	(87)
Balance at 31 December	(222,338)	(198,722)
Office furniture and equipment		
Balance as at 1 January	(704,139)	(591,080)
Net foreign currency exchange differences	(85,994)	(54,448)
Depreciation expense	(51,197)	(58,611)
Balance at 31 December	(841,330)	(704,139)
10. Trade and Other Payables		
Current		
Trade payables and accruals	470,230	353,008
The payables are non interest bearing and have an average credit period of 30 days.		

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

	31 December 2015 \$	31 December 2014 \$
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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 two convertible notes have a term of 12 months, are unsecured, not listed and are convertible to ordinary shares based on the lower of the five day volume weighted average share price of Audio Pixels Holdings Limited on the date of the agreement (\$9.68) or the five day volume weighted average share price of Audio Pixels Holdings Limited immediately prior to conversion.

Borrowings - Convertible note

Carrying amount at start of period	-	-
Face value of notes issued	3,000,000	-
Derivative liability - fair value initially recognised	(501,517)	-
	2,498,483	-
Add - accrued interest expense	236,956	-
Current Liability at end of period	2,735,439	-

Derivative liability

Fair value initially recognised	501,517	-
Fair value movement to the end of the reporting period	(334,000)	-
Derivative liability	167,517	-
Total borrowings	2,902,956	-

12. Provisions

Employee benefits	524,907	418,685
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

	31 December 2015 \$	31 December 2014 \$
13. Issued Capital		
Issued and paid up capital		
Fully paid Ordinary Shares		
Balance at the beginning of the financial year	37,398,942	37,398,942
Balance at the end of the financial year	37,398,942	37,398,942
Fully paid Ordinary Shares		
Balance at the beginning of the financial year	25,707,047	25,707,047
Balance at the end of the financial year	25,707,047	25,707,047
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. Reserves		
Foreign currency translation		
Balance at the beginning of the financial year	(1,505,564)	(766,855)
Translation of foreign operations	(1,609,923)	(738,709)
Balance at end of financial year	(3,115,487)	(1,505,564)
Foreign currency translation		
Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit and loss on the disposal of the foreign operation.		
Equity settled option reserve		
Balance at the beginning of the financial year	4,512,898	4,512,898
Balance at end of financial year	4,512,898	4,512,898
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	(25,538,692)	(25,538,692)
The minority interest reserve comprises amounts related to the acquisition of a minority interest shareholding in a subsidiary company in a prior period.		
Total Reserves	(24,141,281)	(22,531,358)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

	31 December 2015 \$	31 December 2014 \$
15. Accumulated Losses		
Balance at the beginning of the financial year	(10,696,742)	(7,899,955)
(Loss) for the year attributable to owners of the company	(1,840,940)	(2,796,787)
Balance at the end of the financial year	(12,537,682)	(10,696,742)

16. Notes to the Statement of Cash Flows

(a) Reconciliation of cash and cash equivalents

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

Cash and cash equivalents	1,523,016	1,875,504
b) Restricted cash		
Cash held as security for future lease payments	32,841	29,744

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

(Loss) after related income tax	(1,840,940)	(2,796,787)
Loss on sale of property	-	63,391
Amortisation	76,993	67,601
Convertible note adjustments	(97,044)	-
Depreciation	70,615	74,483
Foreign exchange gains	(1,798,447)	(1,028,397)
Changes in assets and liabilities		
(Increase)/decrease in assets		
Current trade and other receivables	35,474	53,230
Non-current trade and other receivables	(720)	(45)
Increase /(decrease) in liabilities		
Provisions	106,222	(1,158)
Current trade payables	117,222	(315,006)
Net cash (used in) operating activities	(3,330,625)	(3,882,688)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

17. Related Party Transactions

(a) Directors

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

(b) KMP Remuneration

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

	31 December 2015 \$	31 December 2014 \$
Short-term employee benefits	693,742	690,224
Post employment benefits	150,410	143,625
	844,152	833,849

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 2015, the Company paid a total of \$107,857 (year ended 31 December 2014 - \$107,734) 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 2015, the Company paid a total of \$41,063 (year ended 31 December 2014 - \$41,016) 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 2015, the Company paid interest of \$62,137 on a convertible note to 4F Investments Pty Limited, a company associated with Mr Fred Bart. The convertible note of \$1.5m was issued on 26 June 2015 following shareholder approval at an Extraordinary General Meeting.

