

Appendix 4D and Financial Report for the Half-year Ended 30 June 2023

1. Company Details

Name of entity: Pivotal Systems Corporation
ARBN: 626 346 325

Reporting period: Half-year ended 30 June 2023
Previous Corresponding Period: Half-year ended 30 June 2022

The financial information contained in the attached consolidated financial report of Pivotal Systems Corporation ("Company") is for the half-year ended 30 June 2023. The previous corresponding period was the half-year ended 30 June 2022.

2. Results for Announcement to the Market

	30 Jun 2022 US\$'000	30 Jun 2023 US\$'000	Up/Down %
Revenue from ordinary activities	9,022	2,779	Down 69%
Gross Loss	(561)	(821)	Up 46%
Loss from ordinary activities after tax attributable to common stockholders	(9,839)	(5,936)	Down 39%
Net Loss attributable to common stockholders	(10,042)	(6,110)	Down 39%

3. Review of Operations and Financial Results

Commentary related to the above results and additional information is contained within the attached half-year Financial Report and Directors' Report.

4. Dividends

No dividends have been paid or are proposed to be paid by Pivotal Systems Corporation for the half-year 2023 (2022: \$Nil).

5. Net Tangible Assets per share:

	31 Dec 2022	30 Jun 2023
Net tangible assets per share * (US\$ per share)	0.06	0.01

*Right of use asset in respect to property leases have been excluded from the calculation of net tangible assets.

6. Control Gained or Lost Over Entities

There were no changes in control over entities by Pivotal Systems Corporation or its subsidiaries ("Group") during the six months ended.

7. Details of Associates and Joint Venture Entities

The Group has no investments in associates or joint ventures during the reporting period.

8. Accounting Standards

The half-year Financial Report has been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Appendix 4D and Financial Report for the Half-year Ended 30 June 2023

9. Review Status

The Pivotal Systems Corporation Financial Report for the half-year ended 30 June 2023 has been subject to a review by our external auditors, Armanino LLP, and includes an emphasis of matter paragraph on the substantial doubt of the entity to continue as a going concern. A copy of the independent review report to the members of Pivotal Systems Corporation is included within the accompanying half-year Financial Report.

The information contained within this report is to be read in conjunction with the 2022 Annual Report of Pivotal Systems Corporation and any public announcements made to the ASX during the half-year period ending 30 June 2023 pursuant to its continuous disclosure obligations. Further information regarding the Company and its business activities can be obtained by visiting the Company's website at www.pivotalsys.com.

A handwritten signature in black ink, appearing to read 'K. Hill'.

Kevin Hill (CEO)

30 August 2023 (Fremont PDT), 31 August 2023 (Sydney AEST)

PIVOTAL SYSTEMS CORPORATION

A DELAWARE CORPORATION
ARBN 626 346 325

FINANCIAL REPORT
FOR THE HALF-YEAR ENDED
30 JUNE 2023

Table of Contents

Corporate Directory	2
Directors' Report	3
Condensed Consolidated Balance Sheets	7
Condensed Consolidated Statements of Operations	8
Condensed Consolidated Statements of Redeemable Preferred Stock and Stockholders' Equity	9
Condensed Consolidated Statements of Cash Flows	10
Notes to the Condensed Consolidated Financial Statements	11
Directors' Declaration	22
Independent Auditor's Review Report	23

Corporate Directory

Company

Pivotal Systems Corporation
48389 Fremont Blvd, Suite 100
Fremont CA, 94538 USA
Phone: +1 (510) 770 9125
Fax: +1 (510) 770 9126

Website: www.pivotalsys.com

Directors

Kevin Hill	Executive Director and Chief Executive Officer
Joseph Monkowski	Executive Director
Kevin Landis	Non-Executive Director
David Michael	Non-Executive Director

Australian Securities Exchange Representative

Danny Davies

United States Registered Office

c/o Incorporating Services Ltd
3500 South Dupont Highway
Dover, Delaware 19901 USA

