

AUDIO PIXELS HOLDINGS LIMITED
ACN 094 384 273

FINANCIAL REPORT FOR THE YEAR ENDED
31 DECEMBER 2023

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AUDIO PIXELS HOLDINGS LIMITED

ACN 094 384 273

CORPORATE DIRECTORY

Directors

Fred Bart (Chairman)
Ian Dennis (resigned 31 July 2023)
Cheryl Bart AO
Mark Ureda (appointed 31 July 2023)

Company Secretary

Shawn van Boheemen

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Australia

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Web site

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Auditor

Deloitte Touche Tohmatsu
Chartered Accountants
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Australia

Share Registry

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DIRECTORS' REPORT

The Directors of Audio Pixels Holdings Limited submit herewith the financial report of the company for the financial year ended 31 December 2023. 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. He is a member of the Audit Committee and a member of the Nomination and Remuneration Committee. He is also Chairman of Noxopharm Limited.
Cheryl Bart AO	Non-executive director. Appointed to the Board on 26 November 2001. Cheryl Bart is a lawyer and company director. She is Chairman of Tilt Renewables Limited and Ted X Sydney. Cheryl is a non-executive director of SG Fleet Australia Limited and the Moriah College Foundation. 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.
Mark Ureda	Non-executive director. Mr. Ureda brings to the company extensive executive experience in audio systems, technology trends and product strategies. In 2010 he joined Harman International as president of JBL Professional. He subsequently served as VP/CTO and then senior vice president of Harman Professional. He retired in 2018 and joined Biamp Systems as executive advisor and continues to serve on the boards of Loud Audio and Bose Professional. Prior to joining Harman, Mr. Ureda was senior vice president of corporate strategy at Northrop Grumman specializing in mergers and acquisitions and held board positions at Navia Aviation AS, and Remotec UK Limited.

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DIRECTORS' REPORT (CONTINUED)

Directorships of other listed companies

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

Name	Company	Period of directorship
Fred Bart	Electro Optic Systems Holdings Limited	May 2000 to 27 July 2021
	Weebit Nano Limited	March 2018 to 27 June 2023
	Noxopharm Limited	Since 8 May 2020
Mark Ureda	N/A	N/A
Cheryl Bart	SG Fleet Australia Limited	Since February 2014

Principal activities

The principal activity of the Company is holding 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 2023 was \$14,614,491 (31 December 2022 – \$2,435,719).

Dividends

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

Review of operations

During the reporting period the Company had made progress advancing its revolutionary digital sound reproduction (DSR) platform into a mass-produced product that meets consumer electronics manufacturers aspirations to provide a discernibly improved entertainment experience in future generations of devices.

Among the accomplishments, two particular noteworthy milestones had been reported during the period:

1. At the AGM held in May-23, the company conducted a live demonstration of our prototype generation (MEMS-GEN-I) DSR Loudspeaker Chip. The demonstration showcased performance that outpaced even management's own original ambitions, providing superior sound quality especially when it was compared with current leading microspeakers. In fact, the frequency response, phase response, and nearly immeasurable distortion throughout the full audible range were demonstrated our chip as the only known high-performance - full range loudspeaker (of any size or cost).

DIRECTORS' REPORT (CONTINUED)

Review of Operations (cont)

2. On the basis of the aforementioned accomplishment, management instructed its current fabrication partner - Earth Mountain (Suzhou) Microelectronics Ltd. (EM) to commence fabrication of the commercial version of the chip ("MEMS-GEN-II.) The commercial version (GEN-II) preserves the fabrication principles and qualitative performance capabilities demonstrated in GEN-I with the inclusion of evolutionary design elements that maximize the sound pressure level (SPL) output of the chip in order to meet the targeted commercial objectives of our product.

As also informed during the period, EarthMountain has invested considerable capital to support the transition from prototype to the commercial generations, included the (costly) addition of two 8" MEMS foundries, to the current 6" facility that had produced our MEMS GEN-I. As further reported, initial delivery schedules for MEMS-GEN-II chips have been hindered, as EarthMountain has been forced to contend with capacity shortages at the 6" facility related to an unanticipated surge in demand on the fabs production resources; and with engineering challenges that are typical in migrating MEMS wafer fabrication from 6" to 8" wafers. EarthMountain management and engineering teams are working diligently to resolve these issues as soon as possible.

Upon receipt and characterization of MEMS-GEN-II, the company will commence the next phase of customer engagement having completed during the period the fabrication of more advanced demonstration systems, Software Development Kits (SDK), reference designs, the porting of code and algorithms to be compatible and efficient when run on commonly used device processors and operating systems, as well as the development of applications that will permit our customers to more easily adopt performance and features to meet their specific needs.

Management has and continues to work very closely with Earth Mountain to resolve any outstanding issues that may arise. However, as a fabless company that is wholly dependent on its vendors to fabricate functioning devices to specification, management had no choice but to adjust its strategic plans involving customer engagement from early to the latter part of Q2-2024

During the same period, the Company in coordination with a number of potential customers has also been working on porting our code to specific customer device processors and operating environments as well as applying considerable efforts to enhance our demonstration systems, customers engineering sample platform including SDK's (Software Development Kits) and design references to best rapid customer integration of our products.

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DIRECTORS' REPORT (CONTINUED)

Review of Operations (cont)

Placement to EarthMountain

Earth Mountain committed in writing to take 308,325 ordinary shares (\$4,316,550) at \$14.00 per share in the placement announced on 24 August 2022 subject to receiving approvals from Jiangsu Province Branch of the Ministry of Commerce, National Development and Reform Commission and the State Administration of Foreign Exchange to settle their commitment. As at the date of this report and as advised by Earth Mountain in writing on 23 January 2024, EarthMountain had yet to receive the necessary approvals from the Jiangsu Province Branch of the Ministry of Commerce, National Development and Reform Commission and the State Administration of Foreign Exchange in China to settle their commitment. While the approval is not believed to be in jeopardy by the company's directors or EarthMountain management, given that there is little informative visibility into this bureaucratic process, it is impossible to predict an accurate settlement date. The Company will update the market as soon as new information is available.

Unsecured Loans

Shareholder approval for the conversion of part of the unsecured loans of \$2,315,012 into 165,358 ordinary shares was granted at the Annual General Meeting held on Tuesday 30 May 2023. This reduced the original loan balance outstanding with 4F Investments Pty Limited (a company associated with the Chairman Fred Bart) to \$969,988.

4F Investments Pty Limited agreed to provide an additional unsecured funding facility of up to \$1,500,000 on 28 March 2023 at an interest rate of 12% per annum, repayable on completion of the next capital raising. 4F Investments Pty Limited advanced \$150,000 on 27 February 2023, \$100,000 on 16 March 2023, \$500,000 on 28 March 2023, \$500,000 on 26 April 2023 and \$250,000 on 25 September 2023 amounting to \$1,500,000.

This new facility of \$1,500,000 is in addition to the original unsecured loan balance of \$969,988 which was originally at 6% interest. As a result of the extended delays in receiving the Earth Mountain placement proceeds of US\$3,000,000 (\$4,316,550), the interest rate on the original unsecured loan has been increased to 12% per annum from 1 March 2023 as part of the agreement to provide the new loan facility. This interest rate is better than other offers of unsecured loans and convertible notes received from other unrelated parties.

The total unsecured loans outstanding at 31 December 2023 from 4F Investments Pty Limited was \$2,469,988. The outstanding unsecured loans attracts interest at a rate of 12% per annum (payable quarterly in arrears).

As an incentive to the provision of this additional facility of \$1,500,000 and the continuation of the original unsecured loans of \$969,988 (whilst waiting for the Earth Mountain placement proceeds of US\$3,000,000 (\$4,316,550) to settle \$969,988 in cash), the Company has provided an incentive of 500,000 unlisted options in the company to 4F Investments Pty Limited. The exercise price of these options is the 5-day VWAP when the

DIRECTORS' REPORT (CONTINUED)

Review of Operations (cont)

Unsecured loans (cont)

first \$150,000 was advanced on 27 February 2023 which equates to an exercise price of \$7.59 for a term of 3 years. These options received shareholder approval at the Annual General Meeting held on Tuesday 30 May 2023. These options were issued and vested immediately after shareholder approval was received, as they only relate to the loan facility and are not employment related.

Included in the condensed statement of consolidated profit and loss and other comprehensive income is a financing expense of \$3,355,000, which is attributable to the issue of these options being treated as a transaction cost related to the unsecured financing facility.

Convertible Notes

On 25 May 2023, the Company announced it had issued 5 Convertible Notes amounting to \$2,500,000 to existing sophisticated shareholders.

These Convertible Notes were issued to mature on 31 January 2024, however were subsequently modified to mature on 30 April 2024. The modification has not changed any other terms, these notes are unsecured, unlisted and attract an interest rate of 12% per annum payable quarterly in arrears and convertible into ordinary shares at \$9.04, based on the five-day volume weighted average share price of Audio Pixels Holdings Limited on the date of the agreement, unless a share capital raise is undertaken at a lower price.

During the period, the term on certain convertible notes were modified and the modification was determined not to be substantial based on the change in net present value of the modified debt based on the original effective interest rate. The modification was an extension of the existing debt liability as opposed to the creation of a new liability. As the modification was not deemed substantial, there was no requirement to derecognise the original convertible notes and the re-recognition of the modified notes at fair value. The associated gain was calculated using the valuation inputs of the other convertibles notes issued at that time as a key input.

The 5 investors also received a total of 500,000 unlisted options (100,000 options per \$500,000 invested) at a strike price of 20% higher than the conversion price of \$9.04, being \$10.84. These unlisted options have a term of 3 years expiring on 4 May 2026.

On 27 October 2023, the Company issued a Convertible Note amounting to \$500,000 to 4F Investments Pty Limited, an entity associated with Fred Bart. This Convertible Note matures on 30 April 2024, is unsecured, unlisted and attracts an interest rate of 12% per annum payable quarterly in arrears and convertible into ordinary shares at \$9.04, based on the same terms as the May 2023 notes issued, unless a share capital raise is undertaken at a lower price.

DIRECTORS' REPORT (CONTINUED)

Review of Operations (cont)

Convertible Notes (cont)

4F Investments Pty Limited will receive a total of 100,000 unlisted options (100,000 options per \$500,000 invested) at a strike price of 20% higher than the conversion price of \$9.04, being \$10.84. These unlisted options have an expiry date of 4 May 2026.

On 27 October 2023, the Company issued 8 Convertible Notes amounting to \$2,000,000 to sophisticated investors. These Convertible Notes mature on 30 April 2024, are unsecured, unlisted and attract an interest rate of 12% per annum payable quarterly in arrears and convertible into ordinary shares at \$9.04, based on the same terms as the May 2023 notes issued, unless a share capital raise is undertaken at a lower price.

The 8 investors also received a total of 400,000 unlisted options (100,000 options per \$500,000 invested) at a strike price of 20% higher than the conversion price of \$9.04, being \$10.84. These unlisted options have a term of 3 years expiring on 4 May 2026.

Further information

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

Changes in state of affairs

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

Significant events after balance date

At the date of this report the company has received approval from holders of \$4.25M of the total of \$5M in convertible notes on issue, to extend the maturity date of the notes to 30 September 2024, with an option to extend these at the request of the company for a further six months.

The ASX suspended trading on 1 March 2024 post the Company's release of its Appendix 4E. At the date of this report the Company remains suspended from trading.

Except as noted above there has not been any other matters 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.

DIRECTORS' REPORT (CONTINUED)

Review of Operations (cont)

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 are in compliance with all applicable environmental legislation and regulations. The Directors have considered the environmental, social and governance (ESG) aspects of the operations of the consolidated entity and do not believe that the consolidated entity is exposed to any material climate-related or other emerging risks.

Indemnification and Insurance of Officers and Auditors

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	5,984,480
Cheryl Bart	1,282,777
Mark Ureda	Nil

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

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DIRECTORS' REPORT (CONTINUED)

Remuneration report (cont)

which the director has a substantial financial interest. There are no employment contracts for any of the directors.

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

policies and packages applicable to the Board members of the Company. The entire Board makes up the Nomination and Remuneration Committee. The Board remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities.

There are currently no performance-based incentives to directors or executives based on the performance of the Company. There are standard employment contracts for the executives of Audio Pixels Limited including at will employment and a notice period of three months for termination.