During the year, the Company paid \$30,000 (31 December 2014 - \$30,000) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of consulting fees for company secretarial and accounting services.

On 8 May 2014, the company entered into a lease in respect of office premises at Level 12, 75 Elizabeth Street Sydney for a period of forty eight months to 30 March 2018. The company recharges 20% (\$21,104) of the rent to Electro Optic Systems Holdings Limited, a company of which Fred Bart and Ian Dennis are directors, 20% (\$21,104) to 4F Investments Pty Limited, a company controlled by Fred Bart and 40% (\$32,208) to another tenant who is a shareholder in the company.

18. Earnings per Share

Basic (loss) per share	(7.16 cents)	(10.88 cents)
Diluted (loss) per share (b)	(7.16 cents)	(10.88 cents)
(Loss) (a)	(1,840,940)	(2,796,787)
Weighted average number of Ordinary Shares	25,707,047	25,707,047

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

(b) There are potential ordinary shares to be issued in relation to the convertible notes of \$3m which expire in May and June 2016. The convertible note holders have the option of receiving their \$3m back with interest or converting their convertible notes into ordinary shares based on the lower of the five day volume weighted average share price of Audio Pixels Holdings Limited on the date of the agreement (\$9.68) or the five day volume weighted average share price of Audio Pixels Holdings Limited immediately prior to conversion. As at the date of this report, the directors are unable to determine the number of potential ordinary shares, if any, that could be issued from the convertible notes.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

19. Segment Information

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

The identification of the Group's reportable segments has not changed from those disclosed in the previous 2014 report. The Group's reportable segments in 2014 were property investment and digital speakers. Following disposal of the investment property, the group now only has one segment being digital speakers.

The consolidate entity operates in Australia and Israel.

Products and services within each segment

Property Investment

The parent company had a commercial strata property in Australia which was sold during the previous financial year. The company derived rental revenue from the property.

Digital speakers

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

	31 December 2015	31 December 2014
Segment Revenues		
Property investment	-	135,963
Digital speakers	25,073	-
Total of all segments	25,073	135,963
Unallocated interest revenue	-	45,620
Total	25,073	181,583
Segment Results		
Property investment	-	36,436
Digital speakers	(1,840,940)	(2,878,843)
Total of all segments	(1,840,940)	(2,842,407)
Unallocated	-	45,620
(Loss) before income tax	(1,840,940)	(2,796,787)
Income tax gain/(expense)	-	-
(Loss) for the period	(1,840,940)	(2,796,787)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

19. Segment Information (Cont.)

The consolidated entity had one customer who provided 100% of the property investment rental income for the year ended 31 December 2014.

Segment Assets and Liabilities

	Assets		Liabilities	
	31 December 2015 \$	31 December 2014 \$	31 December 2015 \$	31 December 2014 \$
Property investment	-	-	-	-
Digital speakers	4,618,072	3,058,915	3,898,093	771,693
Total all segments	4,618,072	3,058,915	3,898,093	771,693
Unallocated *	-	1,883,620	-	-
Consolidated	4,618,072	4,942,535	3,898,093	771,693

*The unallocated amount in 2014 represents cash and GST receivable.

