Breaking the Barriers of Sound

28 February 2023

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 2022 is attached.

Yours faithfully,

Ian Dennis
Director

Preliminary Final Report of Audio Pixels Holdings Limited for the year ended 31 December 2022

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 2022
Previous Corresponding Period:	Financial Year ended 31 December 2021

Results for Announcement to the Market

		Percentage Change		Amount
		%		$
Revenue from ordinary activities	up	344.2	to	482,841
Loss from ordinary activities after tax attributable to members	down	26.4	to	(2,435,719)
Net (loss) attributable to members	down	26.4	to	(2,435,719)
		Amount per security		**Franked amount per security**
Final dividend		Nil		Nil
Interim dividend		Nil		Nil

Net Tangible assets as at 31 December 2022	$(2,374,625)
Number of ordinary shares outstanding at year end	29,044,742
NTA per ordinary share at 31 December 2022	(0.08) cents
NTA per ordinary share at 31 December 2021	(0.06) cents

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

Review of operations

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

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

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

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

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

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

Review of operations (cont)

During EarthMountain's (EM) visit in September 2022 we mutually concluded that the defined objectives for MEMS GEN-I were achieved, and that sufficient knowledge, experience and investment were made by EM to ensure success in production and packaging of MEMS GEN-II to spec. Consequently, as reflected in our Appendix 4C, the company has paid a prepayment of A$586K and issued a purchase order for 10's of thousands of fully packaged MEMS GEN-II pre-production chips that will be fully tested for compliance to spec prior to shipment.

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

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

Industry methodologies involved in mass producing semiconductors indicate that overtime such variances can be drastically reduced if not eliminated, nonetheless the company decided to explore other possible means of negating this problem. The innovation ultimately conceived involves expanding the electromechanical characteristics of the devices, that when combined with a proprietary software-only approach provide the capability of rendering any such noise inaudible. This solution which has been tried and tested on our prototyping platforms (MEMS GEN 1) has proven to offer the sought improvements to the clarity of sound even though it cannot be fully utilized without the electromechanical changes incorporated in the mass-production version of the chip.

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

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

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

Review of Operations (cont)

During the extend lockdown period in China the company remained focused on advancing all aspects of technology it could. As indicated, considerable effort and progress was achieved developing advanced measurement and characterization capabilities which in turn fueled significant advancements of our multiphysics simulation capabilities. Additionally major effort and progress was concentrated on the development and migration of our functional software and algorithms as well as the design, fabrication and testing of our electronics demonstration and reference design systems.

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

Given this as well as the rather massive investment EarthMountain has made over the period in their facilities, tools, fabrication and test capabilities, equipment and personnel, management is increasingly convinced that the stated objectives of achieving mass production, and commencing sales and marketing phases can begin sometime in Q3 of this year. EarthMountain's current forecast is that it will be able to commence delivery of chips incorporating MEMS GEN II sometime in April 2023, enabling the company to commence customer and shareholder demonstrations shortly thereafter.

Placement to EarthMountan

Earth Mountain (Suzhou) Microelectronics Ltd. (EM) committed to take 308,325 ordinary shares ($4,316,550) at $14.00 per share in the placement announced on 24 August 2022 subject to receiving approvals from Ministry of Commerce and the State Administration of Foreign Exchange to settle their commitment. As at the date of this report, EarthMountain had yet to receive the necessary approvals from the Ministry of Commerce and the State Administration of Foreign Exchange in China to settle their commitment. While the approval is not believed to be in jeopardy, given that there is little informative visibility into this bureaucratic process, it is impossible to predict an accurate settlement date. The Company will update the market as soon as new information is available and in any case by 31 March 2023.

Review of Operations (cont)

Unsecured Loan

The total unsecured loan outstanding at 31 December 2022 from 4F Investments Pty Limited (a company associated with the Chairman Fred Bart) was $3.285m. The outstanding unsecured loan attracts an interest rate of 6% per annum and is repayable on receipt of the Earth Mountain placement proceeds. Subsequent to the reporting date, the company obtained an additional $150,000 of financing from 4F Investments Pty Limited.

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

4F Investments Pty Limited will continue to receive 6.00% interest on the unsecured loan until shareholder approval is received. In respect of the balance of the unsecured loan of $969,988, after shareholder approval, 4F Investments Pty Limited will continue to receive interest at 6.00 % per annum until repayment.