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

Fred Bart – Chairman and Chief Executive Officer

Cheryl Bart – Non executive director

Ian Dennis – Non executive director and Company Secretary (resigned 31 July 2023)

Mark Ureda – Non-executive director (appointed 31 July 2023)

Danny Lewin – CEO and director of Audio Pixels Limited

Yuval Cohen – Chief Technical Officer of Audio Pixels Holdings 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 director's fees were increased to a total of \$250,000 per annum in line with the increased activities of the company. The actual director's 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.

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DIRECTORS' REPORT (CONTINUED)

Remuneration report (cont)

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

	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$	Year ended 31 December 2021 \$	Year ended 31 December 2020 \$	Year ended 31 December 2019 \$
Revenue	286,824	482,841	108,691	191,434	272,520
Net (loss) before tax	(14,614,491)	(2,435,719)	(3,309,869)	(12,102,367)	(6,231,930)
Net (loss) after tax	(14,614,491)	(2,435,719)	(3,309,869)	(12,102,367)	(6,231,930)

	Year ended 31 December 2023 \$	Year ended 31 December 2022 \$	Year ended 31 December 2021 \$	Year ended 31 December 2020 \$	Year ended 31 December 2019 \$
Share price at start of year/period	10.00	22.50	24.05	15.35	20.22
Share price at end of year/period	8.18	10.00	22.50	24.05	15.35
Dividend Paid	0.00	0.00	0.00	0.00	0.00

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 1/1/23	Granted as remuneration	Received on exercise of options	Purchases/ (Sales)	Balance at 31/12/23
	No.	No.	No.	No.	No.
Mr Fred Bart*^	5,819,122	-	-	165,358	5,984,480
Mrs Cheryl Bart*	500,000	-	-	-	500,000
Mr Ian Dennis (a)	320,167	-	-	-	-
Mr Danny Lewin	1,438,619	-	-	-	1,438,619
Mr Yuval Cohen	1,397,876	-	-	-	1,397,876

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DIRECTORS' REPORT (CONTINUED)

Remuneration report (cont)

* Included in the above shareholdings in respect to both Fred Bart and Cheryl Bart are 782,777 (2021: 782,777) shares in Audio Pixels Holdings Limited held by the Bart Superannuation Fund, in respect to which each has a relevant interest.

^ the 165,358 shares acquired by 4F Investments Pty Limited (an entity associated with Fred Bart) were issued to settle \$2,315,012 of the unsecured loan facility held with 4F Investments Pty Limited.

(a) Ian Dennis resigned as a director on 31 July 2023.

Transactions with related entities

All transactions with KMP and their related parties are made on terms equivalent for those that prevail in arm's length transactions.

During the year ended 31 December 2023, the Company paid a total of \$109,456 (year ended 31 December 2022 - \$109,331) 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 2023, the Company paid a total of \$24,188 (year ended 31 December 2022 - \$41,344) 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 \$20,000 (31 December 2022 – \$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.

Shareholder approval for the conversion of part of the unsecured loans from 4F Investments Pty Ltd of \$2,315,012 into 165,358 ordinary shares was granted at the Annual General Meeting held on Tuesday 30 May 2023. This reduced the original loan balance outstanding to \$969,988, which is repayable on either the receipt of the Earth Mountain placement funds or upon completion of a capital raise.

During the year, the company entered into unsecured loan facilities with 4F Investments Pty Limited, a company associated with Mr Fred Bart, totalling \$1,500,000 at an interest rate of 12%. The loan facility was fully drawn to \$1,500,000 at 31 December 2023. The loan is repayable upon completion of a capital raise.

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DIRECTORS' REPORT (CONTINUED)

Remuneration report (cont)

During the year, the company paid \$135,673 (31 December 2022 – \$113,782) interest on the unsecured loan to 4F Investments Pty Limited. Interest has been accrued in the financial statements at 31 December 2023 of \$74,709 (31 December 2022 - \$32,940) .

The lease in respect of office premises at Suite 3, Level 12, 75 Elizabeth Street Sydney expired on 30 March 2022. The Company has not renewed the lease and continues to occupy the premises on a month to month basis. The Company recharged rent and other tenancy charges of \$34,790 (year ended 31 December 2022 - \$42,871) to 4F Investments Pty Limited, a company controlled by Fred Bart.

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

	Short Term		Long term employee benefits			Total
December 2023	Directors' fees/Salary \$	Non-monetary \$	Super annuation \$	Social Security \$	Long service leave	\$
Fred Bart	61,000	-	6,925	-	-	67,925
Cheryl Bart	37,500	-	4,031	-	-	41,531
Ian Dennis	41,875*	-	2,313	-	-	44,188
Mark Ureda	20,813	-	-	-	-	20,813
Danny Lewin	170,680	41,277	-	62,337	-	274,294
Yuval Cohen	<u>255,150</u>	<u>24,260</u>	<u>27,459</u>	<u>-</u>	<u>3,563</u>	<u>310,432</u>
	587,018	65,537	40,728	62,337	3,563	759,183
December 2022						
Fred Bart	61,000	-	6,987	-	-	67,987
Cheryl Bart	37,500	-	3,844	-	-	41,344
Ian Dennis	67,500*	-	3,844	-	-	71,344
Danny Lewin	181,029	44,130	-	65,414	-	290,573
Yuval Cohen	241,084	30,153	<u>23,959</u>	-	13,915	309,111
	588,113	74,283	38,634	65,414	13,915	780,359

* The amounts disclosed for Ian Dennis include director's fees of \$24,188 and consulting fees of \$20,000 (2022: directors fees \$41,625 and consulting fees \$30,000). Other non-monetary benefits include annual leave and long service leave provision increases during the year.

DIRECTORS' REPORT (CONTINUED)

Audit Committee

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

Directors' meetings

During the year the Company held three meetings of directors, two meetings of the Audit Committee and one meeting of the Nomination and Remuneration Committee. The attendances of the directors at meetings of the Board were:

	Board of directors		Audit committee		Nomination and Remuneration committee	
Directors	Held	Attended	Held	Attended	Held	Attended
Mr Fred Bart	3	3	2	2	1	1
Mrs Cheryl Bart	3	3	2	2	1	1
Mr Ian Dennis	2	2	1	1	1	1
Mr Mark Ureda	1	1	1	1	0	0

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

Ethical Labour

The consolidated entity has established measures regarding fair labour practices and guidelines that create a respectful and safe work environment for our employees globally. We are committed to treat all of our employees with respect and we strictly prohibit the use of slavery, forced labour and human trafficking. To prevent the occurrence of forced, compulsory or child labour, we have implemented local labour policies and practices to comply with the Modern Slavery Act.

Any person who applies for employment at AKP does so on a voluntary basis and all employees are legally entitled to leave upon reasonable notice without penalty. In accordance with AKP's global recruiting guidelines, offers of employment must be conditional upon completion of required background checks. Background checks are required to protect the safety of employees and to ensure that employees meet the standards of AKP.

Diversity

The Company values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. The Company's diversity policy ("Diversity Policy") was updated on 31 December 2021 and outlines its diversity policy in relation to gender, age, cultural background, ethnicity, employment of veterans and other factors to

DIRECTORS' REPORT (CONTINUED)

Diversity (cont)

leverage the wide pool of available talent. A copy of the Company's Diversity Policy is available on the Company's web site.

Material Business Risks

Since its founding management has openly and frequently delineated its assessment of the ongoing and emerging risks, challenges and concerns that might influence the company success and opportunities. In fact, as a technology company engaged in transforming century old technological conventions; continual analysis of risks and failures have been baked into the company's DNA as the guiding principle of operation.

1. TECHNOLOGICAL VIABILITY

AKP is engaged in revolutionizing an incumbent technology that has been an important and prevalent technological staple, used extensively by mankind, since its advent by Alexander Graham Bell roughly 150 years ago. The industry at large has unsuccessfully spent many, many billions of dollars over decades searching for ways to advance sound reproduction to the modern era. AKP's radical approach is the best chance the industry has to succeed in its ambition to evolve sound reproduction into the digital era, for example in the same manner that the LCD has completely replaced the CRT and digital memory has replaced magnetic media for data storage.

However, this effort requires the expansion and advent of many technological disciplines, some of which were either unknown or not fully understood. Achieving sufficient understanding as to the intersection of varying physical regimes prevalent in micro-mechanical structures was impossible before structures of this scale could be physically fabricated and characterized. This achievement alone required very deep understanding of the capabilities and limitations of available microfabrication tools and techniques.

AKP has and continues to be engaged in a comprehensive research and development effort to bring our technology to fruition. As such and until completion of the technology, its products, production methods, fulfillment of the technological vision and mission will by its very nature maintain certain levels of technological uncertainties and risks. Throughout and to the best of reason, management has tried to share its assessment at common sense intervals of the remaining risks, challenges and concerns, based on technical progress actualities, competitive concerns, and in consideration of confidentiality and intellectual property considerations.

2. FINANCE AND CAPITAL

The company requires additional capital to execute and support its plans. The company's ability to secure capital in a timely manner depends among other factors on its development status, investor interest, as well as the financial state of capital markets.

DIRECTORS' REPORT (CONTINUED)

Material Business Risks (cont)

FINANCE AND CAPITAL (CONT)

The Directors have determined that the best result for a capital raise at this stage of the company, is obtainable after the company has the ability to properly demonstrate its technologies to potential investors. In the interim the Company has been funding its operations utilizing unsecured loans from related parties and convertible notes. The directors continue to monitor in real time the status of achieving the demonstration milestone and may choose to take further unsecured loans and /or convertible notes if the capital raise is further delayed.

3. INTELLECTUAL PROPERTY

As a pioneer, the company has managed to amass an impressive technology portfolio covering over 200 patents (and counting) in over a dozen patent families. Nonetheless financial and human constraints limit our ability to:

- a. Legally protect every aspect of the technology.
- b. Limit the jurisdictions in which we are able file and maintain patent protection

The company is extremely diligent ensuring that all developments are originated within the company using licensed and authorized tools. However, the very nature of multidisciplinary development entangling a multitude of technologies and tools might expose the company to claims of IP infringement by various third parties.

Since its founding the company has used Israel's leading IP firm to advise and guide our IP strategies. To the best of its ability and available resources the company has developed methods, procedures and strategies to ensure originality and or legal license as well as to protect its IP worldwide. The company also put in place routine procedures to investigate and react if needed to possible infringement or unauthorized replication of its technologies.

Furthermore, our IP portfolio includes considerable knowhow. Inherent to the model of a fabless company is the necessity to sharing of such knowhow with third party partners, vendors and service providers. Given our limited ability to control or monitor third parties Management maintains reasonable caution when divulging certain critical aspects and knowhow of our technology. The sharing of critical information when required is done in a manner that tries to minimize the risk of IP leakage, which at time can come at the expense of elongating timelines.

DIRECTORS' REPORT (CONTINUED)

Material Business Risks (cont)

4. DEVELOPMENT TIMELINE / TIME TO MARKET

There are a number of factors that have, and will continue, to influence the pace of progress (beyond the technological uncertainties associated with research and development as stated above), namely:

- Fabrication – MEMS fabrication differs greatly when compared to fabrication of “traditional” integrated circuitry, despite the fact that they many of the same tools, techniques and facilities are used; mainly in that there are no rigid design rules and highly standardized batch processing techniques in MEMS. By its very nature MEMS designs vary in their electro-mechanical and operational requirements, requiring fabrication processes flow to be tailored to the specific materials, dimensions, tolerances, etc. This “one design-one process”, necessitates an iterative, trial-and-error approach, whereby designs are fabricated, results are characterized, and then either the fabrication process flow, and or the design or both are modified, refined, or optimized accordingly in order to achieve the desired end results – often a cycle that needs to be repeated a number of times.

Historically converting the company’s MEMS into silicon has taken between 10 and 14 months for each major integration cycle. Such timelines are more or less confirmative with the cycle times throughout the fabless MEMS sector, even though AKP’s designs require extending the electromechanical specifications beyond the conventional norms of associated with MEMS fabrication. The Company originally started its development works with Sony Semiconductor as its primary MEMS fabricator, and after evaluation of a number of additional Fabs ultimately shifted priority to Tower Semiconductor in attempt to reduce production cycle timelines. More recently, the company established a relationship with Earth Mountain a Chinese based entity having highly advanced facilities and expansive resources. After extensive evaluation EarthMountain was deemed capable of delivering faster turnaround with superior results, a collaboration that has recently borne the success that management was hoping to achieve. This collaboration was memorialized in Dec 2021 in a comprehensive manufacturing agreement which is subject to confidentiality clauses, however as has been reported the agreement includes substantial production capacity, which comes at a time that the industry at large is struggling to overcome capacity shortages.