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 2015 \$	31 December 2014 \$	31 December 2015 \$	31 December 2014 \$
Property investment	-	-	-	-
Digital speakers	147,608	142,084	75,696	39,930
Total all segments	147,608	142,084	75,696	39,930
Unallocated	-	-	-	-
Consolidated	147,608	142,084	75,696	39,930

Information on Geographical Segments

Geographical Segments	Revenue from External Customers \$	Segment Assets \$	Acquisition of Segment Assets \$
31 December 2015			
Australia	25,073	1,123,793	-
Israel	-	3,494,279	75,696
Total	25,073	4,618,072	75,696
31 December 2014			
Australia	181,574	1,471,032	-
Israel	9	3,471,503	39,930
Total	181,583	4,942,535	39,930

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

20. Financial Risk Management Objectives and Policies

The consolidated entity's principal financial instruments comprise receivables, payables, 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 2015 \$	31 December 2014 \$
Financial assets		
Cash and cash equivalents	1,523,016	1,875,504

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

At 31 December 2015, 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 2015 \$	31 December 2014 \$	31 December 2015 \$	31 December 2014 \$
Consolidated entity				
+1% (100 basis points)	15,278	18,695	15,278	18,695
-0.5% (50 basis points)	(7,567)	(9,438)	(7,567)	(9,438)

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 2015 than in December 2014 and accordingly the sensitivity is lower.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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

(b) Foreign currency risk

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

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

	Liabilities		Assets	
	31 December 2015 \$	31 December 2014 \$	31 December 2015 \$	31 December 2014 \$
Cash and cash equivalents	-	-	442,702	456,829
Trade and other receivables	-	-	36,753	43,540
Trade and other payables	374,202	330,415	-	-

All US\$ denominated financial instruments were translated to A\$ at 31 December 2015 at the exchange rate of 0.7298 (2014: 0.8158).

At 31 December 2015 and 31 December 2014, 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)	
	2015 \$	2014 \$	2015 \$	2014 \$
Consolidated				
AUD/USD +10%	264,234	318,745	264,234	318,745
AUD/USD -5%	(152,977)	(184,537)	(152,977)	(184,537)

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. Rental revenue is due in advance.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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

(d) Liquidity risk management

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

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

The following tables detail the consolidated entity's remaining contractual maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets 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 2015					
Non interest bearing	0.00	301,248	-	-	-
Fixed rate instruments	0.97	1,222,995	2,454	11,044	58,900
31 December 2014					
Non interest bearing	0.00	355,586	-	-	-
Fixed rate instruments	1.97	1,523,002	6,168	27,756	-

All financial liabilities are expected to be settled under commercial terms of within 3 months.

(e) Commodity price risk

The consolidated entity has no exposure to commodity price risk.

(f) Other price risks

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

21. Financial Instruments

Fair value of financial instruments

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

Financial assets

Prior to its sale the Strata Title property held for resale was the only asset in the Group measured at fair value. The fair value determined at 31 December 2013 was \$1,500,000. The fair value hierarchy was Level 3.

Movement schedule

	31 December 2015 \$	31 December 2014 \$
Balance at the beginning of the financial year	-	1,500,000
Proceeds of sale received	-	(1,436,609)
Total gains/(losses) in profit/(loss)	-	(63,391)
Balance at end of financial year	-	-

Financial liabilities

The convertible note 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 55% which was based on historical share price volatility.

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

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

22. Subsequent Events

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

	31 December 2015 \$	31 December 2014 \$
23. Parent Entity Disclosures		
Financial position		
Assets		
Current assets	18,717,654	14,598,637
Non-current assets	2,428,209	2,428,209
Total assets	21,145,863	17,026,846
Liabilities		
Current liabilities	2,998,985	22,593
Non-current liabilities	-	-
Total liabilities	2,998,985	22,593
Net assets	18,146,878	17,004,253
Equity		
Issued capital	37,398,942	37,398,942
Reserves	(21,025,794)	(21,025,794)
(Accumulated losses)/Retained earnings	1,773,730	631,105
Total equity	18,146,878	17,004,253
Financial performance		
Profit for the period	1,142,625	777,010
Other comprehensive income	-	-
	1,142,625	777,010

24. Controlled Entity

Name of Entity	Country of Incorporation	31 December 2015 %	31 December 2014 %
Parent Entity			
Audio Pixels Holdings Limited	Australia		
Controlled Entity			
Audio Pixels Limited	Israel	100.00	100.00

