29 February 2024

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

Dear Sir,

Preliminary Final Report – Listing Rule 4.3A

The Preliminary Final Report/ Appendix 4E for the year ended 31 December 2023 is attached.

Yours faithfully,

Fred Bart
Chairman

Preliminary Final Report of Audio Pixels Holdings Limited for the year ended 31 December 2023

ACN 094 384 273

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

Current Reporting Period:	Financial Year ended 31 December 2023
Previous Corresponding Period:	Financial Year ended 31 December 2022

Results for Announcement to the Market

		Percentage Change		Amount
		%		**$**
Revenue from ordinary activities	down	40.59	to	286,824
Loss from ordinary activities after tax attributable to members	up	400.34	to	(12,186,803)
Net (loss) attributable to members	up	400.34	to	(12,186,803)
		Amount per security		**Franked amount per security**
Final dividend		Nil		Nil
Interim dividend		Nil		Nil

Net Tangible assets as at 31 December 2023 (this NTA number includes lease liability balances)	($2,864,246)
Number of ordinary shares outstanding at year end	29,210,100
NTA per ordinary share at 31 December 2023	(9.81) cents
NTA per ordinary share at 31 December 2022	(0.08) cents

A review of operations is included on pages 4 to 7.

Review of operations

During the reporting period the Company had made great strides advancing our revolutionary digital sound reproduction (DSR) platform into a mass-produced product that exceeds 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 lofty ambitions, providing incomparably 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 unprecedented, crowning our chip as the only known high-performance - full range loudspeaker (of any size or cost).

2. On the basis of the aforementioned watershed 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.

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 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.

Review of Operations (cont)

Unsecured Loans (cont)

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.

The substantial modification referenced above has been accounted for as an extinguishment of the original financial liability, and the recognition of a new liability. A gain has been recognised on the derecognition of the original financial liability, reflective of the fact that the amortised cost of the financial liability at derecognition exceeds the revised fair value.

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 also received 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.

Review of Operations (cont)

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.

As part of the release of the Preliminary Final Report, the company is continuing to finalise a few accounting issues which could have a material impact on the amounts presented.

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	2a	286,824	482,841
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 (losses)/gains		(96,037)	3,094,655
Finance costs		(5,551,730)	(190,491)
Goodwill impairment	4	(2,399,168)	-
Intangible asset impairment	5	(110,686)	-
Gain in fair value of derivative liability		458,000	-
Gain on derecognition of financial liabilities measured at amortised cost		1,005,651	-
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		(507,093)	-
Loss before income tax	2b	(12,186,803)	(2,435,719)
Income tax benefit	3	-	-
Loss for the year		(12,186,803)	(2,435,719)
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit and loss			
Exchange differences arising on translation of foreign operations		(756)	(2,985,696)
Other comprehensive income/(loss) for the year, net of tax		(756)	2,985,696)
Total comprehensive loss for the year		(12,187,559)	(5,421,415)

Notes to the financial statements are included on pages 13 to 45.

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

	Note	**Consolidated Year ended 31 December 2023 $**	**Consolidated Year ended 31 December 2022 $**
(Loss) attributable to:			
Owners of the company		(12,186,803)	(2,435,719)
Total comprehensive (loss) attributable to:			
Owners of the company		(12,187,559)	(5,421,415)
Earnings per share			
Basic and diluted (cents per share)	10	(41.82)	(8.46)

Notes to the financial statements are included on pages 13 to 45.

AUDIO PIXELS HOLDINGS LIMITED
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

	Note	Consolidated December 2023 $	Consolidated December 2022 $
CURRENT ASSETS			
Cash and cash equivalents		2,279,051	1,339,961
Trade and other receivables		336,356	260,374
Prepayments		619,699	586,854
TOTAL CURRENT ASSETS		3,235,106	2,187,189
NON-CURRENT ASSETS			
Goodwill	4	-	2,371,014
Intangible asset	5	-	151,818
Right of use asset		151,430	103,162
Property, plant and equipment		614,153	490,940
Trade and other receivables		12,771	9,180
TOTAL NON-CURRENT ASSETS		778,354	3,126,114
TOTAL ASSETS		4,013,460	5,313,303
CURRENT LIABILITIES			
Trade and other payables		1,748,976	1,490,454
Lease liabilities		111,286	91,155
Unsecured loans	6	2,469,988	3,285,000
Convertible notes	7	2,173,349	
Provisions		311,578	276,250
TOTAL CURRENT LIABILITIES		6,815,177	5,142,859
NON-CURRENT LIABILITIES			
Lease liabilities		45,051	8,322
Provisions		17,478	13,915
TOTAL NON-CURRENT LIABILITIES		62,529	22,237
TOTAL LIABILITIES		6,877,706	5,165,096
NET (LIABILITIES)/ASSETS		(2,864,246)	148,207
EQUITY			
Issued capital		80,067,610	77,752,597
Reserves		(18,638,037)	(25,497,374)
Accumulated losses		(64,293,819)	(52,107,016)
Equity attributable to owners of the company		(2,864,246)	148,207
TOTAL EQUITY		(2,864,246)	148,207

Notes to the financial statements are included on pages 13 to 45.

