

DIRECTOR'S REPORT

The Directors of Audio Pixels Holdings Limited submit herewith the financial report of the company for the financial year ended 31 December 2022. 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 Chairman of Noxopharm Limited and a director of Weebit Nano Limited.
Ian Dennis	Non-executive director and Company Secretary. Ian is a retired Chartered Accountant with experience as director and secretary in various public listed and unlisted technology companies. He has been involved in the investment banking industry and stockbroking industry for the past thirty years. Prior to that, Ian was with KPMG, Chartered Accountants in Sydney. Appointed to the Board on 5 September 2000. He is a Chairman of the Audit Committee and Nomination and Remuneration Committee.
Cheryl Bart AO	Non-executive director. Appointed to the Board on 26 November 2001. Cheryl Bart is a lawyer and company director. She is 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.

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 Weebit Nano Limited Noxopharm Limited	May 2000 to 27 July 2021 Since March 2018 Since 8 May 2020
Ian Dennis	Electro Optic Systems Holdings Limited	May 2000 to 28 May 2021
Cheryl Bart	SG Fleet Australia Limited	Since February 2014

Principal activities

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

Results

The net loss for the financial year ended to 31 December 2022 was \$2,435,719 (31 December 2021 - \$3,309,869).

Dividends

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

DIRECTOR'S REPORT

Review of operations

Achievements during the reporting period were technical in nature, focused on advancing the Company's proven Digital Sound Reconstruction technologies into a mass-production product. As has been extensively reported, the company has achieved all known and emerging technical challenges involving the design, fabrication and function - delivering on the promise of Digital Sound Reconstruction (DSR) in the world's smallest full range loudspeaker chip. We have proven the technologies' ability to reproduce the full audible range of frequencies from 20Hz to 20KHz (and beyond) with a near flat frequency response; all in a surface mount industry compliant silicon chip.

As noted in previous updates, the company's primary objectives for CY-22 were to complete the transition of its the technology from its prototyping / development platforms into a reliable mass-produced product that meets or exceeds market driven specifications. The principal activities associated with this objective:

1. Production of MEMS-GEN-II (the commercial version of our MEMS chip).
2. Advancing our engineering and demonstration and customer facing electronics and software from development environments to independently operated electronics and software.

As had been extensively reported to investors in previous updates, the complexity of MEMS demands an iterative development approach that models, evaluates, improves and aligns designs to fabrication capabilities based on actual test and measurement results. Some past reported examples of this iterative process included issues pertaining to charge dissipation, stiction, misalignment, sacrificial material release, process residues, wafer handling, and others. The objective of this massive undertaking was to establish a reliable, repeatable and stable fabrication process that will not only produce devices to spec, but to establish clear and precisely defined boundaries of realistic manufacturing capabilities ("process window") that dictate the device design ("design rules").

In the world of micro-electro-mechanical-systems (MEMS), especially in our case where we have pushed the physical and electromechanical boundaries, even the smallest of variances measured in nanometers can influence the devices' performance. Therefore, the engineering axiom dictates the necessity to solidify the devices' manufacturing process in order to obtain accurate assessment, simulation, and alignment of the design to the attainable process capabilities.

Throughout development of the manufacturing process, we purposefully withheld from the chip design, certain structural features that provide a significant boost to the sound pressure levels (SPL or "loudness") of the chip. There are a number of reasons for concealing this "secret sauce" extending beyond IP preservation and the maturing of our multiphysics simulation models. The most significant reason that these features were withheld from prior designs is they have a direct dependency on the manufacturing capabilities and tolerances and therefore these modifications must strictly adhere to, and remain within, the tightly defined process window. (Other design elements that provide an even greater increase to the SPL but that require more radical changes to the fabrication process are being reserved for future generations of products).

During EarthMountain's (EM) visit in September 2022 we mutually concluded that the defined objectives for MEMS GEN-I were achieved, and that sufficient knowledge, experience and investment were made by EM to ensure success production and packaging of MEMS GEN-II to spec. Consequently, the company has paid a prepayment of A\$586K and issued a purchase order for 10's of thousands of fully packaged MEMS GEN-II pre-production chips that will be fully tested for compliance to spec prior to shipment.