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

25. Leases

Operating leases - leasing arrangements (the Company as lessee)

On 8 May 2014, the parent company entered into a lease in respect of office premises at Level 12, 75 Elizabeth Street Sydney for a period of forty eight months from 31 March 2014 to 30 March 2018. The company recharges 20% of the rent 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 2015 \$	31 December 2014 \$
Non-cancellable operating lease payables		
Not longer than 1 year	87,516	87,516
Longer than 1 year and not longer than 5 years	109,395	196,911
Longer than 5 years	-	-
	196,911	284,427

The Company recovers 80% of the lease payments from director related entities who sublease space from the company on a month to month basis.

26. Contingent Liability

The parent company has been advised of a potential derivative action in Israel by an individual shareholder of BE4 Limited (a company with no financial interest in Audio Pixels Holdings Limited), an Israeli company in bankruptcy proceedings. At the date of this report the parent company has not been formally served. The Directors do not believe the Company has a case to answer, and is prepared to vigorously defend any action if commenced.

27. Commitments

The subsidiary company, Audio Pixels Limited of Israel has entered into various purchase orders and commitments of \$907,993 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

Level 12
75 Elizabeth Street
Sydney NSW 2000
Australia

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

www.audiopixels.com.au

The Company has 11 (2014: 11) employees in Israel.

ASX ADDITIONAL INFORMATION

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

Home Exchange

The Company's ordinary shares are quoted on the Australian Stock Exchange Limited under the trading symbol "AKP". The Home Exchange is Sydney. The Company also has a Level 1 American 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 2016 the following substantial shareholders were registered:

	Ordinary Shares	Percentage of total Ordinary Shares
Fred Bart Group	5,441,250	21.17%

Voting Rights

At 22 February 2016 there were 1,317 holders of fully paid ordinary shares.

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

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

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

Other Information

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

Distribution of Shareholdings

At 22 February 2016 the distribution of ordinary shareholdings were:

Range	Ordinary Shareholders	Number of Shares
1-1,000	560	268,558
1,001 - 5,000	395	1,054,175
5,001 - 10,000	196	1,679,567
10,001 - 100,000	132	4,210,696
100,001 and over	34	18,494,051
	1,317	25,707,047

There were 58 ordinary shareholders with less than a marketable parcel.