No date has been set to seek shareholder approval for the conversion of part of the unsecured loans of $2,315,012 into ordinary shares and it is likely that shareholder approval will be sought at the Annual General Meeting to be held on Monday 22 May 2023 at 1.30 pm at the Fullerton Hotel in Sydney.

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.

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

	Note	Consolidated Year ended 31 December 2022	Consolidated Year ended 31 December 2021
		$	**$**
Revenue	2	482,841	108,691
Administrative expenses		(1,471,462)	(1,438,864)
Amortisation		(84,267)	(78,860)
Depreciation		(376,988)	(422,554)
Directors fees and superannuation		(150,675)	(149,260)
Foreign exchange (losses)/ gains		3,094,655	2,378,191
Interest expense		(190,491)	(22,202)
(Loss)/ Profit on sale of property, plant and equipment		(1,006)	689
Marketing		(1,650)	(416)
Research and development expenses		(3,736,676)	(3,685,284)
(Loss) before income tax	2	(2,435,719)	(3,309,869)
Income tax benefit	3	-	-
(Loss) for the year		(2,435,719)	(3,309,869)
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit and loss			
Exchange differences arising on translation of foreign operations		(2,985,696)	(2,390,147)
Other comprehensive income/(loss) for the year, net of tax		(2,985,696)	(2,390,147)
Total comprehensive (loss) for the year		(5,421,415)	(5,700,016)

Notes to the financial statements are included on pages 13 to 33.

AUDIO PIXELS HOLDINGS LIMITED
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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	Consolidated Year ended 31 December 2022 $	Consolidated Year ended 31 December 2021 $
(Loss) attributable to:			
Owners of the company		(2,435,719)	(3,309,869)
Total comprehensive (loss) attributable to:			
Owners of the company		(5,421,415)	(5,700,016)
Earnings per share			
Basic and diluted (cents per share)	9	(8.46)	(11.53)

Notes to the financial statements are included on pages 13 to 33.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	Note	Consolidated December 2022 $	Consolidated December 2021 $
CURRENT ASSETS			
Cash and cash equivalents		1,339,961	748,373
Trade and other receivables		260,374	56,431
Prepayment		586,854	-
TOTAL CURRENT ASSETS		2,187,189	804,804
NON-CURRENT ASSETS			
Goodwill	4	2,371,014	2,289,128
Intangible asset	5	151,818	224,487
Right of use asset		103,162	327,517
Property, plant and equipment		490,940	476,746
Trade and other receivables		9,180	9,080
TOTAL NON-CURRENT ASSETS		3,126,114	3,326,958
TOTAL ASSETS		5,313,303	4,131,762
CURRENT LIABILITIES			
Trade and other payables		1,490,454	1,522,467
Lease liabilities		91,155	237,555
Unsecured loans	6	3,285,000	1,400,000
Provisions		276,250	270,205
TOTAL CURRENT LIABILITIES		5,142,859	3,430,227
NON-CURRENT LIABILITIES			
Lease liabilities		8,322	96,120
Provisions		13,915	-
TOTAL NON-CURRENT LIABILITIES		22,237	96,120
TOTAL LIABILITIES		5,165,096	3,526,347
NET ASSETS		148,207	605,415
EQUITY			
Issued capital		77,752,597	73,092,487
Reserves		(25,497,374)	(22,815,775)
Accumulated losses		(52,107,016)	(49,671,297)
Equity attributable to owners of the company		148,207	604,415
TOTAL EQUITY		148,207	605,415

Notes to the financial statements are included on pages 13 to 33.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

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

December 2021 – Consolidated	Issued Capital	Equity Settled Option Reserve	Exchange translation reserve	Minority Acquisition Reserve	Accumulated Losses	Total
	$	$	$	$	$	$
Balance at 1 January 2021	73,092,487	5,552,761	(968,266)	(25,538,692)	(46,361,428)	5,776,862
Other comprehensive income for the year	-	-	(2,390,147)	-	-	(2,390,147)
(Loss) for the year	-	-	-	-	(3,309,869)	(3,309,869)
Recognition of share based payments	-	528,569	-	-	-	528,569
Balance at 31 December 2021	73,092,487	6,081,330	(3,358,413)	(25,538,692)	(49,671,297)	605,415