Australian Registered Office

c/o Company Matters Pty Limited
Level 12, 680 George Street
Sydney, NSW 2000 Australia

United States Legal Adviser

DLA Piper LLP (US)
555 Mission Street
Suite 2400
San Francisco, California
94105-2933
United States of America

Australian Legal Adviser

Maddocks
Angel Place Level 27
123 Pitt Street
Sydney, NSW 2000 Australia

Share Registry

Australian CDI registry
Link Market Services
Level 12, 680 George Street
Sydney, NSW 2000 Australia
Telephone: +61 1300 554 474
Facsimile: +61 2 9287 0303

US share registry
American Stock Transfer and Trust Company, LLC
6201, 15th Avenue
Brooklyn, NY 11219 USA
Telephone: +1 (718) 921 8386

Securities Exchange Listing

Pivotal Systems Corporation (ASX code: PVS).

Chess Depository Interests (“CDIs”) over shares of the Company’s common stock are quoted on the Australian Securities Exchange. One CDI represents one fully paid share in the Company.

Directors' Report

The directors present their report for Pivotal Systems Corporation ("Pivotal" or "Company") together with the interim financial statements for the half-year period ended 30 June 2023 and the auditor's review report thereon.

DIRECTORS

The following persons were directors of the Company during the whole of the financial year and up to the date of this report, unless otherwise stated:

Kevin Hill	Executive Director and Chief Executive Officer
Dr. Joseph Monkowski	Executive Director and Chief Technical Officer (re-appointed to the Board on 13 June 2023)
Kevin Landis	Non-Executive Director
David Michael	Non-Executive Director
Ryan Benton	Independent Non-Executive Director (retired from the Board on 10 April 2023)
Peter McGregor	Independent Non-Executive Director (retired from the Board on 10 April 2023)
Jason Korman	Non-Executive Director (retired from the Board on 13 June 2023)

PRINCIPAL ACTIVITIES

Pivotal designs, develops, manufactures and sells high-performance gas flow control products. This includes the Gas Flow Controller ("GFC") family of products and Flow Ratio Controllers ("FRC") for both etch and deposition applications. The Company's proprietary hardware and software utilizes advanced flow intelligence and proprietary algorithms to enable preventative diagnostic capability resulting in the potential for an order of magnitude increase in fab productivity and capital efficiency for existing and future technology nodes.

Pivotal is incorporated in Delaware, United States and has offices in Fremont California, USA (headquarters) and third party contracted manufacturing ("CM") and assembling facilities in Shenzhen, China and Dongtan, South Korea.

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

Financial results

Revenue for the half-year ended 30 June 2023 decreased 69% to \$2.8 million (2022 1H: \$9.0 million). This was as a result of a decrease in shipments due to a lower demand from our customers resulting from the industry cycles and an excess inventory bubble.

Gross loss for the half year of \$0.8 million increased 46% from the prior corresponding period (2022 1H: \$0.6 million). The impact on Gross loss was driven by lower volumes of sales and reduced overhead absorption. The Company's China and Korea based CMs continue to operate to a capacity of 4,000 units per month based on a 5-day, 2 shift production. However, sales volume was insufficient to surpass the fixed cost supply chain infrastructure.

Total operating expenses for the period were \$5.1 million (2022 1H: \$9.2 million), the decrease is explained by disciplined expense management and slowed hiring. As a result, loss from operations is \$3.8 million lower than prior period (2022 1H \$9.7 million). The Company reduced research and development expenses, with expenditures \$1.5 million lower than prior comparative period.

Pivotal continued to focus on aggressively reducing operating costs in an effort to re-base the business in advance of the next semiconductor equipment upturn. In addition, Pivotal is moving to a concerted production cost reduction strategy, which is targeting an overall effect on COGS of greater than 20% on a full year basis. In Q1 2023 the Company achieved 4.8% of the required cost reduction, which improved by 5.5% in Q2 2023 for a first half improvement of 10.3%.