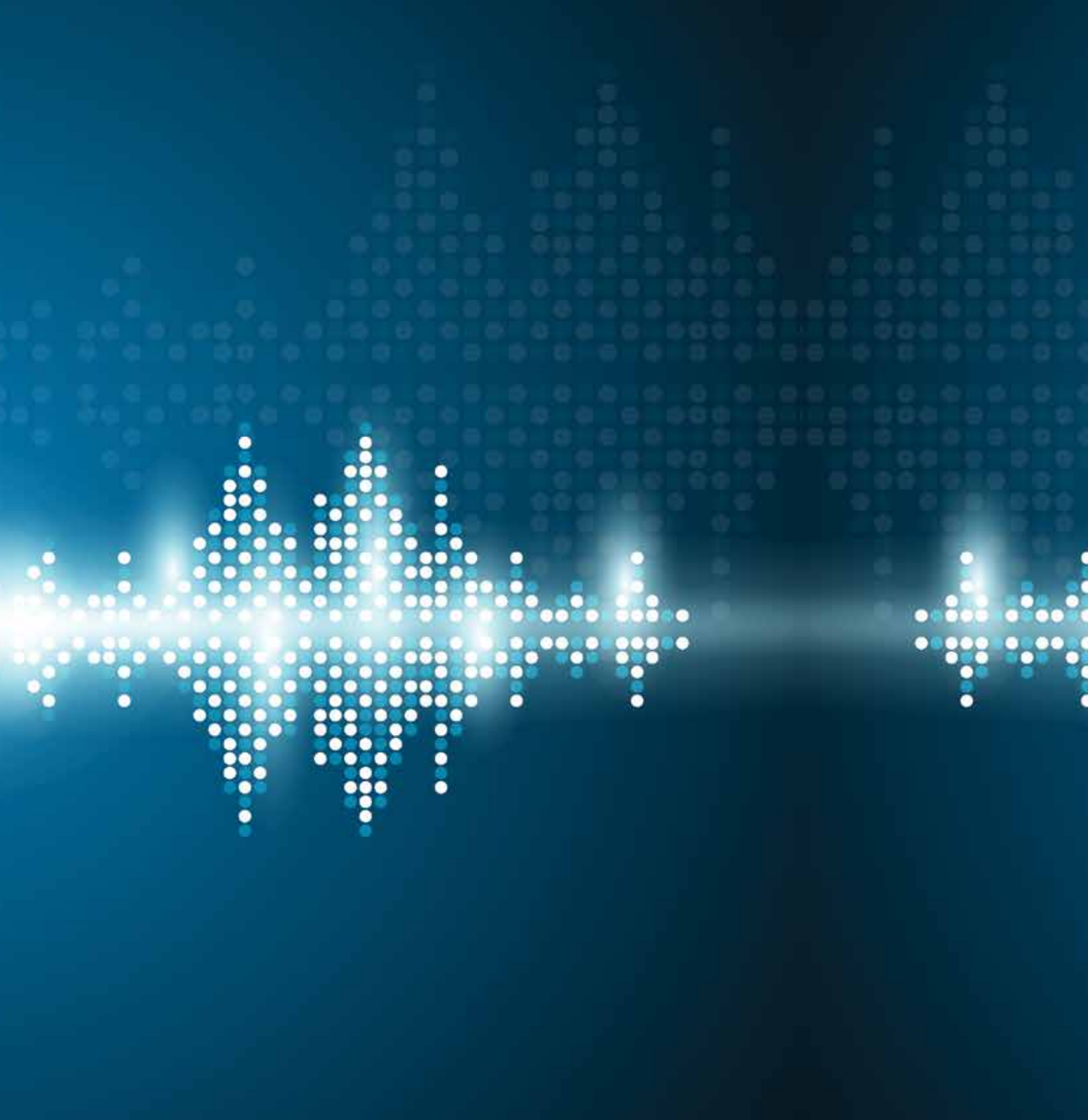
There is no current on-market buy-back.

TWENTY LARGEST ORDINARY SHAREHOLDERS

At 22 February 2016 the 20 largest ordinary shareholders held 64.44% of the total issued fully paid quoted ordinary shares of 25,707,047.

Shareholder	Fully Paid Ordinary Shares	Percentage of Total
1. Meitav Dash Trusts Limited	4,211,551	16.38%
2. Landed Investments (NZ) Limited	3,565,000	13.87%
3. Fred Bart	1,244,325	4.84%
4. Link Traders (Aust) Pty Limited	771,910	3.00%
5. Kam Superannuation Fund Pty Limited	650,000	2.53%
6. HSBC Custodian Nominees (Australia) Pty Limited	623,520	2.43%
7. Bart Superannuation Pty Limited	592,780	2.31%
8. Lee K Lau	588,546	2.29%
9. Ian Dennis and Caroline Dennis	570,000	2.22%
10. Cheryl Bart	500,000	1.94%
11. Meitav Dash Trusts Limited <Yuval Cohen A/C>	498,152	1.94%
12. Jamber Investments Pty Limited	440,000	1.71%
13. Decante Pty Ltd <J M Ehrlich Super Fund A/C>	400,000	1.56%
14. Almamarney Pty Limited <New York Superfund A/C>	327,650	1.27%
15. Brent McCarty, Yvonne McCarty and Zeljan Unkovich	304,014	1.18%
16. Meitav Dash Trusts Limited <Daniel Lewin A/C>	278,273	1.08%
17. James John Bart	256,074	1.00%
18. Larron Pty Limited <Jennings Family A/C>	251,000	0.98%
19. Nicole Bart	250,000	0.97%
20. Citicorp Nominees Pty Limited	242,683	0.94%
	16,565,478	64.44%





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