DIRECTORS' REPORT (CONTINUED)

Material Business Risks (cont)

4. DEVELOPMENT TIMELINE/ TIME TO MARKET (CONT)

- **Fab Prioritization** - The business models of silicon foundries are rooted in volume production and therefore the Fabs tend to avoid conducting any kind of development work especially for innovative and nonconforming fabless companies such as AKP. It is understood that even when a fab undertakes development work, such endeavors must play “second fiddle” to production customers, influencing timelines (always for the worse). Exacerbating the situation are the unprecedented global shortages of semiconductor capacity experienced worldwide, instigated by among other reasons, the world's response to the COVID-19 pandemic. These unprecedented shortages have impacted virtually every industry in particular those that heavily rely on semiconductors such as the automotive and consumer electronic industries, forcing companies such as Apple and Ford, to delay, suspend, or even shutdown various aspects of their production. A popular countermeasure by some industry conglomerates to stockpile inventory and “acquire” long term capacity, has put even further strain on smaller companies, such as AKP.

Unfortunately, Silicon production cannot be turned on or off with the flick of a switch; any change to production lines can take months; while adding additional capacity can take years and hundreds if not many billions of dollars. Absent of the company owning its own silicon foundry, the reality is that it must endure disruption and unpredictability within its supply chain.

5. RELIANCE ON THIRD PARTIES FOR SUPPLY AND PRODUCTION

By its very nature a fabless company such as ours is wholly dependent on the production and assembly services that are provided by third party suppliers. Management works very closely with its providers, most recently with Earth Mountain and its ASIC foundry as well as a number of other related vendors, to ensure continuity of production and packaging requirements, however, any disruption to their business, for any reason, may materially impact AKP.

6. KEY PERSONNEL AND COMPETITION FOR HUMAN RESOURCES AS WE MANAGE GROWTH

As we near our commercialization objectives we anticipate considerable attention and demand for our revolutionary products technologies. To support this transition and growth, additional resources will be required to be added to the company. Traditionally the technology sector, in Israel in particular, experience unprecedented shortages of human capital when segments of the industry experience unprecedented growth, or when capital becomes capital readily available, or during expansion cycles by multinational companies in Israel. This reality not only makes recruiting talent extremely competitive but induces

DIRECTORS' REPORT (CONTINUED)

Material Business Risks (cont)

6. KEY PERSONNEL AND COMPETITION FOR HUMAN RESOURCES AS WE MANAGE GROWTH (CONT)

the “poaching” of our exceptionally talented staff. Management continues to work on ways to enhance our employee incentive programs to better attract, recruit, and retain the talent needed to execute our plans.

7. SECURITY

Like every company in the world AKP's systems, data, and networks are subject and vulnerable to malicious attacks, including computer viruses, spyware, ransomware, and hosts of other emerging security concerns. The company has spent and continues to spend considerable resources to prevent unauthorized accesses, data loss, and cyber malicious attacks, using the best of breed cyber security systems. As a company poised to disrupt a multibillion-dollar industry management must also assume that the company is, or it will become a heightened target for IP theft and disruption is therefore applying every reasonable means possible to protect its intellectual property.

8. CURRENCY FLUCTUATION

As an Australian company our finances and financials are rooted in the Australian dollar, however the overwhelming portion of expenditures and cashflow requirements are conducted in Israeli and US currencies. Any fluctuation in any of these currencies may have adverse effects on the company's capital requirements.

9. GOODS AND SERVICES COSTS

Global shortages throughout the semiconductors have spurred a meaningful increase in the costs of obtaining parts. Scarce components and services not only saw a dramatic and continual increase in pricing, but also demand for larger and longer-term commitments in order to secure product and services.

10. TAXATION

As an Australian resident company dealing in several foreign jurisdictions, we need to continually assess the taxation position of the whole group and keep abreast of any changes in legislation which may have affect future income.

AUDIO PIXELS HOLDINGS LIMITED
ACN 094 384 273

DIRECTORS' REPORT (CONTINUED)

Non-audit services

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

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

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

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

Auditor's independence declaration

The auditor's independence declaration is included on page 20.

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

On behalf of the Directors



Fred Bart
Director

Dated at Sydney this 28 day of March 2024

28 March 2024

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

Dear Board of Directors

Auditor's Independence Declaration to Audio Pixels Holdings Limited

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

As lead audit partner for the audit of the financial report of Audio Pixels Holdings Limited for the year ended 31 December 2023, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- The auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- Any applicable code of professional conduct in relation to the audit.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Chris Biermann
Partner
Chartered Accountants

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

Report on the Audit of the Financial Report

Disclaimer of Opinion

We have been engaged to audit the financial report of Audio Pixels Holdings Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 31 December 2023, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information and other explanatory information, and the directors' declaration.

We do not express an opinion on the accompanying financial report of the Group. Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to enable us to provide a basis for an audit opinion as to whether the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the Group's financial position as at 31 December 2023 and of its financial performance for the year then ended; and
- Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Disclaimer of Opinion

We draw attention to Note 1(d) of the financial report, which indicates the Group incurred a loss of \$14,614,491 and reported negative net cash flows from operating activities of \$5,064,542 for the year ended 31 December 2023. In addition, the Group had net current liabilities of \$6,327,760 and a net asset deficiency of \$5,611,935 as at 31 December 2023 and Note 1(d) indicates that the Group's available net working capital will be consumed during April 2024.

The circumstances as at the date of signing this report are such that we have not been able to obtain sufficient appropriate audit evidence as to whether the Group will be able to achieve successful outcomes in relation to the initiatives/actions detailed in Note 1(d). These conditions, along with other matters as set out in Note 1(d), indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern, and therefore, whether it will be able to realise its assets and discharge its liabilities in normal course of business and at the amounts stated in the financial report.

The consolidated statement of financial position includes trade and other receivables, plant and equipment, prepayments and right-of-use assets which are expected to be realised in future years. The ability of the Group to recover the carrying values of these assets is dependent upon the Group successfully achieving the initiatives/actions detailed in Note 1 (d) and the Group continuing as a going concern.

Given the above, the uncertainties outlined above are so material and pervasive to the financial report that we are unable to express an opinion on the financial report taken as a whole.

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

Our responsibility is to conduct an audit of the financial report in accordance with Australian Auditing Standards and to issue an auditor's report. However, because of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an opinion on the financial report.

We are independent of the Consolidated Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Report on the Remuneration Report

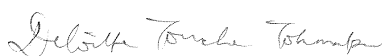
Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 12 of the Directors' Report for the year ended 31 December 2023.

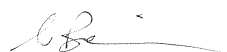
In our opinion, the Remuneration Report of Audio Pixels Holdings Limited, for the year ended 31 December 2023, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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



DELOITTE TOUCHE TOHMATSU



Chris Biermann
Partner

Chartered Accountants
Melbourne, 28 March 2024

AUDIO PIXELS HOLDINGS LIMITED
ACN 094 384 273

DIRECTORS' DECLARATION

The directors declare that:

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

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

On behalf of the Directors



Fred Bart
Director

Dated at Sydney this 28 day of March 2024.

AUDIO PIXELS HOLDINGS LIMITED
ACN 094 384 273

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023**

	Note	Consolidated Year ended 31 December 2023	Consolidated Year ended 31 December 2022
		\$	\$
Revenue	2	<u>286,824</u>	<u>482,841</u>
Administrative expenses		(1,248,112)	(1,471,462)
Amortisation		(44,139)	(84,267)
Depreciation		(388,918)	(376,988)
Directors fees and superannuation		(154,456)	(150,675)
Foreign exchange gains	1(j)	(96,037)	3,094,655
Finance costs		(4,373,002)	(190,491)
Goodwill impairment		(2,399,168)	-
Intangible asset impairment		(110,686)	-
Loss on initial recognition of convertible notes		(2,678,000)	-
Gain in fair value of derivative liability		373,000	-
Gain on modification of convertible notes		162,235	-
Loss on sale of property, plant and equipment		-	(1,006)
Marketing		(3,000)	(1,650)
Research and development expenses		(3,433,939)	(3,736,676)
Share based payments		<u>(507,093)</u>	<u>-</u>
(Loss) before income tax	2	(14,614,491)	(2,435,719)
Income tax benefit	3	<u>-</u>	<u>-</u>
(Loss) for the year		<u>(14,614,491)</u>	<u>(2,435,719)</u>
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit and loss			
Exchange differences arising on translation of foreign operations	19	(756)	(2,985,696)
Other comprehensive income/(loss) for the year, net of tax		(756)	2,985,696)
Total comprehensive (loss) for the year		<u>(14,615,247)</u>	<u>(5,421,415)</u>

Notes to the financial statements are included on pages 29 to 80.

AUDIO PIXELS HOLDINGS LIMITED
ACN 094 384 273

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022**

	Note	Consolidated Year ended 31 December 2023 \$	Consolidated Year ended 31 December 2022 \$
(Loss) attributable to:			
Owners of the company		<u>(14,614,491)</u>	<u>(2,435,719)</u>
Total comprehensive (loss) attributable to:			
Owners of the company		<u>(14,615,247)</u>	<u>(5,421,415)</u>
Earnings per share			
Basic and diluted (cents per share)	23	(50.15)	(8.46)

Notes to the financial statements are included on pages 29 to 80.

AUDIO PIXELS HOLDINGS LIMITED
ACN 094 384 273

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT
31 DECEMBER 2023

	Note	Consolidated December 2023 \$	Consolidated December 2022 \$
CURRENT ASSETS			
Cash and cash equivalents	5	2,279,051	1,339,961
Trade and other receivables	6	336,356	260,374
Prepayment	7	<u>619,699</u>	<u>586,854</u>
TOTAL CURRENT ASSETS		<u>3,235,106</u>	<u>2,187,189</u>
NON-CURRENT ASSETS			
Goodwill	8	-	2,371,014
Intangible asset	9	-	151,818
Right of use asset	10	151,430	103,162
Property, plant and equipment	11	614,153	490,940
Trade and other receivables	6	<u>12,771</u>	<u>9,180</u>
TOTAL NON-CURRENT ASSETS		<u>778,354</u>	<u>3,126,114</u>
TOTAL ASSETS		<u>4,013,460</u>	<u>5,313,303</u>
CURRENT LIABILITIES			
Trade and other payables	12	1,748,977	1,490,454
Lease liabilities	13	111,286	91,155
Unsecured loans	14	2,469,988	3,285,000
Convertible notes	15	4,921,037	-
Provisions	16	<u>311,578</u>	<u>276,250</u>
TOTAL CURRENT LIABILITIES		<u>9,562,866</u>	<u>5,142,859</u>
NON-CURRENT LIABILITIES			
Lease liabilities	13	45,051	8,322
Provisions	16	<u>17,478</u>	<u>13,915</u>
TOTAL NON-CURRENT LIABILITIES		<u>62,529</u>	<u>22,237</u>
TOTAL LIABILITIES		<u>9,625,395</u>	<u>5,165,096</u>
NET (LIABILITIES)/ASSETS		<u>(5,611,935)</u>	<u>148,207</u>
EQUITY			
Issued capital	17	80,067,610	77,752,597
Reserves	19	(18,958,038)	(25,497,374)
Accumulated losses	20	<u>(66,721,507)</u>	<u>(52,107,016)</u>
Equity attributable to owners of the company		<u>(5,611,935)</u>	<u>148,207</u>
TOTAL DEFICIENCY IN EQUITY		<u>(5,611,935)</u>	<u>148,207</u>

Notes to the financial statements are included on pages 29 to 80.