During Q2 2023, the Company successfully completed an Entitlement Offer raising total proceeds of \$3.2 million (before costs) directed to working capital and for general corporate purposes.

Directors' Report

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Board of Director Changes

On 11 June 2023, Pivotal's President and Chief Technology Officer, Dr. Joseph Monkowski was appointed to the Board of Directors as an Executive Director. Dr. Joseph Monkowski has extensive experience in the semiconductor industry focused on process equipment and metrology solutions for next generation device manufacturing. Joseph founded Pivotal in 2003 and has led the Company's research and development activities as Chief Technology Officer.

Mr. Jason Korman, Non-Executive Director, retired as a Director at the conclusion of the Company's Annual General Meeting (AGM) held on 13 June 2023. In addition, Non-Executive Directors Ryan Benton and Peter Mc Gregor resigned in April 2023. The Company expresses its sincere gratitude to each of the former directors for their contribution to our Board and commitment to the Company.

LIQUIDITY AND GOING CONCERN

Since inception, the Company has generated recurring losses which has resulted in an accumulated deficit of \$131.9 million as of June 30, 2023. Further, during the six months ended June 30, 2023, the Company had negative operating cash flows of \$2.5 million and experienced declining revenues. In order to fund planned operations, the Company will need to secure additional debt or equity financing. Pivotal continues to work with its bankers and investors to identify sources of capital that might bridge its current negative cash flows. However, if such financing is not available when needed and at adequate levels, the Company will need to reevaluate its operating plan and may be required to curtail its business operations.

As the availability of further financing is outside of Management's control, the Company cannot guarantee that it will be successful. As a result, substantial doubt exists about the Company's ability to continue as a going concern within one year after the date that the condensed consolidated financial statements are available to be issued. Failure to secure additional funding may require the Company to modify, delay, or abandon some or all of its planned future expansion or development, or to otherwise enact operating cost reductions available to management, which could have a material adverse effect on the Company's business, operating results, financial condition, and ability to achieve its intended business objectives.

The accompanying condensed consolidated financial statements have been prepared in conformity with U.S. GAAP, assuming the Company will continue as a going concern and do not include adjustments that might result from the outcome of this uncertainty. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of liabilities in the normal course.

DIVIDENDS

No dividends were paid or declared during the half-year ended 30 June 2023 and the Company does not intend to pay any dividends for the half-year ended 30 June 2023 (2022: \$Nil).

PRESENTATION CURRENCY

The functional and presentation currency of the Group is United States Dollars (US Dollars). The financial report is presented in US Dollars with all references to dollars, cents or \$'s in these financial statements presented in US currency, unless otherwise stated.

ROUNDING OF AMOUNTS

Unless otherwise stated, amounts in this report have been rounded to the nearest thousand United States Dollars.

Directors' Report

JURISDICTION OF INCORPORATION

The Company is incorporated in the State of Delaware, United States of America and is a registered foreign entity in Australia. As a foreign company registered in Australia, the Company is subject to different reporting and regulatory regimes than Australian companies.

DELAWARE LAW, CERTIFICATE OF INCORPORATION AND BYLAWS

As a foreign company registered in Australia, the Company is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act dealing with the acquisition of shares (including substantial shareholdings and takeovers). Under the provisions of Delaware General Corporation Law ("DGCL"), shares are freely transferable subject to restrictions imposed by US federal or state securities laws, by the Company's certificate of incorporation or bylaws, or by an agreement signed with the holders of the shares at issue.

The Company's amended and restated certificate of incorporation and bylaws do not impose any specific restrictions on transfer. However, provisions of the DGCL, the Company's Certificate of Incorporation and the Company's Bylaws could make it more difficult to acquire the Company by means of a tender offer (takeover), a proxy contest or otherwise, or to remove incumbent officers and Directors of the Company.