AUDIO PIXELS HOLDINGS LIMITED
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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	-	-	-	-	(12,186,803)	(12,186,803)
Share placements at $14.00	2,315,013	-	-	-	-	2,315,013
Recognition of share based payments	-	507,093	-	-	-	507,093
Options Issued	-	6,353,000	-	-	-	6,353,000
Balance at 31 December 2023	80,067,610	13,245,520	(6,344,865)	(25,538,692)	(64,293,819)	(2,864,246)

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 loss 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 13 to 45.

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		12,521	6,823
Net cash used by operating activities		(5,064,542)	(5,635,225)
Cash flows from investing activities			
Net cash (used by) investing activities		(308,348)	(124,806)
Cash flows from financing activities			
Proceeds from share placement		-	4,660,110
Proceeds from unsecured loans	6	1,500,000	2,885,000
Repayment of unsecured loan		-	(1,000,000)
Proceeds from convertible notes	7	5,000,000	-
Repayment of lease liabilities		(197,065)	(234,198)
Net cash provided by financing activities		6,302,935	6,310,912
Net increase 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		9,045	40,707
Cash and cash equivalents at the end of the financial year		2,279,051	1,339,961

Notes to the financial statements are included on pages 13 to 45.

1. Summary of Material Accounting Policies

1(a) Statement of compliance

The preliminary financial report has been prepared in accordance with ASX Listing Rule 4.3A and disclosure requirements of ASX Appendix 4E.

The accounting policies and methods of computation adopted in the preparation of the preliminary financial report are consistent with those adopted and disclosed in the consolidated entity's annual financial report for the financial year ended 31 December 2022. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

All amounts are stated in Australian dollars ($).

1(b) 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:

1(b) 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

The Directors do not expect these new and revised standards issued but not effective to have a material effect on the financial statements.

1(c) 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 $12,186,803 (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 $3,580,070 (2022: $2,955,670), a net asset deficiency of $2,864,246 (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.

1(c) 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 existing convertible notes by a further 5 months beyond 30 April 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

1(c) 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(d) 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(e) 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.

1(e) 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 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

1(e) Financial Assets (cont)

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(f) 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, 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.

1(f) Financial Liabilities (cont)

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(g) 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(h) Employee benefits

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

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

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

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

1(i) 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(j) 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(k) Goodwill

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

1(k) Goodwill (cont)

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(l) Impairment of assets

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

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

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

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(k).

1(m) 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 settles its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

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

1(n) 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(k).

1(o) 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;
- 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.

1(o) Leases (cont)

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.

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(l).

1(o) Leases (cont)

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(p) Provisions

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

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

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

1(q) 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.

1(q) Basis of consolidation (cont)

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(r) 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:

Computers and related equipment	5 to 15 years
Leasehold improvements	3 to 4 years
Office furniture and equipment	5 to 14 years

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

1(s) 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

1(s) Share based payments (cont)

straight-line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

1(t) Critical accounting judgements

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

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

Key sources of estimation uncertainty

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

Intangible asset/Goodwill

The directors made a critical judgement in relation certain assumptions used in the impairment model used to test the value of the intangible asset included in Note 5 and the impairment model used in assessing the carrying amount of the goodwill (see Note 4) 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 and 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.

1(t) Critical accounting judgements (cont)

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 will occur in AUD.

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 55%.

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.

During the period, the term on certain convertible notes were modified and the modification was determined to be substantial based on the change in net present value of the modified debt based on the original effective interest rate. The resulting derecognition of the original convertible notes and recognition of the modified notes at fair value, and 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 55%.

1(t) Critical accounting judgements (cont)

Convertible Note and Option Valuation (cont)

The directors consider the estimates used in the valuations to be appropriate.

	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	253,449	356,363
Total revenue	286,824	482,841
(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	5,551,730	190,491
Employee benefits expense:		
Salary and other employee benefits	2,710,730	2,648,721
Share based payments (1)	507,093	304,097
Superannuation	40,728	38,634
	3,258,551	2,991,452

(1) The 2022 share based payments expense includes an immaterial amount of $107,285 relating to the correction of prior year share based payments expense.

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

3. Income taxes (cont)

recognised. There are no future related costs in respect of these grants which were received solely as compensation for costs incurred in the year.

	31 December 2023 $	31 December 2022 $

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 $14,159,598 (2022: $11,594,514). $3,742,763 (2022: $2,228,746) of this unrecognised deferred tax relates 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.

4. Goodwill

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

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 balances 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 new technology and IP that has now been developed.

	31 December 2023 $	31 December 2022 $
5. 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	203,148	200,141
Less accumulated amortisation	(960,462)	(916,323)
Less impairment	(110,686)	-
Balance at 31 December	-	151,818

The recoverable amount of the intangible asset was deemed fully impaired during the reporting period with the balance written off for the reasons outlined in Note 4.