AUDIO PIXELS HOLDINGS LIMITED
ACN 094 384 273

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR
ENDED 31 DECEMBER 2023

December 2023 – Consolidated

	Issued Capital	Equity Settled Option Reserve	Exchange translation reserve	Minority Acquisition Reserve	Accumul- ated Losses	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 January 2023	77,752,597	6,385,427	(6,344,109)	(25,538,692)	(52,107,016)	148,207
Other comprehensive loss for the year	-	-	(756)	-	-	(756)
(Loss) for the year	-	-	-	-	(14,614,491)	(14,614,491)
Share placements at \$14.00	2,315,013	-	-	-	-	2,315,013
Recognition of share based payments	-	507,093	-	-	-	507,093
Options issued	-	6,032,999	-	-	-	6,032,935
Balance at 31 December 2023	80,067,610	12,925,519	(6,344,865)	(25,538,692)	(66,721,507)	(5,611,935)

December 2022 – Consolidated

	Issued Capital	Equity Settled Option Reserve	Exchange translation reserve	Minority Acquisition Reserve	Accumul- ated Losses	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 January 2022	73,092,487	6,081,330	(3,358,413)	(25,538,692)	(49,671,297)	605,415
Other comprehensive income for the year	-	-	(2,985,696)	-	-	(2,985,696)
(Loss) for the year	-	-	-	-	(2,435,719)	(2,435,719)
Share placements at \$14.00	4,660,110	-	-	-	-	4,660,110
Recognition of share based payments	-	304,097	-	-	-	304,097
Balance at 31 December 2022	77,752,597	6,385,427	(6,344,109)	(25,538,692)	(52,107,016)	148,207

Notes to the financial statements are included on pages 29 to 80.

AUDIO PIXELS HOLDINGS LIMITED
ACN 094 384 273

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	Consolidated Year ended 31 December 2023 \$	Consolidated Year ended 31 December 2022 \$
Cash flows from operating activities			
Receipts from customers		22,939	119,655
Government grants		196,572	159,791
Payments to suppliers and employees		(4,840,177)	(5,762,741)
Interest paid		(456,397)	(158,753)
Interest received		<u>12,521</u>	<u>6,823</u>
Net cash (used by) operating activities	21	<u>(5,064,542)</u>	<u>(5,635,225)</u>
Cash flows from investing activities			
Payment for property, plant and equipment		(308,348)	(124,806)
Proceeds from sale of property, plant and equipment		<u>-</u>	<u>-</u>
Net cash (used by) investing activities		<u>(308,348)</u>	<u>(124,806)</u>
Cash flows from financing activities			
Proceeds from share placement	17	-	4,660,110
Proceeds from unsecured loans	14	1,500,000	2,885,000
Repayment of unsecured loan		-	(1,000,000)
Proceeds from convertible notes	15	5,000,000	-
Repayment of lease liabilities		<u>(197,065)</u>	<u>(234,198)</u>
Net cash provided by financing activities		<u>6,302,935</u>	<u>6,310,912</u>
Net increase/ (decrease) in cash and cash equivalents held		930,045	550,881
Cash and cash equivalents at the beginning of the financial year		1,339,961	748,373
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		<u>9,045</u>	<u>40,707</u>
Cash and cash equivalents at the end of the financial year	5	<u>2,279,051</u>	<u>1,339,961</u>

Notes to the financial statements are included on pages 29 to 80.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

1. Summary of Material Accounting Policies

1(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AASBs"). Compliance with AASBS ensures that the financial statements and notes comply with International Financial Reporting Standards ("IFRS"). For the purposes of preparing the consolidated financial statements, the Company is a for profit entity.

The financial statements were authorised for issue by the Directors on 28 March 2024.

1(b) Basis of preparation

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

1(c) Adoption of new and revised Standards

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

In the current year, the consolidated entity has applied a number of amendments to AASB Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2023. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

New and revised Australian Accounting Standards and Interpretations on issue but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 31 December 2023.

At the date of authorisation of the financial statements, the consolidated entity has not applied the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective:

AUDIO PIXELS HOLDINGS LIMITED
ACN 094 384 273

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

1. Adoption of new and revised Standards (cont)

Standard/amendment	Effective for annual reporting periods beginning on or after
AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an investor and its Associate or Joint Venture (as amended)	1 January 2025
AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current and AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date	1 January 2024

1(d) Going Concern

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

The consolidated entity incurred a net loss during the year of \$14,614,491 (2022: \$2,435,719) and used net cash in operating activities of \$5,064,542 (2022: \$5,635,225). As at 31 December 2023, the consolidated entity had net current liabilities of \$6,327,760 (2022: \$2,955,670), a net asset deficiency of \$5,611,935 (2022: net assets of \$148,207) and cash of \$2,279,051 (31 December 2022: \$1,339,961) of which \$61,343 (31 December 2022: \$61,131) is restricted as it secures future lease payments. In the absence of further debt or equity funding, the consolidated entity is expected to consume its existing cash reserves through operating activities during April 2024.

On 24 August 2022 EarthMountain subscribed for 308,325 shares totaling \$4,316,550 in the placement of ordinary shares announced by the Company. The proceeds from this share issue were originally expected to be received in September 2022. At the date of this report, these funds have still not been received and as a result of approvals required from the Jiangsu Province Branch of the Ministry of Commerce, National Development and Reform Commission and the State Administration of Foreign Exchange in China and limited visibility into the approval process, the company is unable to predict an accurate settlement date.

At balance date, the consolidated entity had fully drawn unsecured finance facilities totaling \$2,469,988 from 4F Investments Pty Limited, a company associated with one of the Company's directors, which are classified as current liabilities.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

1(d) Going Concern (cont)

An amount of \$969,988 is outstanding on the original unsecured finance facility which is repayable when the capital raise announced in August 2022 is completed following receipt of the Earth Mountain share placement funds. The balance of the second unsecured finance facility of \$1,500,000 is repayable on completion of a further successful capital raise by the Company to fund the future development of the technology.

At balance date, the consolidated entity had unsecured convertible notes with a face value of \$5,000,000 on issue, with a maturity date of 30 April 2024.

Working Capital

Further testing and enhancement of the technology and the pre-production process, which have been impacted by significant delays, is continuing as the consolidated entity works towards achievement of the demonstrator milestone to begin the transition to volume production. As a result, in the absence of further debt or equity funding, it is anticipated that the available net working capital will be consumed during April 2024.

Furthermore, on the basis that the initial pre-production packaged chips meet all the design specifications, the consolidated entity will need to commit a further US\$9,600,000 (approx. AUD \$14,769,000) for fully tested packaged production chips over the 12 to 18 months post receipt of the initial pre-production packaged chips meeting all the design specifications.

The consolidated entity will need to obtain further funding via an equity raise or additional debt funding to fund anticipated cash outflows for the 12 months post the signing of the financial report. The directors intend to continue to obtain short term funding from convertible notes, placement of shares or additional loan facilities.

In the opinion of the directors, the ability of the consolidated entity to continue as a going concern and pay its debts as and when they fall due and payable is dependent upon:

- The successful negotiation of the extension of the maturity date of the \$750,000 in convertible notes that have not yet agreed to an extension of the maturity date to 30 September 2024, with an option to extend by an additional 6 months;
- The ability of the Company to secure additional funding of between \$3,000,000 and \$6,000,000 from existing or new shareholders to fund the working capital requirements of the consolidated entity until the completion of the testing and enhancement of the technology, dependent on the deferral of the maturity of the convertible notes beyond 30 April 2024. This may be through the issue of additional convertible notes or other debt financing;
- The successful completion of the current testing phase of the technology during Q2 of 2024, enabling the consolidated entity to demonstrate the technology's capabilities; and

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

1(d) Going Concern (cont)

- Following completion of the testing and enhancement of the technology and the pre-production process, the ability of the Company to secure further funding required to fund the consolidated entity as it gears up for production, and to fund other working capital requirements.

If the consolidated entity is unable to achieve successful outcomes in relation to the above matters, material uncertainty would exist that may cast significant doubt as to the ability of the consolidated entity to continue as a going concern and therefore, it may be required to realise its assets and extinguish its 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 consolidated entity not continue as a going concern.

1(e) Revenue Recognition

Interest revenue is recognised using the effective interest rate method.

Recharged revenue is from the sublease of office space to subtenants recognised on an accrual basis. Revenue is invoiced monthly and receipts are within 30 days.

Government grants are assistance by the government in the form of transfers of resources to the consolidated entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the consolidated entity other than the requirement to operate in certain regions or industry sectors. Government grants relating to income are recognised as income over the periods necessary to match them with the related costs. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the consolidated entity with no future related costs are recognised as income in the period in which it becomes receivable. In 2023, the government grants relate specifically to the Research and Development tax incentive.

1(f) Financial assets

Classification

The consolidated entity classifies its financial assets in the following measurement categories:

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

1(f) Financial assets (cont)

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

Measurement

At initial recognition, the consolidated entity measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

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

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

Equity instruments

The consolidated entity subsequently measures all equity investments at fair value. Where the consolidated entity's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

1(f) Financial Assets (cont)

of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the consolidated entity's right to receive payments is established. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value. Changes in the fair value of financial assets at fair value through profit or loss are recognised in other expenses in the statement of profit or loss as applicable.

Impairment

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

1(g) Financial Liabilities

Financial Liabilities

Financial liabilities are recognised in the consolidated entity's statement of financial position when the consolidated entity becomes a party to the contractual provisions of the instrument.

Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial liabilities (other than financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest rate method. The unsecured loans are held at amortised cost.

The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate,

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

1(g) Financial Liabilities (cont)

transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The consolidated entity derecognises financial liabilities when, and only when, the consolidated entity's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in the profit and loss.

When the consolidated entity exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the consolidated entity accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification is recognised in profit or loss as the modification gain or loss within other gains and losses.

1(h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments maturing within less than 3 months at the date of acquisition, net of outstanding bank overdrafts.

1(i) Employee benefits

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

Provisions made in respect of short term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

1(i) Employee benefits (cont)

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

1(j) Foreign currency

Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at historic cost that are denominated in foreign currencies are translated using historic rates.

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

Foreign operations

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

1(k) Goods and Services Tax

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

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

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

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

1(l) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)

1(l) Goodwill (cont)

of the consideration transferred, the amount of any non-controlling interests in the acquire, and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

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

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of goodwill impairment testing, there was one cash-generating unit, relating to the digital speakers segment. The cash-generating unit is tested for impairment annually. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

During the year, the goodwill and intangible balance were written off. The directors made the assessment that these balances related to the original technology that has been superseded by the developments made since. As a result, the goodwill was attributable to the original technology and is not considered to represent the product that has now been created.

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

1(m) Impairment of assets

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

1(m) Impairment of assets (cont)

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.

The recoverable amount of the intangible asset was assessed during the year with the balance impaired and written off for the same reasons as outlined in Note 1(l).

1(n) Income Tax

Current tax

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

Deferred tax

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

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

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

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

1(n) Income Tax (cont)

Current and deferred tax is recognised as an expense or income in profit or loss, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

1(o) Intangible assets

Intangible assets acquired in a business combination

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

The recoverable amount of the intangible asset was assessed during the year with the balance impaired and written off for the same reasons as outlined in Note 1(l).

1(p) Leases

The consolidated entity assesses whether a contract is or contains a lease, at inception of a contract. The consolidated entity recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the consolidated entity recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the consolidated entity uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

1(p) Leases (cont)

- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The consolidated entity remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the consolidated entity incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under AASB 137. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the consolidated entity expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

1(p) Leases (cont)

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The consolidated entity applies AASB 136 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss per the accounting policy disclosed in note 1(m).

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line “administrative expenses” in the statement of profit or loss.

As a practical expedient, AASB 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The consolidated entity has not used this practical expedient.

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

Office premises	4 years
Motor vehicle	3 years

1(q) Provisions

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

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

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

1(r) Basis of consolidation

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

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

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

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

All intragroup assets and liabilities, equity, expenses and cash flows relating to transactions between members of the consolidated entity are eliminated in full on consolidation.

1(s) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line 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:

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

1(s) Property, plant and equipment (cont)

Computers and related equipment	5 to 15 years
Leasehold improvements	3 to 4 years
Office furniture and equipment	5 to 15 years

Depreciation in relation to right-of-use-assets is outlined in Note 1(p).

1(t) Share based payments

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

1(u) Critical accounting judgements

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

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

Key sources of estimation uncertainty

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

1(u) Critical accounting judgements (cont)

Key sources of estimation uncertainty (cont)

Intangible asset/Goodwill

The directors made a critical judgement in relation certain assumptions used in the impairment model used to test the value of the intangible asset included in Note 9 and the impairment model used in assessing the carrying amount of the goodwill (see Note 8) for impairment.