These provisions could discourage certain types of coercive takeover practices and takeover bids that the Board may consider inadequate and to encourage persons seeking to acquire control of the Company to first negotiate with the Board.

The Company believes that the benefits of increased protection of its ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure the Company outweigh the disadvantages of discouraging takeover or acquisition proposals because, among other things, negotiation of these proposals could result in an improvement of their terms.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

On August 1, 2023, a Company's supplier has filed a complaint against the Company in the United States District Court Central District of California Southern Division (Case No. 5:23-cv-3831-VKD) and brought an action for breach of contract and account stated for recovery of money owed to the supplier pursuant to a volume supply agreement. Unbeknownst to Pivotal, the supplier increased excess inventory of raw materials even though the supplier was unable to assemble them into a finished product due to the unavailability of other needed raw materials. The Company believes this lawsuit is without merit and will defend itself vigorously. As of the reporting date, the outcome is not determinable. The supplier owes the Company \$0.5 million, presented in note 4, as other receivables. There are no liabilities to be recorded as a result of the complaint.

Company has evaluated subsequent events through August 30, 2023, the date these financial statements were available to be issued, and determined that no additional subsequent events had occurred that would require disclosure or recognition in these financial statements.

Directors' Report

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Group's core growth strategy involves continuing its strong customer-driven product development focus in order to continue to increase the market share. The Group's growth strategy also includes:

1. Expanding the product portfolio which in turn increases the total addressable market size; and
2. Expanding relationships with key technology and industry partners in order to improve our product offering and delivery capabilities.

On behalf of the directors,

A handwritten signature in black ink, appearing to read 'Kevin Hill', with a stylized, cursive script.

Kevin Hill
Executive Director and CEO

30 August 2023 (Fremont PST), 31 August 2023 (Sydney AEST)

PIVOTAL SYSTEMS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands, except share and per share amounts)

	December 31, 2022	June 30, 2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,213	\$ 2,125
Trade accounts receivable	5,788	1,630
Inventories	7,410	7,194
Prepaid expenses	377	120
Other current assets	298	124
Total current assets	17,086	11,193
Property, plant and equipment, net	197	121
Right of use assets, net	420	278
Other assets	215	471
Total assets	<u>\$ 17,918</u>	<u>\$ 12,063</u>
Liabilities, Redeemable Preferred Stock and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	\$ 4,020	\$ 2,611
Accrued expenses	1,143	1,036
Current portion of long-term debt	1,130	—
Current portion of operating lease liabilities	327	314
Other current liabilities	444	488
Total current liabilities	7,064	4,449
Operating lease liabilities, less current portion	146	6
Other liabilities	113	164
Total liabilities	<u>7,323</u>	<u>4,619</u>
Commitments and contingencies (Note 8)		
Redeemable preferred stock, par value \$0.00001 per share, 13,000 shares authorized as of December 31, 2022 and June 30, 2023, 10,752 and 10,555 shares outstanding as of December 31, 2022 and June 30, 2023; aggregate liquidation preference of \$15,378 and \$17,721 as of December 31, 2022 and June 30, 2023.....	10,543	10,346
Stockholders' equity (deficit):		
Common stock, \$0.00001 par value; 250,000,000 and 1,200,000,000 shares authorized as of December 31, 2022 and June 30, 2023; 159,503,750 and 768,379,278 shares issued and outstanding as of December 31, 2022 and June 30, 2023	1	1
Common prime stock, \$0.00001 par value; 120,000,000 shares authorized as of December 31, 2022 and June 30, 2023; no shares issued and outstanding as of December 31, 2022 and June 30, 2023	—	—
Additional paid-in capital	125,977	128,985
Accumulated deficit	(125,926)	(131,888)
Total stockholders' equity (deficit)	52	(2,902)
Total liabilities, redeemable preferred stock and stockholders' equity (deficit)	<u>\$ 17,918</u>	<u>\$ 12,063</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

