

Activity Statement for the Quarterly Cash Report to 31 December 2023

On 30 May 2023, the Company provided a detailed explanation and live demonstration of our Digital Sound Reconstruction Loudspeaker Chip. Despite using our prototyping platform (MEMS-GEN-I), the performance demonstrated, represents a quantum leap in sound reproduction technology that is discernably superior and incomparable when compared to any other sound reconstruction technology available today. The chip exhibited near perfectly flat Frequency and Phase Response with practically no distortion.

On the basis of this major accomplishment, management informed the market of its decision to commence fabrication efforts of our commercial version of the chip. There are a number of notable differences between the prototype (GEN-I) and the commercial version (GEN-II) of the chip; the primary difference being the implementation of certain design elements that significantly increase the sound pressure levels (SPL) output of the chip, in order better meet (or exceed) market stated demands of our products.

As informed in numerous announcements, Earth Mountain (EM) had taken an aggressive decision to invest in expanding their production capabilities and capacity for GEN-II chips. While due to their experience fabricating GEN-I the 6" fab remained the lead fabricator, however and despite the added cost and challenges, EM decided to add two 8" fabs in a forward-looking effort to increase capacity, enhance productivity and efficiency.

On 31 August 2023 management informed the market that EM's 6" Fab had encountered specific fabrication challenges and consequently had to delay its original estimated delivery for first GEN-II wafers, from October to December of 2023.

On the 28 Nov 2023 EM informed the company that the lead wafers produced by the 6" fab failed basic electrical testing. Failure Analysis conducted by the company upon receipt of the wafer, revealed the root cause to be a faulty etch process in one of the earlier fabricated layers of the device, an easily correctable problem.

On 24 Jan 2024 the 6" fab informed the vendor that it must temporarily suspend advancing the backup batches of our wafers due to an unanticipated increase in demand by a very significant Fab customer. To resolve their production bottleneck, the fab acquired additional equipment which they anticipate bringing online in mid to late February. Once they are able to resume fabrication it is estimated that 5-6 weeks will be needed to bring the lead backup batch to completion.

Wafer production at both 8" fabs was proceeding ahead of pace until one of the last steps of fabrication when it encountered a particular problem related to excessive wafer stress. One of the major challenges in MEMS (and semiconductor) fabrication, is that stress is accumulated throughout each of the many fabrication steps. This stress needs to be properly managed to prevent the wafer from warping or bowing or even cracking during or after annealing.

Consequently, as is the current case, excessive warpage prevents the wafers from advancing to the next fabrication step as the deformities do not permit proper positioning or processing of the wafer in the equipment. The larger 8” wafers combined with the atypical material used in the layer of our device requires the Fab to apply additional effort to correct and the stress of the final process steps. The fabs currently estimate that they could complete fabrication within 2-3 weeks of attaining satisfactory results.

As stated very recently by Ms. Helen Du, CEO of Earth Mountain *“EM has worked extensively with AP on developing the manufacturing process for AP’s GEN-2 chip- the world first Digital Sound Reconstruction speaker product. In order to meet AP’s precise technical specifications, EM is working hard to resolve one key manufacturing challenge and is hoping the completed GEN-2 DSR chip will be delivered in the very near future”*.

Management has and continues to work very closely with Earth Mountain to resolve any outstanding issues that may arise. However, as a fabless company that is wholly dependent on its vendors to fabricate functioning devices to spec, management had no choice but to adjust its strategic plans involving customer engagement from early to the latter part of Q1-24.

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

As announced management secured a Convertible Note to carry the company through its next milestone and to cover the ongoing delay of Earth Mountain (Suzhou) Microelectronics Ltd. (EM) to settle its commitment to take 308,325 ordinary shares at \$14.000 per share (\$4,316,550) as part of the placement announced 24 August 2022. As of the date of this report, EM has yet to receive an official notice from the required China regulatory authorities to approve EM’s foreign investment request to invest USD \$3M in the Company. EM has confirmed that their management continues its efforts to obtain the necessary approvals and confirmed their commitment to invest in the Company.

Payments to related entities

The amounts included in Item 6.1 of \$52,106 include directors’ fees and superannuation paid to non-executive directors or entities associated with non-executive directors of \$48,146. Interest was paid in cash on the convertible note to 4F Investments Pty Limited (a company associated with Fred Bart) during the quarter amounting to \$3,960.

Summary

Given the resounding success and reception of our first-ever public technological demonstration, management is increasingly confident that the company’s commercial objectives can commence

sometime in Q1 of this year. Much will depend on the timely receipt and fabrication success of the initial MEMS-GEN-II wafers and chips.

This announcement has been authorised for release to ASX by Fred Bart, Chairman.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

AUDIO PIXELS HOLDINGS LIMITED

ABN

98 094 384 273

Quarter ended ("current quarter")

31 DECEMBER 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	21
1.2 Payments for		
(a) research and development	(621)	(3,449)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	-	(2)
(d) leased assets	-	-
(e) staff costs	(73)	(477)
(f) administration and corporate costs	(351)	(859)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(149)	(371)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other	-	-
1.9 Net cash from / (used in) operating activities	(1,195)	(5,137)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(167)	(308)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(167)	(308)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	2,500	5,000
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	1,500
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Repayment of lease liabilities	(14)	(115)
3.10	Net cash from / (used in) financing activities	2,486	6,385

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,226	1,340
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,195)	(5,137)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(167)	(308)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,486	6,385
4.5	Effect of movement in exchange rates on cash held	(71)	(1)
4.6	Cash and cash equivalents at end of period	2,279	2,279

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	2,279	1,226
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,279	1,226

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	52
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
The amount included in Item 6.1. includes directors fees and superannuation paid to entities associated with the non-executive directors of \$48,146.		

Quarterly cash flow report for entities subject to Listing Rule 4.7B

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	-	-
7.5 Unused financing facilities available at quarter end		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(1,195)
8.2 Cash and cash equivalents at quarter end (item 4.6)	2,279
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	2,279
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.91
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: Yes	
8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: Yes. The Company is still expecting to receive the placement proceeds of A\$4,316,550 in respect of the placement to Earth Mountain of 308,325 ordinary shares at \$14.00 announced on 24 August 2022. In order to sustain the anticipated level of R&D activities, additional funding will be required within the next 12 months. The precise timing, method and quantum of the additional funding to be secured remains subject to ongoing review and discussions between the Board as well as its advisers and potential funders. The timing of securing additional funds will also be subject to market conditions prevailing at the time and is expected to be coordinated with the demonstration of the MEMS GEN-II wafers and chips during the March 2024 quarter.	

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: Yes. The Company is expecting to receive the placement proceeds of A\$4,316,550 in respect of the placement to Earth Mountain of 308,325 shares at \$14.00 announced on 24 August 2022.

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 31 January 2024

Authorised by: By the Board
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – e.g. Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.