Notes to the financial statements are included on pages 13 to 33.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	Consolidated Year ended 31 December 2022 $	Consolidated Year ended 31 December 2021 $
Cash flows from operating activities			
Receipts from customers		119,655	107,263
Government grants		159,791	-
Payments to suppliers and employees		(5,762,741)	(5,127,820)
Interest paid		(158,753)	(12,295)
Interest received		6,823	1,428
Net cash (used by) operating activities		(5,635,225)	(5,031,424)
Cash flows from investing activities			
Payment for property, plant and equipment		(124,806)	(158,471)
Proceeds from sale of property, plant and equipment		-	2,480
Net cash (used by) investing activities		(124,806)	(155,991)
Cash flows from financing activities			
Proceeds from share placement		4,660,110	-
Proceeds from unsecured loans		2,885,000	1,400,000
Repayment of unsecured loan		(1,000,000)	-
Repayment of lease liabilities		(234,198)	(297,044)
Net cash provided by financing activities		6,310,912	1,102,956
Net increase/ (decrease) in cash and cash equivalents held		550,881	(4,084,459)
Cash and cash equivalents at the beginning of the financial year		748,373	4,750,888
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		40,707	81,944
Cash and cash equivalents at the end of the financial year		1,339,961	748,373

Notes to the financial statements are included on pages 13 to 33.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

1. Summary of Significant Accounting Policies

1(a) Basis of preparation

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 2021. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

All amounts are stated in Australian dollars (S).

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 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

1. **Adoption of new and revised Standards (cont)**

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

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:

Standard/amendment	Effective for annual reporting periods beginning on or after
AASB 17 Insurance Contracts (as amended) (summary, illustrative disclosure)	1 January 2023
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 2023
AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates	1 January 2023
AASB 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023

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 $2,435,719 (2021: $3,309,869) and used net cash in operating activities of $5,635,225 (2021: $5,031,424). As at 31 December 2022, the consolidated entity had a net current asset deficiency of $2,955,670 (2021: $2,625,423) and cash of $1,339,961 (31 December 2021: $748,373) of which $61,131 (31 December 2021: $64,374) is restricted as it secures future lease payments.

1(c) Going Concern (cont)

Share placement and settlement of finance facilities

At balance date, the Company had a fully drawn unsecured finance facility of A$3,285,000 from 4F Investments Pty Limited, a company associated with one of the Company's directors, Mr Fred Bart at an interest rate of 6% which is classified as a current liability. Subsequent to the reporting date, the company obtained an additional $150,000 of financing from 4F Investments Pty Limited.

On 24 August 2022, the Company announced a placement of 714,286 ordinary shares at a price of $14.00 per share to raise gross proceeds of $10m before costs. From this placement, gross proceeds of $3,368,442 in respect of 240,603 new ordinary shares were received on 30 August 2022. For the remaining 473,683 shares:

- 308,325 shares are to be issued on receipt of the $4,316,550 from EarthMountain. 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.
- 4F Investments Pty Limited also agreed to subscribe for 165,358 new ordinary shares at a price of $14.00 per share, being $2,315,012 in this placement. This placement is subject to shareholder approval at an Extraordinary General Meeting. At the date of this report, this approval has not yet occurred and the funds have not been received.

The unsecured finance facility with 4F Investments Pty Ltd is repayable when the capital raise announced in August 2022 is completed. It is the Directors' intention that when the EarthMountain share placement funds are received, $969,988 of the facility and the new facility of $150,000 will be settled in cash. On the basis that shareholder approval is obtained for the 165,358 new ordinary shares to be issued to 4F Investments Pty Limited, the remaining facility amount owing of $2,315,012 will be net settled.

Working Capital

Further testing and enhancement of the technology is continuing as the consolidated entity works towards achievement of the demonstrator milestone to begin the transition to volume production. As a result, it is anticipated that the available net working capital will be consumed in the coming month if the EarthMountain proceeds from the placement are not received in March 2023. The company 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 this financial report.

1(c) Going Concern (cont)

In the event that EarthMountain proceeds from the placement are not received in March 2023, then the directors' plan to obtain short term funding from additional loans from 4F Investments Pty Limited or other sources.