In the current reporting period, the goodwill and intangible balance were written off. The directors made the assessment that these balances related to the original technology were above the recoverable values due to the old technology being superseded by the developments made since. As a result, the goodwill that was attributable to the original technology is not considered to represent the new technology and IP that has now been developed.

Deferred tax

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

Functional Currency

The directors made a critical judgement in relation to the functional currency of Audio Pixels Holdings Limited taking into account the activities of the consolidated entity. The directors consider AUD to be the appropriate functional currency, as financing activities are of most relevance to the current year and these occur in AUD.

Investment in subsidiary and intercompany receivable

The directors made a critical judgement in relation to the recoverability of the investment in subsidiary – Audio Pixels Limited and the receivable from this subsidiary. The loan is denominated in US\$ and was US\$38,439,000 at 31 December 2023. The assessment of the recoverability of these assets is considered concurrently with the recoverability of the intangible asset/goodwill, and the directors are of the view that the for the same reasons as outlined in note 8, this loan balance be written off during the reporting period. On commercialisation of Audio Pixels Limited's technology, this intercompany loan recoverability will be re-assessed. As such, the loan is not treated part of the Company's net investment in the subsidiary and translation of the loan balance from USD to AUD is through the profit and loss.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)

1(u) Critical accounting judgements (cont)

Key sources of estimation uncertainty (cont)

Research & Development refundable taxation offset

The directors have calculated the estimated refundable offset in respect of eligible research & development expenditure incurred during the year ended 31 December 2023. An amount of \$253,449 has been recorded as other receivables and revenue in the year ended 31 December 2023 (2022: \$196,572). Post year end, the claim will be submitted. The Directors consider that the entity has complied with the conditions of the R & D scheme and as such the grant will be received once the claim is submitted.

Convertible Note and Option Valuation

The convertible notes and associated options were externally valued during the reporting period. These valuations involved a number of estimates used in the valuation models, including the risk free interest rate and share volatility. The risk free interest rate is estimated based on the comparable yield on Commonwealth Bonds matching the assumed life of the convertible note and options. The share volatility is based on the historical volatility of the consolidated entity's shares and comparable entities. These valuation estimates can change over time, impacting the valuations of the convertible notes and options.

The convertible note valuations at the end of the reporting period included estimates of the risk free interest rate of 4% and share volatility 60%.

At recognition date the value adopted for the debt portion of the convertible note was calculated with reference to the transaction price of the convertible note, and the fair value of the embedded conversion option and other financial instruments issued in conjunction with the convertible note. As the fair value of the note exceeds the transaction price on day 1, this generated a loss on initial recognition of \$2,678,000, which was expensed in the period.

During the period, the term on certain convertible notes were modified and the modification was determined not to be substantial based on the change in net present value of the modified debt based on the original effective interest rate. The modification was an extension of the existing debt liability as opposed to the creation of a new liability. As the modification was not deemed substantial, there was no requirement to derecognise the original convertible notes and the re-recognition of the modified notes at fair value. The associated gain was calculated using the valuation inputs of the other convertibles notes issued at that time as a key input.

The options were valued at the end of the reporting period using the Black-Scholes options pricing model using a risk free interest rate of 4% and share volatility of 60%.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

	Consolidated Year ended 31 December 2023 \$	Consolidated Year ended 31 December 2022 \$
2. (Loss) from operations		
(a) Revenue		
Interest received – other entities	12,521	6,823
Recharge rental income	20,854	119,655
Government grant – R & D tax incentive	<u>253,449</u>	<u>356,363</u>
Total revenue	<u>286,824</u>	<u>482,841</u>
(b) Expenses		
Amortisation	44,139	84,267
Depreciation of property, plant and equipment	183,217	140,197
Depreciation of right-of-use assets	205,701	236,791
Interest expense	4,373,002	190,491
Employee benefits expense:		
Salary and other employee benefits	2,710,730	2,648,721
Share based payments	507,093	304,097
Superannuation	<u>40,728</u>	<u>38,634</u>
	<u>3,258,551</u>	<u>2,991,452</u>
3. Income taxes		
(a) Income tax recognised in profit or loss		

The Company is in a loss-making position and therefore does not pay income tax in both Australia and Israel. Therefore income tax payable is nil (2022: nil).

During 2023, a government grant of \$196,572 in the form of a refundable tax offset was received as part of the government initiative to provide financial support as a result of expenditure of eligible research and development expenditure in Australia for the year ended 31 December 2022 and an estimated grant of \$253,449 in relation to eligible expenditure incurred during the year ended 31 December 2023 has been recognised. There are no future related costs in respect of these grants which were received solely as compensation for costs incurred in the year.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023(Continued)**

31 December 2023	31 December 2022
\$	\$

3. Income taxes (Cont)

(a) Income tax recognised in profit or loss (cont)

The Company does not recognise any deferred tax assets on balance sheet as management does not believe that there will be sufficient taxable profits in the foreseeable future that deferred tax assets can be utilised against. The amount of unrecognised deferred tax assets at reporting date is \$14,159,558 (2022: \$11,594,514). \$3,742,763 (2022: \$2,228,746) of these unrecognised deferred tax relate to the parent company in Australia and \$10,417,132 (2022: \$9,365,765) relate to the subsidiary in Israel. These unrecognised deferred tax assets are able to be carried forward indefinitely.

A corporate tax rate of 30% is payable by Australian corporate entities on taxable profits under Australian tax law and 23% (2022:23%) under Israeli law. There has been no change in the corporate tax rate when compared with the previous reporting period.

(b) Israeli Tax Ruling

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

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)

	31 December 2023 \$	31 December 2022 \$
4. Remuneration of auditors		
Deloitte and related network firms*		
Audit or review of the financial reports		
- Group	184,968	72,250
- Subsidiary	87,950	52,140
	<u>272,918</u>	<u>124,390</u>
Statutory assurance services provided by legislation To be provided by the auditor		
Statutory assurance services required by legislation to be provided by the auditor	<u>6,000</u>	<u>5,523</u>
Other services		
- Taxation consulting service	<u>16,500</u>	<u>36,045</u>
	<u>16,500</u>	<u>36,045</u>
	<u>295,418</u>	<u>165,958</u>
*The auditor of Audio Pixels Holdings Limited is Deloitte Touche Tohmatsu ("Deloitte Australia").		
5. Cash and cash equivalents		
Unrestricted cash	2,217,708	1,278,830
Restricted cash (non-interest bearing)	<u>61,343</u>	<u>61,131</u>
Cash on hand and at bank	<u>2,279,051</u>	<u>1,339,961</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

	31 December 2023 \$	31 December 2022 \$
6. Trade and other receivables		
Current		
GST receivable	11,496	13,547
Other receivables	<u>324,860</u>	<u>246,827</u>
	<u>336,356</u>	<u>260,374</u>
Non Current		
Other receivables	<u>12,771</u>	<u>9,180</u>
Other receivables comprise security deposits with government bodies and the Research & Development refundable offset estimated receivable.		
7. Prepayments		
Prepayments other	32,845	-
Prepayments in respect of pre-production chips	<u>586,854</u>	<u>586,854</u>
	<u>619,699</u>	<u>586,854</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

	31 December 2023 \$	31 December 2022 \$
8. Goodwill		
Being goodwill acquired on the acquisition of Audio Pixels Limited. The goodwill is allocated to the cash generating unit of digital speakers by Audio Pixels Limited of Israel.	<u>2,371,014</u>	<u>2,371,014</u>
Balance at 1 January	2,371,014	2,289,128
Net foreign currency exchange	28,154	81,886
Less Goodwill impairment	<u>(2,399,168)</u>	<u>-</u>
Balance at 31 December	<u>-</u>	<u>2,371,014</u>

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.

In the current reporting period, the goodwill and intangible balance were written off. The directors made the assessment that these balances related to the original technology that has been superseded by the developments made since. As a result, the goodwill was attributable to the original technology and is not considered to represent the product that has now been created.

9. Intangible asset		
Being the independent valuation of In Process Research 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	159,009	200,141
Less accumulated amortisation	(916,323)	(916,323)
Less impairment	<u>(110,686)</u>	<u>-</u>
Balance at 31 December	-	151,818

The recoverable amount of the intangible asset was assessed during the reporting period with the balance impaired and written off for the same reasons as outlined in Note 8.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

	31 December 2023 \$	31 December 2022 \$
10. Right of use assets		
Office premises – at cost	950,614	778,223
Less accumulated depreciation	<u>(878,781)</u>	<u>(698,628)</u>
	<u>71,833</u>	<u>75,595</u>
Motor vehicle – at cost	128,043	46,467
Less accumulated depreciation	<u>(48,446)</u>	<u>(22,900)</u>
	<u>79,597</u>	<u>23,567</u>
Total net book value of Right of use assets	<u>151,430</u>	<u>103,162</u>
Cost		
Office premises		
Balance at 1 January	778,223	1,209,833
Additions	172,348	-
Disposals	-	(479,304)
Net foreign currency exchange differences	<u>43</u>	<u>47,694</u>
Balance as at 31 December	<u>950,614</u>	<u>778,223</u>
Cost		
Motor Vehicles		
Balance at 1 January	46,467	43,619
Additions	81,546	-
Net foreign currency exchange differences	<u>30</u>	<u>2,848</u>
Balance as at 31 December	<u>128,043</u>	<u>46,467</u>
Accumulated depreciation		
Office premises		
Balance as at 1 January	(698,628)	(918,978)
Net foreign currency exchange differences	-	(37,161)
Disposal	-	479,304
Depreciation expense	<u>(180,153)</u>	<u>(221,793)</u>
Balance at 31 December	<u>(878,781)</u>	<u>(698,628)</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

	31 December 2023 \$	31 December 2022 \$
10. Right of use assets (cont)		
Accumulated depreciation (cont)		
Motor vehicle		
Balance as at 1 January	(22,900)	(6,957)
Net foreign currency exchange differences	-	(945)
Depreciation expense	<u>(25,546)</u>	<u>(14,998)</u>
Balance at 31 December	<u>(48,446)</u>	<u>(22,900)</u>

On 1 June 2018, the parent company exercised an option to renew a lease in respect of office premises at Suite 3, Level 12, 75 Elizabeth Street Sydney for a period of forty-eight months from 31 March 2018 to 30 March 2022. The lease expired on 30 March 2022 and has not been renewed. The Company continues renting on a month to month arrangement post 30 March 2022.

On 1 January 2019, the subsidiary company, Audio Pixels Limited exercised an option to renew a lease in respect of facilities at 3 Pekris Street Rehovot, Israel for a period of twenty-eight months to 31 May 2021. Effective on 1 June 2021, the subsidiary company, Audio Pixels Limited exercised an option to renew a lease in respect of facilities at 3 Pekris Street Rehovot, Israel for a period of twenty-four months to 31 May 2023. This lease was extended on 31 May 2023 for a twelve month period until 31 May 2024.

On 8 August 2021, the subsidiary company, Audio Pixels Limited entered into a new car lease for a period of thirty-six months until 7 August 2024.

On 31 May 2024, the subsidiary company, Audio Pixels Limited entered into a new car lease for a period of thirty-six months until 31 May 2026.

On 22 October 2023, the subsidiary company, Audio Pixels Limited entered into a new car lease for a period of thirty-six months until 21 October 2026.

Amounts recognised in profit and loss

Depreciation expense on right of use assets	205,701	237,791
Interest expense on lease liabilities	11,500	8,705
Expense relating to short term leases	157,350	108,713

The total cash outflow for leases amount to \$197,065 including interest payments of \$11,500 (Year ended 31 December 2022 \$234,198).