6. Unsecured loans

Related party – director	2,469,988	3,285,000

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$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).

6. Unsecured loans (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. Included in the condensed statement of consolidated profit and loss and other comprehensive income for the 6 month period, is a financing expense of $3,355,00, which is attributable to the issue of these options being treated as a transaction cost related to the unsecured financing facility.

7. 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	(872,000)	-
Value of options issued taken to equity settled share option reserve	(2,998,000)	-
	1,130,000	-
Add – accrued interest expense	1,635,000	-
Less – Net gain arising on derecognition of financial liabilities measure at amortised cost	(1,005,651)	-
Current Liability at end of period	1,759,349	-

7. Convertible notes (cont)

	31 December 2023 $	31 December 2022 $
Derivative liability		
Carrying value at start of the period	-	-
Fair value of the convertible note conversion feature at issue	872,000	
Fair value movement to the end of the reporting period	(458,000)	-
Derivative liability	414,000	-
Total current liability	2,173,349	-
Face value of convertible notes	5,000,000	-

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 of 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.

The substantial modification referenced above has been accounted for as an extinguishment of the original financial liability, and the recognition of a new liability. A gain has been recognised on the derecognition of the original financial liability, reflective of the fact that the amortised cost of the financial liability at derecognition exceeds the revised fair value.

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.

7. Convertible notes (cont)

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 an expiry date of 4 May 2026.

8. Employee Share Option Plan

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

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.

8. **Employee Share Option Plan (cont)**

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

	2023		2022	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
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	-	-

(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
	287,000				
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
	295,000				

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

8. **Employee Share Option Plan (cont)**

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	173,000	5/6/23	17/12/23	16.20	$377,140
	173,000				$377,140
2022					
Staff options	30,000	1/12/22	1/12/25	14.00	$124,800
Staff options	135,000	1/12/22	1/12/26	14.00	$662,850
	165,000				$787,650

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

8. **Employee Share Option Plan (cont)**

2023, with an expiry date of 17 December 2023. None of these options were exercised by the expiry date and all subsequently lapsed.

(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	135,000	1/12/22	1/2/27*	$14.00	$662,850
	287,000				
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	135,000	1/12/22	1/2/27*	$14.00	$662,850
	287,000				

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 16 to the financial statements.

9. 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	106,628	117,963
	759,183	780,359

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 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 for Mr. Ian Dennis.

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.

9. **Related Party Transactions (cont)**

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.

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
10. **Earnings per Share**		
Basic (loss) per share	(41.82) cents	(8.46) cents
Diluted (loss) per share (b)	(41.82) cents	(8.46) cents
(Loss) (a)	(12,186,803)	(2,435,719)
Weighted average number of Ordinary Shares	29,141,692	28,779,662

(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.
(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.

10. **Earnings per Share (cont)**

(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.

11. 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 subsidiary company in Israel is developing a digital speaker and has not reached the stage of generating any revenue from the technology.

	31 December 2023 $	31 December 2022 $
Segment Revenues		
Digital speakers	286,824	482,841
Total of all segments	286,824	482,841
Segment Results		
Digital speakers	(12,186,803)	(2,435,719)
(Loss) before income tax	(12,186,803)	(2,435,719)
Income tax gain/ (expense)	-	-
(Loss) for the period	(12,186,803)	(2,435,719)

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

11. **Segment Information (cont)**

Segment Assets and Liabilities

	Assets		Liabilities	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
	$	$	$	$
Digital speakers	4,013,460	5,313,303	6,877,706	5,165,096
Total all segments	4,013,460	5,313,303	6,877,706	5,165,096
Unallocated	-	-	-	-
Consolidated	4,013,460	5,313,303	6,877,706	5,165,096

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

Other Segment Information

	Depreciation and amortisation of segment assets		Acquisition of segment assets	
	31 December 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	433,057	461,255	308,348	124,806

11. Segment Information (cont)

Information on Geographical Segments

31 December 2023

Geographical Segments	Revenue from External Customers	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 from External Customers	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

12. 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.

12. **Contingent Liabilities and Commitments (cont)**

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.

13. **Information on Audit or Review**

This Preliminary Final report is based on accounts to which one of the following applies.

- ☐ The accounts have been audited.
- ☐ The accounts have been subject to review.
- ☒ The accounts are in the process of being audited or subject to review.
- ☐ The accounts have not yet been audited or reviewed.

Description of likely dispute or qualification if the accounts have not yet been audited or subject to review or are in the process of being audited or subjected to review.

The audit is currently in progress and at the date of this report the auditor has not been able to obtain sufficient audit evidence that a material uncertainty in relation to going concern does not exist. As at the date of this report it is expected that the audit report will include a modification or disclaimer of opinion in respect of going concern.

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

13. **Information on Audit or Review (cont)**

Description of dispute or qualification if the accounts have been audited or subjected to review.

Not applicable