Also included in the production version of the chip is a refinement to the electromechanical characteristics of the structure that permit us to apply a software-only solution able to contend with adverse acoustic effects resulting from reasonable inconsistencies in the manufacturing process.

During our extensive work with GEN-I chips we discovered that during music play an audible high frequency component (for lack of better word "noise") was produced when reconstructing certain frequencies. The root cause of this phenomena was traced to inconsistencies / lack of uniformity in fabrication. Specifically, the theories of Digital Sound Reconstruction dictate that when superimposing the time-delayed sound pulses generated by our "pixels", variances in the anticipated pulse magnitude caused by inconsistencies in manufacturing, can manifest into the improper reconstruction of sound and in certain cases produce an unwanted audible sound.

Industry methodologies involved in mass producing semiconductors indicate that overtime such variances can be drastically reduced if not eliminated, nonetheless the company decided to explore other possible means of negating this problem. The innovation ultimately conceived involves expanding the electromechanical characteristics of the devices, that when combined with a proprietary software-only approach provide the capability of rendering any such noise inaudible.

DIRECTOR'S REPORT

Review of operations (Cont.)

This solution which has been tried and tested on our prototyping platforms (MEMS GEN I) has proven to offer the sought improvements to the clarity of sound even though it cannot be fully utilized without the electromechanical changes incorporated in the mass-production version of the chip.

It is of critical importance to note that all modifications introduced in the mass-production version of the chip (MEMS-GEN-II) are not even visible to the naked eye, or more significantly GEN-II are fully compatible with all fabrication, packaging, testing procedures, functional software, algorithms, hardware and electronics that were developed, tried and tested on the prototyping platform (MEMS-GEN-I).

Ultimately these factors as well as delays receiving chips and other critical components, led management to conclude that the company strategic objectives would be far better served delaying public demonstration of the technology a bit longer, in order to allow demonstrations of the production version of the chip; as undeniably the impact of a full range and flat frequency response when demonstrated at optimal sound pressure levels, will far better represent the game changing technology we have been laboring to bring to market.

It is important to note that at the time this decision was made and announced, it was anticipated that initial receipt of MEMS-GEN-II chips would be in mid to late Q4-22. What was unknown at that time was the impact of the Chinese Government's attempts to curtail the spread and adverse effects of the COVID pandemic. Ever changing policies were extended from week to week, effectively leaving a wide range of industries worldwide without insight or ability to plan and inform. The consequence for the company was that not only had advancement of GEN-II stalled for over 4 months, but EM's ability to even supply GEN-I chips had dramatically diminished.

During the extended lockdown period in China the company remained focused on advancing all aspects of technology it could. As indicated, considerable effort and progress was achieved developing advanced measurement and characterization capabilities which in turn fueled significant advancements of our multiphysics simulation capabilities.

Additionally major effort and progress was concentrated on the development and migration of our functional software and algorithms as well as the design, fabrication and testing of our electronics demonstration and reference design systems.

In early January 2023, Earth Mountain was able to partially resume operations and returned to full operations upon the conclusion of the Chinese New Year's holiday on 2 February 2023.

Given this as well as the rather massive investment EarthMountain has made over the period in their facilities, tools, fabrication and test capabilities, equipment and personnel, Earth Mountain remains convinced that that they will be able to commence mass production sometime in the third quarter of this year.

For the sake of clarity and compliance with ASX disclosure requirements, the Company's upcoming critical milestone is focused on the demonstration of the commercialised version of the technology.

- Earth Mountain's is forecasting that it will be able to begin delivery of MEMS GEN II sometime in May 2023.
- Upon arrival, the chips will undergo characterization to ensure compliance with our specification. This is required not only for usage in demonstration systems, but to also enable Earth Mountain to calibrate mass production processes.
- Upon confirming compliance (within reason) the chips will be incorporated into existing GEN-I demonstration systems.

Management will further update the market a) upon receipt of the chips, b) upon reaching reasonable conclusions resulting from the characterisation activities

Placement to EarthMountain

Earth Mountain (Suzhou) Microelectronics Ltd. (EM) 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 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 25 March 2023, 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, 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 and in any case by 30 April 2023.