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

	31 December 2023 \$	31 December 2022 \$
11. Property, Plant and Equipment		
Computers and related equipment – at cost	959,939	689,197
Less accumulated depreciation	<u>(665,925)</u>	<u>(582,614)</u>
	<u>294,014</u>	<u>106,583</u>
Leasehold improvements – at cost	378,688	378,466
Less accumulated depreciation	<u>(307,307)</u>	<u>(293,256)</u>
	<u>71,381</u>	<u>85,210</u>
Office furniture and equipment – at cost	1,631,823	1,602,009
Less accumulated depreciation	<u>(1,383,065)</u>	<u>(1,302,862)</u>
	<u>248,758</u>	<u>299,147</u>
Total net book value of Property, Plant and Equipment	<u>614,153</u>	<u>490,940</u>
Cost		
Computers and related equipment		
Balance at 1 January	689,197	557,823
Additions	279,487	92,816
Disposals	(9,230)	(868)
Net foreign currency exchange differences	<u>485</u>	<u>39,426</u>
Balance as at 31 December	<u>959,939</u>	<u>689,197</u>
Leasehold improvements		
Balance at 1 January	378,466	354,269
Additions	-	1,033
Net foreign currency exchange differences	<u>222</u>	<u>23,164</u>
Balance as at 31 December	<u>378,688</u>	<u>378,466</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

	31 December 2023 \$	31 December 2022 \$
11. Property, Plant and Equipment (cont)		
Office furniture and equipment		
Balance at 1 January	1,602,009	1,475,731
Additions	28,861	30,957
Disposals	-	(1,975)
Net foreign currency exchange differences	953	97,296
Balance as at 31 December	<u>1,631,823</u>	<u>1,602,009</u>
Accumulated depreciation		
Computers and related equipment – at cost		
Balance as at 1 January	(582,614)	(502,232)
Net foreign currency exchange differences	(366)	(34,297)
Disposal	6,987	868
Depreciation expense	<u>(89,932)</u>	<u>(46,953)</u>
Balance at 31 December	<u>(665,925)</u>	<u>(582,614)</u>
Leasehold improvements		
Balance as at 1 January	(293,256)	(262,354)
Net foreign currency exchange differences	(176)	(17,565)
Depreciation expense	<u>(13,875)</u>	<u>(13,337)</u>
Balance at 31 December	<u>(307,307)</u>	<u>(293,256)</u>
Office furniture and equipment		
Balance as at 1 January	(1,302,862)	(1,146,491)
Net foreign currency exchange differences	(793)	(77,433)
Disposal	-	969
Depreciation expense	<u>(79,410)</u>	<u>(79,907)</u>
Balance at 31 December	<u>(1,383,065)</u>	<u>(1,302,862)</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

	31 December 2023 \$	31 December 2022 \$
12. Trade and other payables		
Current		
Trade payables and accruals	<u>1,748,977</u>	<u>1,490,454</u>

The payables are non-interest bearing and have an average credit period of 30 days.

13. Lease liabilities

Analysed as:

Current	111,286	91,155
Non-Current	<u>45,051</u>	<u>8,322</u>
	<u>156,337</u>	<u>99,477</u>

**Disclosure required by AASB 16
Maturity Analysis**

Year 1	111,286	91,155
Year 2	73,233	13,365
Year 3	9,145	-
Less: interest payable	<u>(37,327)</u>	<u>(5,043)</u>
	<u>156,337</u>	<u>99,477</u>

The consolidated entity does not face a significant liquidity risk with regard to its lease liabilities. All lease obligations in Australia are denominated in Australian dollars and the leases in Israel are denominated in Israeli shekels.

14. Unsecured loans

Related party – director	2,469,988	3,285,000
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Shareholder approval for the conversion of part of the unsecured loans of \$2,315,012 into 165,358 ordinary shares was granted at the Annual General Meeting held on Tuesday 30 May 2023. This reduced the original loan balance outstanding with 4F Investments Pty Limited (a company associated with the Chairman Fred Bart) to \$969,988.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)

14. Unsecured loans (cont)

4F Investments Pty Limited agreed to provide an additional unsecured funding facility of up to \$1,500,000 on 28 March 2023 at an interest rate of 12% per annum, repayable on completion of the next capital raising. 4F Investments Pty Limited advanced \$150,000 on 27 February 2023, \$100,000 on 16 March 2023, \$500,000 on 28 March 2023, \$500,000 on 26 April 2023 and \$250,000 on 25 September 2023 amounting to \$1,500,000.

This new facility of \$1,500,000 is in addition to the original unsecured loan balance of \$969,988 which was originally at 6% interest. As a result of the extended delays in receiving the Earth Mountain placement proceeds of US\$3m (\$4,316,550), the interest rate on the original unsecured loan has been increased to 12% per annum from 1 March 2023 as part of the agreement to provide the new loan facility. This interest rate is better than other offers of unsecured loans and convertible notes received from other unrelated parties.

The total unsecured loans outstanding at 31 December 2023 from 4F Investments Pty Limited was \$2,469,988. The outstanding unsecured loan attracts an interest rate of 12% per annum (payable quarterly in arrears).

As an incentive to the provision of this additional facility of \$1,500,000 and the continuation of the existing unsecured loans of \$969,988 (whilst waiting for the Earth Mountain placement proceeds of US\$3m to settle \$969,988 in cash), the Company has provided an incentive of 500,000 unlisted options in the company to 4F Investments Pty Limited. The exercise price of these options is the 5-day VWAP when the first \$150,000 was advanced on 27 February 2023 which equates to an exercise price of \$7.59 for a term of 3 years. These options received shareholder approval at the Annual General Meeting held on Tuesday 30 May 2023. These options were issued and vested immediately after shareholder approval was received, as they only relate to the loan facility and are not employment related. Included in the condensed statement of consolidated profit and loss and other comprehensive income for the 12 month period, is a financing expense of \$3,355,000, which is attributable to the issue of these options being treated as a transaction cost related to the unsecured financing facility.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

15. Convertible notes

	31 December 2023 \$	31 December 2022 \$
Borrowings - Convertible notes		
Carrying amount at start of period	-	-
Face value of notes issued	5,000,000	-
Convertible notes conversion feature on issue	(655,000)	-
Value of options issued taken to equity settled share option reserve	<u>(2,678,000)</u>	-
	1,667,000	-
Add – accrued interest expense	456,272	-
Add – Loss on initial recognition of convertible notes	2,678,000	-
Less – Net gain arising on the modification of convertible notes	<u>(162,235)</u>	-
Current Liability at end of period	<u>4,639,037</u>	-
Derivative liability		
Carrying value at start of the period	-	-
Fair value of the convertible note feature at issue	655,000	-
Fair value movement to the end of the reporting period	(373,000)	-
Derivative liability	<u>282,000</u>	-
Total borrowings	<u>4,921,037</u>	-
Face value of convertible notes	<u>5,000,000</u>	-

On 25 May 2023, the Company announced it had issued 5 Convertible Notes amounting to \$2,500,000 to existing sophisticated shareholders.

These Convertible Notes mature on 30 April 2024, are unsecured, unlisted and attract an interest rate of 12% per annum payable quarterly in arrears and convertible into ordinary shares at \$9.04, based on the five-day volume weighted average share price of Audio

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AUDIO PIXELS HOLDINGS LIMITED
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

15. Convertible notes (cont)

Pixels Holdings Limited on the date of the agreement, unless a share capital raise is undertaken at a lower price.

The 5 investors also received a total of 500,000 unlisted options (100,000 options per A\$500,000 invested) at a strike price of 20% higher than the conversion price of \$9.04, being \$10.84. These unlisted options have a term of 3 years expiring on 4 May 2026.

On 27 October 2023, the Company issued a Convertible Note amounting to \$500,000 to 4F Investments Pty Limited, an entity associated with Fred Bart.

This Convertible Note matures on 30 April 2024, is unsecured, unlisted and attracts an interest rate of 12% per annum payable quarterly in arrears and convertible into ordinary shares at \$9.04, based on the same terms as the May 2023 notes issued, unless a share capital raise is undertaken at a lower price.

4F Investments Pty Limited also received a total of 100,000 unlisted options (100,000 options per A\$500,000 invested) at a strike price of 20% higher than the conversion price of \$9.04, being \$10.84. These unlisted options have an expiry date of 4 May 2026.

On 27 October 2023, the Company issued 8 Convertible Notes amounting to \$2,000,000 to sophisticated investors.

These Convertible Notes mature on 30 April 2024, are unsecured, unlisted and attract an interest rate of 12% per annum payable quarterly in arrears and convertible into ordinary shares at \$9.04, based on the same terms as the May 2023 notes issued, unless a share capital raise is undertaken at a lower price.

The 8 investors also received a total of 400,000 unlisted options (100,000 options per A\$500,000 invested) at a strike price of 20% higher than the conversion price of \$9.04, being \$10.84. These unlisted options have a term of 3 years expiring on 4 May 2026.

See note 26 in relation to the extension of the maturity date for the convertible notes on issue.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

	31 December 2023 \$	31 December 2022 \$
16. Provisions		
Current		
Employee benefits	<u>311,578</u>	<u>276,250</u>
Non-current		
Employee benefits	<u>17,478</u>	<u>13,915</u>
17. Issued capital		
Issued and paid up capital		
Fully paid Ordinary Shares		
Balance at the beginning of the financial year	77,752,597	73,092,487
Placements for cash at \$14.00 per share		
- 31 August 2022	-	3,183,441
- 29 December 2022	-	1,476,669
- 31 May 2023	<u>2,315,013</u>	<u>-</u>
Balance at the end of the financial year	<u>80,067,610</u>	<u>77,752,597</u>
	<u>Number</u>	<u>Number</u>
Fully paid Ordinary Shares		
Balance at the beginning of the financial year	29,044,742	28,698,663
Placements for cash at \$14.00 per share		
- 31 August 2022	-	240,603
- 29 December 2022	-	105,476
- 31 May 2023	<u>165,358</u>	<u>-</u>
Balance at the end of the financial year	<u>29,210,100</u>	<u>29,044,742</u>

Fully paid ordinary shares carry one vote per share and carry the rights to dividends.

18. Employee Share Option Plan

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

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

18. Employee Share Option Plan (cont)

at exercise prices determined by the directors based on market prices at the time the issue of options were made.

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

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

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

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

	2023		2022	
		Weighted average exercise price \$		Weighted average exercise price \$
	Number		Number	
Balance at the beginning of the financial year (i)	287,000	19.82	295,000	22.60
Granted during the year (ii)	173,000	16.20	165,000	14.00
Exercised during the year (iii)	-	-	-	-
Lapsed during the year (iv)	(173,000)	16.20	(173,000)	16.20
Balance at the end of the financial year (v)	287,000	19.82	287,000	19.82
Exercisable at end of the year	101,260	27.70	-	-

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

18. Employee Share Option Plan (cont)

(i) Balance at the beginning of the year

	Number	Grant date	Expiry date	Exercise Price	Fair value at grant date
2023	122,000	16/4/21	16/4/25	\$27.70	\$1,241,960
	30,000	1/12/22	1/12/26	\$14.00	\$124,800
	135,000	1/12/22	1/2/27	\$14.00	\$662,850
	<u>287,000</u>				
2022	173,000	17/12/18	17/12/22*	16.20	\$1,316,876
	122,000	16/4/21	16/4/25	27.70	\$1,241,960
	<u>295,000</u>				

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

**The expiry date of the 173,000 options was extended by the Directors to 17 June 2022 and then 17 December 2022, however these two extensions were not approved by the ASX and the options were subsequently cancelled effective 29 December 2022 and were never exercised. The Directors have re-issued these 173,000 options with an exercise price of \$16.20 in June 2023, expiring 17 December 2023. These options subsequently lapsed on 17 December 2023.

(ii) Granted during the year

	Number	Grant date	Expiry date	Exercise Price	Fair value at grant date
2023					
Staff options	<u>173,000</u>	5/6/23	17/12/23	16.20	<u>\$377,140</u>
	173,000				\$377,140
2022					
Staff options	30,000	1/12/22	1/12/25	14.00	\$124,800
Staff options	<u>135,000</u>	<u>1/12/22</u>	<u>1/12/26</u>	<u>14.00</u>	<u>\$662,850</u>
	<u>165,000</u>				<u>\$787,650</u>

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)

18. Employee Share Option Plan (cont)

(ii) Granted during the year (cont)

The following inputs were used in the model for the option grants made on 6 June 2023:

173,000 Options

Dividend yield	0.00%
Expected volatility (linearly interpolated)	55.00%
Risk free interest rate	4.00%
Expected life of options	194 days
Grant date share price	\$15.25
Exercise price	\$16.20

(ii) Exercised during the year

There were no options exercised during the year.

(iv) Lapsed during the year

173,000 (31 December 2022 – 173,000).