PIVOTAL SYSTEMS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except share and per share amounts)

	Six-Month Period Ended June 30,	
	2022	2023
Net product revenue	\$ 8,342	\$ 2,068
Service revenue	680	711
Total net revenue	9,022	2,779
Cost of goods sold	9,191	3,066
Cost of service revenue	392	534
Total costs of goods and service revenue	9,583	3,600
Gross (loss)	(561)	(821)
Operating expenses:		
Research and development	3,220	1,674
Selling, general and administrative	5,950	3,441
Total operating expenses	9,170	5,115
Loss from operations	(9,731)	(5,936)
Other (expense):		
Interest expense	(33)	(26)
Foreign currency transaction loss	(28)	—
Other expense, net	(1)	—
Other expense.....	(62)	(26)
Loss before provision for income taxes	(9,793)	(5,962)
Provision for income taxes	46	—
Net loss	\$ (9,839)	\$ (5,962)
Less deemed dividend to redeemable preferred stockholders ..	(203)	(148)
Net loss attributable to common stockholders, basic and diluted	\$ (10,042)	\$ (6,110)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.07)	\$ (0.02)
Weighted average common shares outstanding	150,667,126	301,986,110

The accompanying notes are an integral part of these condensed consolidated financial statements.

PIVOTAL SYSTEMS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)
(Unaudited)
(in thousands, except share amounts)

	Redeemable Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Par Value			
Balance at December 31, 2021 .	11,528	11,319	128,546,316	1	115,630	(111,801))	3,830
Issuance of shares upon funding-rights offering, net of issuance costs of \$703	—	—	30,317,527	—	9,911	—	9,911
Issuance of common stock upon stock options exercise	—	—	602,407	—	113	—	113
Redeemable preferred stock redemptions	(406)	(406)	—	—	(203)	—	(203)
Stock-based compensation ...	—	—	—	—	368	—	368
Net loss	—	—	—	—	—	(9,839)	(9,839)
Balance at June 30, 2022	<u>11,122</u>	<u>\$ 10,913</u>	<u>159,466,250</u>	<u>\$ 1</u>	<u>\$ 125,819</u>	<u>\$ (121,640)</u>	<u>\$ 4,180</u>
	Redeemable Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Par Value			
Balance at December 31, 2022 .	10,752	10,543	159,503,750	1	125,977	(125,926)	52
Issuance of shares upon funding-rights offering, net of issuance costs of \$335	—	—	608,861,361	—	2,907	—	2,907
Issuance of common stock upon stock options exercise	—	—	14,167	—	2	—	2
Redeemable preferred stock redemptions	(197)	(197)	—	—	(148)	—	(148)
Stock-based compensation ...	—	—	—	—	247	—	247
Net loss	—	—	—	—	—	(5,962)	(5,962)
Balance at June 30, 2023	<u>10,555</u>	<u>\$ 10,346</u>	<u>768,379,278</u>	<u>\$ 1</u>	<u>\$ 128,985</u>	<u>\$ (131,888)</u>	<u>\$ (2,902)</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

PIVOTAL SYSTEMS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Six-Month Period Ended June 30,	
	2022	2023
Cash Flows from Operating Activities		
Net loss	\$ (9,839)	\$ (5,962)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	117	81
Non-cash lease expense	136	148
Stock-based compensation	368	247
Gain on sale of property, plant and equipment	(11)	—
Changes in operating assets and liabilities:		
Trade accounts receivable	3,031	4,158
Inventories	784	216
Prepaid expenses	155	257
Other current assets	(89)	174
Other assets	155	(256)
Trade accounts payable	(1,940)	(1,409)
Accrued expenses	168	(107)
Other liabilities	(32)	94
Operating lease liabilities	(142)	(158)
Net cash used in operating activities	<u>(7,139)</u>	<u>(2,517)</u>
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(21)	(5)
Net cash used in investing activities	<u>(21)</u>	<u>(5)</u>
Cash Flows from Financing Activities		
Proceeds from borrowings on long-term-debt	500	3,855
Payments on borrowings of long-term-debt	(500)	(4,985)
Proceeds from the exercise of stock options	113	2
Proceeds from the issuance of common stock, net of issuance costs ..	9,911	2,907
Payments on redemption of preferred stock	(609)	(345)
Net cash provided by financing activities	<u>9,415</u>	<u>1,434</u>
Net increase (decrease) in cash and cash equivalents	2,255	(1,088)
Cash and cash equivalents at beginning of period	3,988	3,213
Cash and cash equivalents at end of period	<u>\$ 6,243</u>	<u>\$ 2,125</u>
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	\$ 46	\$ —
Cash paid for interest	\$ 20	\$ 27
Non-cash investing and financing activities:		
Decrease in ROU Asset from lease modification.....	\$ —	\$ (8)