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 receipt of the EarthMountain proceeds from the placement in March 2023;
- The ability of the company to secure additional funding from existing or new investors to fund the completion of the testing and enhancement of the technology and, following this phase, secure further funding as the consolidated entity gears up for production;
- The successful completion of the current testing phase of the technology, enabling the consolidated entity to demonstrate the technology's capabilities and negotiate commercial contracts with interested parties; and
- The ability of the company to defer repayment of the abovementioned unsecured finance facilities or to raise additional funding to repay the maturing facilities, in the event that the EarthMountain proceeds from the placement are not received in March 2023 and shareholder approval is not obtained for the 165,358 new ordinary shares to be issued to 4F Investments Pty Limited to allow net settlement of the remaining finance facilities.

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 as operating lease income. 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 2022, the government grants relate specifically to the Research and Development tax incentive.

1(e) 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.

1(e) Critical accounting judgements (cont)

Deferred tax

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

Functional Currency

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

Investment in subsidiary and intercompany receivable

The directors made a critical judgement in relation to the recoverability of the investment in subsidiary – Audio Pixels Limited and the receivable from this subsidiary. The loan is in US$ and the directors are of the view that the loan will be repaid on commercialisation of Audio Pixels Limited's technology. As such, the loan is not treated part of the Company's net investment in the subsidiary and translation of the loan balance from USD to AUD is through the profit and loss. The assessment of the recoverability of these assets is considered concurrently with the recoverability of the intangible asset/goodwill.

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 2022. An amount of $196,572 has been recorded as other receivables and revenue in the year ended 31 December 2022. Post year end, the claim will be submitted. The Directors consider that the grant will be received once the claim is submitted. An amount of $159,791 was recognised in 2022 which related to the 2021 refundable offset return. This was the first return submitted by the company and hence eligibility was determined in 2022.

	Consolidated Year ended 31 December 2022 $	Consolidated Year ended 31 December 2021 $

2. (Loss) from operations

(a) Revenue

Interest received – other entities	6,823	1,428
Recharge rental income	119,655	107,263
Government grant – R & D tax incentive	356,363	-
Total revenue	482,841	108,691

(b) Expenses

Amortisation	84,267	78,860
Depreciation of property, plant and equipment	140,197	128,866
Depreciation of right-of-use assets	236,791	293,688
Interest expense	190,491	22,202
Employee benefits expense:		
Salary and other employee benefits	2,648,721	2,577,636
Share based payments (1)	304,097	528,569
Superannuation	38,634	32,256
	2,991,452	3,138,461

(1) The 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 (2021: nil).

During 2022, a government grant of $159,791 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 2021 and an estimated grant of $196,572 in relation to eligible expenditure incurred during the year ended 31 December 2022 has been recognised. There are no future related costs in respect of these grants which were received solely as compensation for costs incurred in the year.

	31 December 2022 $	31 December 2021 $
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	2,289,128
Balance at 1 January	2,289,128	2,207,058
Net foreign currency exchange	81,886	82,070
Balance at 31 December	2,371,014	2,289,128

The recoverable amount of this cash generating unit is dependent on the successful commercialisation of the technology. The recoverable amount has been determined based on a fair value less costs of disposal calculation which uses cash flow projections based on financial budgets approved by the directors covering a 5-year period, with forecast revenue growth rates based on the directors of the consolidated entity's best estimate of the market development and with a terminal rate of 2%, and a discount rate of 33% per annum. The assumed growth rate is based on the forecast future global MEMS market.

Given the nature of the product, the forecast cash flows are management's best estimate and reflect the risks inherent in the initial take up of the product. Cash flow projections during the budget period are based on the same expected gross margins and raw materials price inflation during the budget period and factor in a probability of the viability of the product. In addition to the recoverable amount being dependent on the successful commercialisation of the product, the recoverable amount is sensitive to delays in bringing the product to market. Delays in bringing the product to market decrease the recoverable amount.

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.

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	200,171	188,543
Less accumulated amortisation	(916,323)	(832,056)
	151,848	224,487

	31 December 2022 $	31 December 2021 $

5. **Intangible asset (cont)**

The intangible asset is allocated to the digital speaker cash-generating unit being the only cash generating unit, when assessed for impairment. Refer to Note 4 for commentary on the cash-generating unit.

6. **Unsecured loans**

	31 December 2022 $	31 December 2021 $
Related party – director	3,285,000	1,000,000
Other party	-	400,000
	3,285,000	1,400,000

4F Investments Pty Limited (a company controlled by Fred Bart – Chairman) has provided a fully drawn unsecured loan facility to the Company of $3,285,000 as at 31 December 2022 at an interest rate of 6%. Subsequent to the reporting date, the company obtained an additional $150,000 of financing from 4F Investments Pty Limited.