The expiry date of the 173,000 options was extended by the Directors to 17 December 2022, however this extension was not approved by the ASX and the options were cancelled effective 29 December 2022 and were never exercised. The Directors re-issued these 173,000 options with an exercise price of \$16.20 on 6 June 2023, with an expiry date of 17 December 2023.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

18. Employee Share Option Plan (cont)

(v) Balance at the end of the financial year

	Number	Grant date	Expiry date	Exercise Price	Fair value at grant date
2023					
Staff options	122,000	16/4/21	16/4/25*	\$27.70	\$1,241,960
Staff options	30,000	1/12/22	1/12/26*	\$14.00	\$124,800
Staff options	<u>135,000</u>	<u>1/12/22</u>	<u>1/2/27*</u>	<u>\$14.00</u>	<u>\$662,850</u>
	<u>287,000</u>				
2022					
Staff options	122,000	16/4/21	16/4/25*	\$27.70	\$1,241,960
Staff options	30,000	1/12/22	1/12/26*	\$14.00	\$124,800
Staff options	<u>135,000</u>	<u>1/12/22</u>	<u>1/2/27*</u>	<u>\$14.00</u>	<u>\$662,850</u>
	<u>287,000</u>				

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

*All options granted to staff have a vesting condition that the employee must be employed by the consolidated entity at the time of vesting. These options start to vest after two years continuous employment on the basis of one twelfth of the total number each month for a twelve month period.

The difference between the total fair value of the options issued during the financial year, at the date of issue, and the total amount received from the employees (nil) is recognised in the financial statements over the vesting period as disclosed in Note 17 to the financial statements.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

	31 December 2023 \$	31 December 2022 \$
19. Reserves		
Foreign currency translation		
Balance at the beginning of the financial year	(6,344,109)	(3,358,413)
Translation of foreign operations	<u>(756)</u>	<u>(2,985,696)</u>
Balance at end of financial year	<u>(6,344,865)</u>	<u>(6,344,109)</u>
Foreign currency translation		
Exchange differences relating to the translation of the results and net assets of the consolidated entity's foreign operations from their functional currencies to the consolidated entity'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	6,385,427	6,081,330
Add share based payments in respect of options	6,032,999	-
Add recognition of share based payments to employees	<u>507,093</u>	<u>304,097</u>
Balance at end of financial year	<u>12,925,519</u>	<u>6,385,427</u>
The above equity-settled option reserve relates to share options granted by the Company.		
Minority acquisition reserve		
Balance at the beginning of the financial year	(25,538,692)	(25,538,692)
Balance at end of financial year	<u>(25,538,692)</u>	<u>(25,538,692)</u>
Total Reserves	<u>(18,958,038)</u>	<u>(25,497,374)</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

	31 December 2023 \$	31 December 2022 \$
20. Accumulated losses		
Balance at the beginning of the financial year	(52,107,016)	(49,671,297)
(Loss) for the year attributable to owners of the company	<u>(14,614,491)</u>	<u>(2,435,719)</u>
Balance at the end of the financial year	<u>(66,721,507)</u>	<u>(52,107,016)</u>

21. 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	<u>2,279,051</u>	<u>1,339,961</u>
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(b) Restricted cash

Cash held as security for future lease payments	<u>61,343</u>	<u>61,131</u>
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Restricted cash amounts are included in the cash and cash equivalents amounts above.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

	31 December 2023 \$	31 December 2022 \$
21. Notes to the statement of cash flows (cont)		
Reconciliation of (loss) for the period to net cash outflows from operating activities		
Loss after related income tax	(14,614,491)	(2,435,719)
Amortisation	44,139	84,267
Depreciation	388,918	376,988
Foreign exchange (gains)/ losses	(41,059)	(3,162,914)
Loss on sale of property, plant and equipment	2,243	1,006
Share based payments	3,862,093	304,097
Goodwill impairment	2,399,168	-
Intangible asset impairment	110,686	-
Gain of movement in fair value of derivative liability	(373,000)	-
Loss on initial recognition of financial liabilities measured at fair value	2,678,000	-
Gain on modification of convertible notes	(162,235)	-
Finance charges on convertible notes	456,272	-
Changes in assets and liabilities		
(Increase)/ decrease in assets		
Current trade and other receivables	(75,982)	(203,943)
Prepayments	(32,845)	(586,854)
Non-current trade and other receivables	(3,592)	(100)
Increase /(decrease) in liabilities		
Provisions	38,621	19,960
Current trade payables	<u>258,522</u>	<u>(32,013)</u>
Net cash (used in) operating activities	<u>(5,064,542)</u>	<u>(5,635,225)</u>

Reconciliation of liabilities arising from financing transactions

2023	Balance as at 1 January	Cash Movement	Non Cash Movement	Balance as at 31 December
Unsecured loans	3,285,000	1,500,000	(2,315,012)	2,469,988
Lease liabilities	99,477	(197,065)	253,925	156,337

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)

21. Notes to the statement of cash flows (cont)

Reconciliation of liabilities arising from financing transactions (cont)

2022	Balance as at 1 January	Cash Movement	Non Cash Movement	Balance as at 31 December
Unsecured loans	1,400,000	1,885,000	-	3,285,000
Lease liabilities	333,675	(234,198)	-	99,477

22. Related Party Transactions

(a) Directors

The Directors of Audio Pixels Holdings Limited in office during the year were Fred Bart, Ian Dennis (resigned 31 July 2023), Cheryl Bart and Mark Ureda (appointed 31 July 2023).

(b) KMP Remuneration

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

	31 December 2023 \$	31 December 2022 \$
Short-term employee benefits	652,555	662,396
Long term employee benefits	<u>106,628</u>	<u>117,963</u>
	<u>759,183</u>	<u>780,359</u>

The remuneration above relates to directors fees, consultancy fees and superannuation paid to entities associated with Fred Bart, Cheryl Bart and Ian Dennis and the remuneration of one senior executive of Audio Pixels Limited in Israel and one senior executive of Audio Pixels Holdings Limited.

Transactions with related entities

During the year ended 31 December 2023, the Company paid a total of \$109,456 (year ended 31 December 2022 - \$109,331) to 4F Investments Pty Limited, a

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

22. Related Party Transactions (cont)

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 2023, the Company paid a total of \$24,188 (year ended 31 December 2022 - \$41,344) 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 2023, the Company paid \$20,000 (31 December 2022 – \$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.

During the year ended 31 December 2023, the Company paid \$37,500 to Noxopharm Limited (a company that Fred Bart is Chairman) associated with Mr Shawn van Boheemen in respect of consulting fees for company secretarial and accounting services.

Shareholder approval for the conversion of part of the unsecured loans of \$2,315,012 into 165,358 ordinary shares was granted at the Annual General Meeting held on Tuesday 30 May 2023. This reduced the original loan balance outstanding with 4F Investments Pty Limited (a company associated with the Chairman Fred Bart) to \$969,988.

During the year, 4F Investments Pty Limited, a company associated with the Chairman, Mr Fred Bart, agreed to provide an additional unsecured funding facility of up to \$1,500,000 on 28 March 2023 at an interest rate of 12% per annum, repayable on completion of the next capital raising. 4F Investments Pty Limited advanced \$150,000 on 27 February 2023, \$100,000 on 16 March 2023, \$500,000 on 28 March 2023, \$500,000 on 26 April 2023 and \$250,000 on 25 September 2023 amounting to \$1,500,000.

This new facility of \$1,500,000 is in addition to the existing unsecured loan balance of \$969,988 which was originally at 6% interest. However, as a result of the extended delays in receiving the Earth Mountain placement proceeds of US\$3m, the interest rate has been increased to 12% per annum from 1 March 2023 as part of the agreement to provide the new loan facility. This interest rate is better than other offers of unsecured loans and convertible notes received from other unrelated parties.

The total unsecured loans outstanding at 31 December 2023 from 4F Investments Pty Limited was \$2,469,988. The outstanding unsecured loan attracts an interest rate of 12% per annum (payable quarterly in arrears).

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

22. Related Party Transactions (cont)

As an incentive to the provision of this additional facility of \$1,500,000 and the continuation of the existing unsecured loans of \$969,988 (whilst waiting for the Earth Mountain placement proceeds of US\$3m to settle \$969,988 in cash), the Company has provided an incentive of 500,000 unlisted options in the company to 4F Investments Pty Limited. The exercise price of these options is the 5-day VWAP when the first \$150,000 was advanced on 27 February 2023 which equates to an exercise price of \$7.59 for a term of 3 years. These options received shareholder approval at the Annual General Meeting held on Tuesday 30 May 2023. These options were issued and vested immediately after shareholder approval was received, as they only relate to the loan facility and are not employment related.

During the year, the company paid \$135,673 (31 December 2022 – \$113,782) on the unsecured loan to 4F Investments Pty Limited. Interest has been accrued in the financial statements at 31 December 2023 of \$74,709 (31 December 2022 - \$32,940) has been accrued in the financial statements.

The lease in respect of office premises at Suite 3, Level 12, 75 Elizabeth Street Sydney expired on 30 March 2022. The Company has not renewed the lease and continues to occupy the premises on a month to month basis. The Company recharged rent and other tenancy charges of \$37,599 (year ended 31 December 2022 - \$42,871) to 4F Investments Pty Limited, a company controlled by Fred Bart.

	31 December 2023	31 December 2022
23. Earnings per Share		
Basic (loss) per share	<u>(50.15) cents</u>	<u>(8.46) cents</u>
Diluted (loss) per share (b)	<u>(50.15) cents</u>	<u>(8.46) cents</u>
(Loss) (a)	(14,614,491)	(2,435,719)
Weighted average number of Ordinary Shares	<u>29,141,692</u>	<u>28,779,662</u>

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

(b) There are potential ordinary shares to be issued in relation to the issue of 122,000 unlisted employee options issued on 16 April 2021 at an exercise price of \$27.70. These options expire on 16 April 2025. The unlisted employee options have not been included in dilutive EPS, as they are anti-dilutive.

(c) There are potential ordinary shares to be issued in relation to the issue of 30,000 unlisted employee options issued on 1 December 2022 at an exercise price of \$14.00. These options expire on 1 December 2026. The unlisted employee options have not been included in dilutive EPS, as they are anti-dilutive.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

23. Earnings per Share (cont)

- (d) There are potential ordinary shares to be issued in relation to the issue of 135,000 unlisted employee options issued on 1 December 2022 at an exercise price of \$14.00. These options expire on 1 December 2027. The unlisted employee options have not been included in dilutive EPS, as they are anti-dilutive.
- (e) There are potential ordinary shares to be issued in relation to the issue of 500,000 unlisted options issued on 5 May 2023 at an exercise price of \$7.59. These options expire on 4 May 2026. The unlisted options have not been included in dilutive EPS, as they are anti-dilutive.
- (f) There are potential ordinary shares to be issued in relation to the issue of 500,000 unlisted options issued on 22 May 2023 at an exercise price of \$10.84. These options expire on 4 May 2026. The unlisted options have not been included in dilutive EPS, as they are anti-dilutive.
- (g) There are potential ordinary shares to be issued in relation to the issue of 100,000 unlisted options issued on 27 October 2023 at an exercise price of \$10.84. These options expire on 4 May 2026. The unlisted options have not been included in dilutive EPS, as they are anti-dilutive.
- (h) There are potential ordinary shares to be issued in relation to the issue of 400,000 unlisted options issued on 23 November 2023 at an exercise price of \$10.84. These options expire on 4 May 2026. The unlisted options have not been included in dilutive EPS, as they are anti-dilutive.

24. Segment Information

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the consolidated entity 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 consolidated entity's reportable segments has not changed from those disclosed in the previous 2022 report.

The consolidated entity operates in Australia and Israel.