The accompanying notes are an integral part of these condensed consolidated financial statements.

PIVOTAL SYSTEMS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of the Business and Basis of Presentation

Pivotal Systems Corporation, together with its consolidated subsidiary (the Company), designs, develops and manufactures flow monitoring and control technology products for the global semiconductor industry. The Company's proprietary hardware and software utilizes advanced machine learning to enable preventative diagnostic capability resulting in an order of magnitude increase in fabrication productivity and capital efficiency technology nodes. The Company is incorporated in Delaware, United States and has offices in Fremont, California, USA (headquarters) and third party contracted manufacturing and assembling facilities in Shenzhen, China and Dongtan, South Korea.

The Company's securities have been listed for quotation in the form of CHESS Depositary Interests, or CDIs, on the Australian Securities Exchange (the ASX) and trade under the symbol PVS since July 2, 2018. Legal title to the shares of common stock underlying the CDIs is held by CHESS Depositary Nominees Pty Ltd (CDN), a wholly owned subsidiary of the ASX. One CDI represents the beneficial interest in one share of common stock.

Liquidity and Going Concern

The Company has incurred recurring losses and negative cash flows from operating activities since inception. The Company anticipates that it will continue to incur net losses into the near future. As of June 30, 2023, the Company had cash of \$2.1 million and had an accumulated deficit of \$131.9 million.

The Company believes that cash as of June 30, 2023, of \$2.1 million, will not be sufficient to fund its planned operations for a period of at least 12 months from the date of the issuance of the accompanying condensed consolidated financial statements. Management expects to incur additional losses in the future to fund its operations and will need to raise additional capital to fully implement its business plan. The Company may raise additional capital through the issuance of equity securities, debt financings or other sources in order to further implement its business plan. However, if such financing is not available when needed and at adequate levels, the Company will need to reevaluate its operating plan and may be required to curtail its business operations.

The Company believes that this raises substantial doubt about its ability to continue as a going concern. The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The accompanying condensed consolidated financial statements do not reflect any adjustments relating to the recoverability and reclassifications of assets and liabilities that might be necessary if the Company is unable to continue as a going concern.

2. Summary of Significant Accounting Policies

Basis of presentation and consolidation

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and include the accounts and results of operations of the Company and its wholly owned subsidiary. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingencies at the date of the condensed consolidated financial statements and the reported amounts of net revenue and expenses during the reporting period. Such estimates relate to revenue recognition, the useful lives of fixed assets, leases, allowances for doubtful accounts, net realizable value of inventory, accrued liabilities, the valuation of stock-based awards, deferred tax valuation allowances, and other reserves. On an ongoing basis, the Company evaluates its estimates. Actual results could differ from those estimates, and such differences may be material to the condensed consolidated financial statements.

Business Segment Information

The Company operates in one segment which involves the technological design, development, manufacture, and sale of high-performance flow controllers. All the activities of the Company are interrelated, and each activity is dependent on the others. Accordingly, all significant operating disclosures are based upon analysis of the Company as one segment. The financial results of this segment are equivalent to the financial statements of the Company as a whole.