DIRECTOR'S REPORT

Review of operations (Cont.)

Unsecured Loan

The total unsecured loan outstanding at 31 December 2022 from 4F Investments Pty Limited (a company associated with the Chairman Fred Bart) was \$3.285m. The outstanding unsecured loan attracts an interest rate of 6% per annum and is repayable on receipt of the Earth Mountain placement proceeds.

As part of the placement announced to the market on 24 August 2022 of \$10m at \$14.00 per share, 4F Investments Pty Limited agreed to subscribe for 165,358 ordinary shares at \$14.00 per share as part of this placement at a cost of \$2,315,012, subject to shareholder approval. 4F Investments Pty Limited has agreed that that it would offset \$2,315,012 against its unsecured loan of \$3,285,000, subject to shareholder approval, and the balance of \$969,988 would be repaid in cash once the placement funds from Earth Mountain are received.

4F Investments Pty Limited will continue to receive interest on the unsecured loan until shareholder approval is received. In respect of the balance of the unsecured loan of \$969,988, after shareholder approval, 4F Investments Pty Limited will continue to receive interest until repayment.

Shareholder approval for the conversion of part of the unsecured loans of \$2,315,012 into 165,358 ordinary shares will be sought at the Annual General Meeting to be held on Tuesday 30 May 2023 at 1.30 pm at the Fullerton Hotel in Sydney.

Since the end of the financial year, 4F Investments Pty Limited, a company associated with the Chairman, Mr Fred Bart, has 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 and \$500,000 on 28 March 2023 amounting to \$750,000.

This new facility of \$1,500,000 is in addition to the existing unsecured loan of \$3,285,000 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.

As an incentive to the provision of this additional facility of \$1,500,000 and the continuation of the existing unsecured loans of \$3,285,000 (whilst waiting for the Earth Mountain placement proceeds of US\$3m to settle \$969,988 in cash and the Annual General Meeting to request shareholder approval for a placement of 165,358 shares to 4F Investments Pty Limited which would net settle \$2,315,012 of the facility), the Company has agreed to provide 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 would be provided, subject to shareholder approval at the next Annual General Meeting to be held on Tuesday 30 May 2023 at 1.30 pm. These options would be issued and vest immediately after shareholder approval was received as they only relate to the loan facility and are not employment related.

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

Since the end of the financial year, 4F Investments Pty Limited, a company associated with the Chairman, Mr Fred Bart, has 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 and \$500,000 on 28 March 2023 amounting to \$750,000.

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Significant events after balance date (Cont.)

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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.

Future developments

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

Environmental regulations

In the opinion of the directors the company and the consolidated entity is in compliance with all applicable environmental legislation and regulations. 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	5,819,122
Ian Dennis	320,167
Cheryl Bart	1,282,777

DIRECTOR'S REPORT

Remuneration report (audited)

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

This report outlines the remuneration arrangements in place for Directors and key management personnel of the Company. The Directors are responsible for remuneration policies and packages applicable to the Board members of the Company. The entire Board makes up the Nomination and Remuneration Committee. The 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
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.

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 2022 \$	Year ended 31 December 2021 \$	Year ended 31 December 2020 \$	Year ended 31 December 2019 \$	Year ended 31 December 2018 \$
Revenue	482,841	108,691	191,434	272,520	86,961
Net (loss) before tax	(2,435,719)	(3,309,869)	(12,102,367)	(6,231,930)	(4,519,721)
Net (loss) after tax	(2,435,719)	(3,309,869)	(12,102,367)	(6,231,930)	(4,519,721)
	Year ended 31 December 2022 \$	Year ended 31 December 2021 \$	Year ended 31 December 2020 \$	Year ended 31 December 2019 \$	Year ended 31 December 2018 \$
Share price at start of year/period	22.50	\$24.05	15.35	20.22	16.82
Share price at end of year/period	10.00	22.50	24.05	15.35	20.22
Dividend Paid	0.00	0.00	0.00	0.00	0.00

DIRECTOR'S REPORT

Remuneration Report (Cont.)