Products and services within each segment

Digital speakers

The consolidated entity in Israel is developing a digital speaker and has not reached the stage of generating any revenue from the technology.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

24. **Segment Information (cont)**

	31 December 2023 \$	31 December 2022 \$
Segment Revenues		
Digital speakers	<u>286,824</u>	<u>482,841</u>
Total of all segments	<u>286,824</u>	<u>482,841</u>
 Digital speakers	 (14,614,491)	 (2,435,719)
(Loss) before income tax	(14,614,491)	(2,435,719)
Income tax gain/ (expense)	-	-
(Loss) for the period	<u>(14,614,491)</u>	<u>(2,435,719)</u>

Segment Assets and Liabilities

	Assets		Liabilities	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
	\$	\$	\$	\$
Digital speakers	<u>4,013,460</u>	<u>5,313,303</u>	<u>9,625,395</u>	<u>5,165,096</u>
Total all segments	4,013,460	5,313,303	9,625,395	5,165,096
Unallocated	-	-	-	-
Consolidated	<u>4,013,460</u>	<u>5,313,303</u>	<u>9,625,395</u>	<u>5,165,096</u>

Assets used jointly by reportable segments are allocated on the basis of the revenue earned by the individual reportable segments.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

24. Segment Information (cont)

Other Segment Information

	Depreciation and amortisation of segment assets		Acquisition of segment assets	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
	\$	\$	\$	\$
Digital speakers	433,057	461,255	308,348	124,806
Total all segments	433,057	461,255	308,348	124,806
Unallocated	-	-	-	-
Consolidated	<u>433,057</u>	<u>461,255</u>	<u>308,348</u>	<u>124,806</u>

Information on Geographical Segments

31 December 2023

Geographical Segments	Revenue	Segment Assets	Acquisition of Segment Assets
	\$	\$	\$
Australia	286,824	2,307,089	-
Israel	-	1,706,371	308,348
Total	286,824	4,013,460	308,348

31 December 2022

Geographical Segments	Revenue	Segment Assets	Acquisition of Segment Assets
	\$	\$	\$
Australia	482,841	4,001,562	-
Israel	-	1,311,741	124,806
Total	482,841	5,313,303	124,806

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

25. Financial risk management objectives and policies

The consolidated entity's principal financial instruments held during the year comprise receivables, payables, cash and short term deposits.

Due to the small size of the consolidated entity 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 consolidated entity'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 2023 \$	31 December 2022 \$
Financial assets		
Cash and cash equivalents	<u>2,279,051</u>	<u>1,339,961</u>

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

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

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

At 31 December 2023, 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 Loss Higher/(Lower)		Equity Higher/(Lower)	
	31 December 2023 \$	31 December 2022 \$	31 December 2023 \$	31 December 2022 \$
Consolidated entity				
+1% (100 basis points)	22,791	13,400	22,791	13,400
-0.24% (0.00%)	(5,470)	(3,211)	(5,470)	(3,211)

The movements in losses are due to higher/lower interest rates on cash and cash equivalents balances.

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

	Liabilities		Assets	
	31 December 2023 \$	31 December 2022 \$	31 December 2023 \$	31 December 2022 \$
Cash and cash equivalents	-	-	856,606	658,204
Trade and other receivables	-	-	71,411	52,226
Trade and other payables	1,395,320	1,385,166	-	-

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

25. Financial risk management objectives and policies (cont)

All US\$ denominated financial instruments were translated to A\$ at 31 December 2023 at the exchange rate of 0.6812 (2022: 0.6816).

At 31 December 2023 and 31 December 2022, 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)	
	2023	2022	2023	2022
	\$	\$	\$	\$
Consolidated				
AUD/USD +10%	415,559	(4,321,543)	415,559	(4,321,543)
AUD/USD -5%	<u>(240,586)</u>	<u>2,501,946</u>	<u>(240,586)</u>	<u>2,501,946</u>

Management believes the balance date risk exposures are representative of risk exposure inherent in financial instruments.

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 consolidated entity. The consolidated entity has adopted a policy of only dealing with creditworthy counterparties which are continuously monitored.

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

(d) Liquidity risk management

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

25. Financial risk management objectives and policies (cont)

(d) Liquidity risk management (cont)

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

The following tables detail the consolidated entity's remaining contractual maturity for its non-derivative financial assets and non-derivative financial liabilities. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets and financial liabilities including interest that will be earned on these assets except where the consolidated entity anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate %	Less than 1 month \$	1-3 months \$	3 months to 1 year \$	1-5 years \$
31 December 2023					
Assets					
Non interest bearing	0.00%	927,458	335,868	-	12,772
Liabilities					
Non interest bearing	0.00%	1,748,487	-	-	-
Unsecured loans	12.00%	-	-	2,469,988	-
Convertible note issued May 2023	42.05%	-	-	2,348,648	-
Convertible note issued October 2023	51.29%	-	-	460,193	-
Convertible note issued November 2023	53.79%	-	-	1,830,196	-

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

25. Financial risk management objectives and policies (cont)

(d) Liquidity risk management (cont)

	Weighted average effective interest rate %	Less than 1 month \$	1-3 months \$	3 months to 1 year \$	1-5 years \$
Assets					
Non interest bearing	0.00%	1,176,028	260,374	-	9,180
Fixed rate instruments	0.004%	164,201	-	-	-
Liabilities					
Non interest bearing	0.00%	1,490,454	-	-	-
Unsecured loans	6.00%	-	3,285,000	-	-

All financial liabilities are expected to be settled under commercial terms of within 12 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.

26. Subsequent events

At the date of this report the company has received approval from holders of \$4.25M of the total of \$5M in convertible notes on issue, to extend the maturity date of the notes to 30 September 2024, with an option to extend these at the request of the company for a further six months.

The ASX suspended trading on 1 March 2024 post the Company's release of its Appendix 4E. At the date of this report the Company remains suspended from trading.

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

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

27. Parent entity disclosures

	31 December 2023	31 December 2022 \$
Financial position		
Assets		
Current assets	2,307,089	1,478,730
Non-current assets	-	<u>56,220,589</u>
Total assets	<u>2,307,089</u>	<u>57,699,319</u>
Liabilities		
Current liabilities	7,744,679	3,530,069
Non-current liabilities	<u>17,478</u>	<u>13,915</u>
Total liabilities	<u>7,926,197</u>	<u>3,543,984</u>
Net (liabilities)/assets	<u>(5,619,108)</u>	<u>54,155,335</u>
Equity		
Issued capital	80,067,610	77,752,597
Reserves	(12,613,172)	(19,153,265)
(Accumulated losses)	<u>(73,073,546)</u>	<u>(4,443,997)</u>
Total deficiency in equity	<u>(5,619,108)</u>	<u>54,155,335</u>
Financial performance		
(Loss)/Profit for the period	(68,629,549)	2,031,429
Other comprehensive income	-	-
	<u>(68,629,549)</u>	<u>2,031,429</u>

The directors made a critical judgement in relation to the recoverability of the investment in subsidiary – Audio Pixels Limited and the receivable from this subsidiary. The loan is denominated in US\$ and was US\$38,439,000 at 31 December 2023. The assessment of the recoverability of these assets is considered concurrently with the recoverability of the intangible asset/goodwill, and the directors are of the view that the for the same reasons as outlined in note 8, this loan balance be written off during the reporting period. On commercialisation of Audio Pixels Limited's technology, this intercompany loan recoverability will be re-assessed. As such, the loan is not treated part of the Company's net investment in the subsidiary and translation of the loan balance from USD to AUD is through the profit and loss.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)**

28. Controlled Entity

Name of Entity	Country of Incorporation	31 December 2023 %	31 December 2022 %
Parent Entity			
Audio Pixels Holdings Limited	Australia		
Controlled Entities			
Audio Pixels Limited	Israel	100.00	100.00
Audio Pixels Technologies Pty Limited	Australia	100.00	100.00

29. Contingent Liabilities and Commitments

a) At 31 December 2023 the subsidiary company, Audio Pixels Limited of Israel has entered into agreements with strategic suppliers for delivery of certain components which on delivery of components meeting the required specifications of the Consolidated entity will result in final payments being due of \$761,227 (31 December 2022 - \$521,141).

b) Entities within the consolidated entity are involved in contractual disputes in the normal course of contracting operations. The directors believe that the entities within the consolidated entity can settle any contractual disputes with customers and should any customers commence legal proceedings against the company, the directors believe that any actions can be successfully defended. As at the date of this report no legal proceedings have been commenced against any entity within the consolidated entity.

c) On 17 December 2021, the Consolidated entity announced to the Australian Stock Exchange Limited that it had entered into an agreement with Earth Mountain (Shanghai) Intelligent Technology Co., to mass produce Audio Pixels transformational digital speaker products.

d) On 29 December 2022, the parent entity entered into a pre-production packaged chip purchase order with Earth Mountain (Shanghai) Intelligent Technology Co., Ltd for US\$400,000 which is shown as a prepayment in the financial statements as at 31 December 2023. On the basis that these initial pre-production packaged chips meet all the design specifications, the parent company will commit a further US\$9,600,000 (\$14,769,000) for fully tested packaged production chips at a unit price to be finalised based on actual yields. Should the initial pre-production packaged chips meet all the design specifications the Directors expect a phased approach to delivery of the production chips, with details of delivery shipments and payment arrangements to be agreed with Earth Mountain.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (Continued)

29. Contingent Liabilities and Commitments (cont)

Entities within the consolidated entity are involved with contractual disputes in the normal course of contracting operations. The directors believe that the entities within the consolidated entity can settle any contractual disputes with suppliers and should any supplier commence legal proceedings against the company, the directors believe that any actions can be successfully defended. As at the date of this report no legal proceedings have been commenced against any entity within the consolidated entity.

30. Additional company information

Audio Pixels Holdings Limited is a listed public company, incorporated and operating in Australia.

Registered Office and Principal Place of Business

Suite 3, Level 12
75 Elizabeth Street
Sydney NSW 2000
Australia
Tel: (02) 9233 3915
Fax: (02) 9232 3411
www.audiopixels.com.au

The Company has 14 (2022: 13) employees.

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ASX ADDITIONAL INFORMATION

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

HOME EXCHANGE

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

SUBSTANTIAL SHAREHOLDERS

At 26 March 2024 the following substantial shareholders were registered:

	Ordinary Shares	Percentage of total Ordinary Shares
Fred Bart Group	5,984,480	20.49%
Link Traders (Aust) Pty Ltd	1,984,173	6.79%
Lee Ka Lau	1,537,374	5.26%

VOTING RIGHTS

At 26 March 2024 there were 2,375 holders of fully paid ordinary shares.

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

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

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

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ASX ADDITIONAL INFORMATION (Cont)

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

OTHER INFORMATION

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

DISTRIBUTION OF SHAREHOLDINGS

At 26 March 2024 the distribution of ordinary shareholdings were:

Range	Ordinary Shareholders	Number of Shares	Percentage of Shares
1-1,000	1,354	469,164	1.61%
1,001 – 5,000	579	1,442,561	4.94%
5,001 – 10,000	206	1,604,965	5.49%
10,001 – 100,000	184	5,209,678	17.84%
100,001 and over	<u>34</u>	<u>20,483,732</u>	<u>70.13%</u>
	<u>2,357</u>	<u>29,210,100</u>	<u>100.00%</u>

There were 331 ordinary shareholders with less than a marketable parcel.

There is no current on-market buy-back.

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TWENTY LARGEST ORDINARY SHAREHOLDERS

At 26 March 2024 the 20 largest ordinary shareholders held 63.36% of the total issued fully paid quoted ordinary shares of 29,210,100.

	Shareholder	Fully Paid Ordinary Shares	Percentage of Total
1	N & J PROPERTIES PTY LTD	3,565,000	12.20%
2	ALTSHULER SHAHAM TRUSTS LTD	2,862,997	9.80%
3	LINK TRADERS (AUST) PTY LTD	1,840,123	6.30%
4	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT>	1,785,678	6.11%
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,496,353	5.12%
6	CITICORP NOMINEES PTY LIMITED	1,115,787	3.82%
7	BART SUPERANNUATION PTY LIMITED <4F INVESTMENTS SUPERFUND A/C>	782,777	2.68%
8	MR JAMES JOHN BART	716,143	2.45%
9	KAM SUPERANNUATION FUND PTY LTD <KAM SUPERFUND A/C>	650,000	2.23%
10	JAMBER INVESTMENTS PTY LTD <THE AMBER SCHWARZ FAM A/C>	578,000	1.98%
11	CHERYL BART	500,000	1.71%
12	ARVADA PTY LTD	387,000	1.32%
13	4F INVESTMENTS PTY LTD	353,258	1.21%
14	MR BRENT FRANCIS MCCARTY + MRS YVONNE ALICE MCCARTY + MR ZELJAN ALEXANDER UNKOVICH <MON DESIR A/C>	304,014	1.04%
15	EMICHROME PTY LIMITED	290,555	0.99%
16	BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM	289,857	0.99%
17	BRIGADIER PTY LIMITED <IAN DENNIS SUPER FUND A/C>	257,600	0.88%
18	NICOLE BART	250,000	0.86%
18	DECANTE PTY LTD <J M EHRLICH SUPER FUND A/C>	250,000	0.86%
20	RIMOYNE PTY LTD	<u>231,117</u>	<u>0.79%</u>
		<u>18,506,259</u>	<u>63.36%</u>