The loan is repayable in two components as follows:

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

As part of the placement announced to the market on 24 August 2022 of $10m at $14.00 per share, 4F Investments Pty Limited agreed to subscribe for 165,358 ordinary shares at $14.00 per share as part of this placement at a cost of $2,315,012, subject to shareholder approval. 4F Investments Pty Limited has agreed that it would offset $2,315,012 against its unsecured loan of $3,285,000, subject to shareholder approval, and the balance of $969,988 would be repaid in cash once the placement funds of A$4,316,550 (US$3m) from Earth Mountain are received.

4F Investments Pty Limited will continue to receive 6.00% interest on the unsecured loan until shareholder approval is received. In respect of the balance of the unsecured loan of $969,988, after shareholder approval, 4F Investments Pty Limited will continue to receive interest at 6.00 % per annum until repayment.

During the year, Link Enterprises Group provided an additional $600,000 under its unsecured loan facility of A$1m and was repaid in full on 31 August 2022 from the proceeds of the August 2022 capital raising.

	31 December 2022 $	31 December 2021 $

7. 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.

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

	2022		2021	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Balance at the beginning of the financial year (i)	295,000	22.60	203,000	16.20
Granted during the year (ii)	165,000	14.00	122,000	27.70
Exercised during the year (iii)	-	-	-	-
Lapsed during the year (iv)	(173,000)	16.20	(30,000)	16.20
Balance at the end of the financial year (v)	287,000	19.82	295,000	22.60
Exercisable at end of the year	-	-	173,000	-

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

(i) Balance at the beginning of the year

	Number	Grant date	Expiry date	Exercise Price	Fair value at grant date
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				
2021	203,000	17/12/18	17/12/22*	16.20	$1,421,406

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

* These options commence to vest after 17 December 2020 and continuous employment on the basis of one twelfth of the total number each month in the twelve month period to 17 December 2021. 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 agreed to re-issue these 173,000 options with an exercise price of $16.20 subject to shareholder approval at a future date.

(ii) Granted during the year

	Number	Grant date	Expiry date	Exercise Price	Fair value at grant date
2022					
Staff options	30,000	1/12/22	1/12/26	14.00	$124,800
Staff options	135,000	1/12/22	1/12/27	14.00	$662,850
	165,000				$787,650
2021					
Staff options	122,000	16/4/21	16/4/25	27.70	$1,241,960

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

(ii) Granted during the year (cont)

The following inputs were used in the model for the option grants made on 1 December 2022:

30,000 Options

Dividend yield	0.00%
Expected volatility (linearly interpolated)	55.00%
Risk free interest rate	3.1%
Expected life of options	1,095 days
Grant date share price	$12.00
Exercise price	$14.00

135,000 Options

Dividend yield	0.00%
Expected volatility (linearly interpolated)	55.00%
Risk free interest rate	3.2%
Expected life of options	1,460 days
Grant date share price	$12.00
Exercise price	$14.00

(ii) Exercised during the year

There were no options exercised during the year.

(iv) Lapsed during the year

173,000 (31 December 2021 - 30,000).

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 have agreed to re-issue these 173,000 options with an exercise price of $16.20 subject to shareholder approval at a future date.

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

(v) Balance at the end of the financial year

	Number	Grant date	Expiry date	Exercise Price	Fair value at grant date
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				
2021					
Staff options	122,000	16/4/21	16/4/25*	$27.70	$1,241,960
Staff options	173,000	17/12/18	17/12/22*	$16.20	$1,316,876
	295,000				

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 vest after two years continuous employment on the basis of one twelfth of the total number each month.

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.

8. Related Party Transactions

Transactions with related entities

During the year ended 31 December 2022, the Company paid a total of $109,331 (year ended 31 December 2021 - $108,104) to 4F Investments Pty Limited, a company associated with Mr Fred Bart in respect of directors fees and superannuation for Mr Fred Bart and Mrs Cheryl Bart.

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

During the year ended 31December 2022, the Company paid $30,000 (31 December 2021 – $30,000) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of consulting fees for company secretarial and accounting services.