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

	Balance at 1/1/22 No.	Granted as remuneration No.	Received on exercise of options No.	Sales No.	Balance at 31/12/22 No.
Mr Fred Bart*	5,819,122	-	-	-	5,819,122
Mrs Cheryl Bart*	1,282,777	-	-	-	1,282,777
Mr Ian Dennis	320,167	-	-	-	320,167
Mr Danny Lewin	1,438,619	-	-	-	1,438,619
Mr Yuval Cohen	1,400,636	-	-	(2,760)	1,397,876

* 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.

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 2022, the Company paid a total of \$109,331 (year ended 31 December 2021 - \$108,104) 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 2022, the Company paid a total of \$41,344 (year ended 31 December 2021 - \$41,156) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of directors' fees and superannuation.

During the year, the Company paid \$30,000 (31 December 2021 - \$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, the company entered into unsecured loan facilities with 4F Investments Pty Limited, a company associated with Mr Fred Bart, totalling \$3,285,000 at an interest rate of 6%. The loan facility was fully drawn to \$3,285,000 at 31 December 2022. The loan is repayable in two components as follows:

- Subject to shareholder approval, 4F Investments Pty Limited (a company associated with Fred Bart) has agreed to subscribe to 165,358 ordinary shares at \$14.00 per share amounting to \$2,315,012 as part of the placement announced to the market on 24 August 2022.
- The balance of the loan of \$969,988 is due for repayment on receipt of the placement monies of A\$4,316,550 (US\$3m) from Earth Mountain.

During the year, the company paid \$113,782 (31 December 2021 - \$9,136) on the unsecured loan to 4F Investments Pty Limited. Interest has been accrued in the financial statements at 31 December 2022 of \$32,940 (31 December 2021 - \$9,136) 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 \$42,871 (year ended 31 December 2021 - \$40,488) to 4F Investments Pty Limited, a company controlled by Fred Bart.

DIRECTOR'S REPORT

Remuneration Report (Cont.)

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

December 2022	Short Term		Long term employee benefits			Total \$
	Directors' fees/Salary \$	Non-monetary \$	Super-annuation \$	Social Security \$	Long service leave	
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	23,959	-	13,915	309,111
	588,113	74,283	38,634	65,414	13,915	780,359
December 2021						
Fred Bart	61,000	-	5,948	-	-	66,948
Cheryl Bart	37,500	-	3,656	-	-	41,156
Ian Dennis	67,500*	-	3,656	-	-	71,156
Danny Lewin	177,226	43,467	-	63,550	-	284,243
Yuval Cohen	220,008	16,923	18,996	-	-	255,927
	563,234	60,390	32,256	63,550	-	719,430

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

Other non-monetary benefits include annual leave and long service leave provision increases during the year.

Audit Committee

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

Directors' meetings

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

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

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

DIRECTOR'S REPORT

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 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 truly pioneering 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 truly massive and 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.

DIRECTOR'S REPORT

Material Business Risks (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. 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.

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 associate 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.

DIRECTOR'S REPORT

Material Business Risks (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. Global Pandemic

The past three years has seen the world contend with the COVID-19 global pandemic, impacting mankind's health, and imposing severe restrictions and limitations on work, travel and our lives in general. More recently China, a major supplier of the global electronic supply chain, has implemented its most severe restrictions since 2020 trying to contain the spread of the pandemic, which adversely impacted even further the global supply chain. The pandemic's impact on AKP, in particular to conduct important face-to-face meetings, hands on exchanges, inspection, and onsite support to our vendors and partners and potential customers, as well as our timelines and ability to demonstrate the technology, have been rather significantly impacted and delayed due to various restrictions and the lack of timely provision of critical parts

and services. The recent COVID lockdowns in China have caused significant delays in the production and packaging of the MEMS GEN II pre-production chips.

6. 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.

7. 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 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.

8. Cyber 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.

DIRECTOR'S REPORT

Material Business Risks (Cont.)

9. 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.

10. 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.

11. 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.

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 14.

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

On behalf of the Directors



I A Dennis
Director

Dated at Sydney this 31 day of March 2023