

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 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.

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 March 2018 to 27 June 2023 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.

DIRECTOR'S 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).
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.

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.

DIRECTOR'S REPORT

Review of operations (Cont.)

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 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.

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.

DIRECTOR'S REPORT

Review of operations (Cont.)

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.

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

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 (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.

DIRECTOR'S REPORT

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 No.	Granted as remuneration No.	Received on exercise of options No.	Purchases/ (Sales) No.	Balance at 31/12/23 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

* 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.

DIRECTOR'S REPORT

Remuneration Report (Cont.)

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.

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.

DIRECTOR'S REPORT

Remuneration Report (Cont.)

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

December 2023	Short Term		Long term employee benefits			Total \$
	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	255,150	24,260	27,459	-	3,563	310,432
	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	23,959	-	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.

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:

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	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.

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 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.

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.

DIRECTOR'S REPORT

Material Business Risks (Cont.)

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 to 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 times 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 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 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 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. 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 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.

DIRECTOR'S REPORT

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



Fred Bart
Director

Dated at Sydney this 28 day of March 2024