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

a) Subject to shareholder approval, 4F Investments Pty Limited (a company associated with Fred Bart) has agreed to subscribe to 165,358 ordinary shares at $14.00 per share amounting to $2,315,012 as part of the placement announced to the market on 24 August 2022.

b) The balance of the loan of $969,988 is due for repayment on receipt of the placement monies of A$4,316,550 (US$3m) from Earth Mountain.

During the year, the company paid $120,749 (31 December 2021 – Nil) on the unsecured loan to 4F Investments Pty Limited. Interest has been accrued in the financial statements at 31 December 2022 of $32,940 (31 December 2021 - $9,136) has been accrued in the financial statements.

The lease in respect of office premises at Suite 3, Level 12, 75 Elizabeth Street Sydney expired on 30 March 2022. The Company has not renewed the lease and continues to occupy the premises on a month to month basis. The Company recharged rent and other tenancy charges of $42,871 (year ended 31 December 2021 - $40,488) to 4F Investments Pty Limited, a company controlled by Fred Bart.

9. Earnings per Share

	31 December 2022	31 December 2021
Basic (loss) per share	(8.46) cents	(11.53) cents
Diluted (loss) per share (b)	(8.46) cents	(11.53) cents
(Loss) (a)	(2,435,719)	(3,309,869)
Weighted average number of Ordinary Shares	28,779,662	28,698,213

(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.

10. 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 2021 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 2022 $	31 December 2021 $
Segment Revenues		
Digital speakers	482,841	108,691
Total of all segments	482,841	108,691
Segment Results		
Digital speakers	(2,435,719)	(3,309,869)
(Loss) before income tax	(2,435,719)	(3,309,869)
Income tax gain/ (expense)	-	-
(Loss) for the period	(2,435,719)	(3,309,869)

10. **Segment Information (cont)**

Segment Assets and Liabilities

	Assets		Liabilities	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021
	$	$	$	$
Digital speakers	5,313,303	4,131,762	5,165,096	3,526,347
Total all segments	5,313,303	4,131,762	5,165,096	3,526,347
Unallocated	-	-	-	-
Consolidated	5,313,303	4,131,762	5,165,096	3,526,347

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 2022	31 December 2021	31 December 2022	31 December 2021
	$	$	$	$
Digital speakers	461,255	501,414	124,806	158,471
Total all segments	461,255	501,414	124,806	158,471
Unallocated	-	-	-	-
Consolidated	461,255	501,414	124,806	158,471

10. **Segment Information (cont)**

Information on Geographical Segments

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

31 December 2021

Geographical Segments	Revenue from External Customers	Segment Assets	Acquisition of Segment Assets
	$	$	$
Australia	108,691	2,681,583	-
Israel	-	1,450,179	158,471
Total	108,691	4,131,762	158,471

11. Commitments

The subsidiary company, Audio Pixels Limited of Israel has entered into various purchase orders and commitments of $521,141 (2021: $258,841) with various strategic partners which will become payable once qualified products are delivered to the company.

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., Limited to mass produce Audio Pixels' transformational digital loudspeaker products.

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 2022. On the basis that these initial pre-production packaged chips meet all the design specifications by 30 June 2023, the parent company has committed a further US$9,600,000 for fully tested packaged production chips at a unit price to be finalised based on actual yields.

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

12. Subsequent events

Since the end of the financial year, 4F Investments Pty Limited advanced a further loan of $150,000 on 27 February 2023.

13. Issue of securities

2022

On 31 August 2022, the company issued 240,603 new ordinary shares at $14.00 each raising $3,183,442 net of issuance costs. On 29 December 2022 the company issued 105,476 new ordinary shares at $14.00 each raising $1,476,669 net of issuance costs.

On 17 December 2022, the company issued 135,000 unlisted options to employees at an exercise price of $14.00 each exercisable on or before 1 December 2027. On 17 December 2022, the company issued 30,000 unlisted options to employees at an exercise price of $14.00 each exercisable on or before 1 December 2026.

13. **Issue of securities (cont)**

2021

No new ordinary shares were issued during the year ended 31 December 2021.

On 16 April 2021, the company issued 122,000 unlisted options to employees at an exercise price of $27.70 each exercisable on or before 16 April 2025.

14. Other Significant Information

None

15. 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 based on the auditor's assessment of the information available at the date of this report it is likely that the audit report will include material uncertainty that exists related to going concern. The auditor will continue to assess going concern and consider relevant events, additional information or changes in circumstances up until the date of the audit report.

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

Not applicable