The chief operating decision maker, who is the Company's chief executive officer, measures financial performance as a single enterprise and not on legal entity or end market basis. Throughout the year, the chief operating decision maker allocates capital resources on a project-by-project basis across the Company's entire asset base to maximize profitability without regard to legal entity or end market basis.

The geographic location of the Company's long-lived assets, net, based on physical location of the assets, as of December 31, 2022 and June 30, 2023 were as follows (in thousands):

	December 31, 2022	June 30, 2023
United States	\$ 188	\$ 121
South Korea	9	—
Total property, plant and equipment, net	<u>\$ 197</u>	<u>\$ 121</u>

Unaudited Interim Condensed Consolidated Financial Statements

The accompanying interim condensed consolidated balance sheet as of June 30, 2023, the interim condensed consolidated statements of operations, condensed consolidated statements of redeemable preferred stock and stockholders' equity (deficit) for the six months ended June 30, 2022 and 2023, and condensed consolidated statements of cash flows for the six months ended June 30, 2022 and 2023, and amounts relating to the interim periods included in the accompanying notes to the interim condensed consolidated financial statements are unaudited. The unaudited interim financial statements have been prepared in accordance with U.S. GAAP and the applicable rules and regulations of the U.S. Securities and Exchange Commission (SEC) regarding interim financial reporting, and in management's opinion, includes all adjustments, consisting of only normal recurring adjustments, necessary for the fair presentation of the Company's condensed consolidated balance sheet as of June 30, 2023, and its results of operations for the six months ended June 30, 2022 and 2023, and cash flows for the six months ended June 30, 2022 and 2023. The results for the six months ended June 30, 2023 are not necessarily indicative of the results expected for the fiscal year or any other periods. These interim financial statements should be read in conjunction with the Company's consolidated financial statements and related notes for the fiscal year ended December 31, 2022.

Fair Value of Financial Instruments

Certain assets and liabilities are carried at fair value under U.S. GAAP. Fair value is the exchange price that would be received for an asset or paid to transfer a liability (at exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value, which are provided below:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs (other than Level 1 prices) such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or examination.

The categorization of a financial instrument within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The carrying value of accounts receivable, accounts payable and accrued expenses approximate their respective fair value due to the short-term nature of these assets and liabilities. The carrying value of the term loan and outstanding borrowings under the line of credit agreement approximate fair value as they bear interest at a rate approximating a market interest rate.

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity date of three months or less at the date of purchase to be cash equivalents. Cash is maintained at financial institutions. The Company maintains all cash in a highly liquid form to meet current obligations.

Stock-Based Compensation

The Company recognizes compensation costs for all stock-based compensation awards made to employees based upon the awards' grant-date fair value. The fair value of the equity-settled share options granted throughout the year is estimated as at the date of grant using a Black Scholes Merton Option Pricing Model. Stock-based compensation expense is recognized evenly over the requisite service period, which is generally the vesting period. The Company accounts for forfeitures as they occur. Determining the fair value of the stock-based compensation awards at the grant date requires judgment, including estimated the expected term of the stock awards and the volatility of the underlying market-based and projected future cash flow assumptions. Any changes to those estimates that the Company makes from time to time may have a significant impact on the stock-based compensation expense recorded and could materially impact the Company's results of operations.

Impact of Recently Adopted Accounting Standards

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments" (ASU 2016-13), which adds an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. The ASU is also intended to reduce complexity by decreasing the number of credit impairment models that entities use to account for debt instruments. The Company adopted ASU 2016-13 on January 1, 2023, using the modified retrospective adoption approach. The adoption of the guidance did not have a significant impact on its condensed consolidated financial statements and disclosures.

3. Revenue from Customers

The Company earns revenue from customers, primarily through the design, development, manufacture, and sale of flow controllers. The following table summarizes net revenues disaggregated by type of customer for the six months ended June 30, 2022 and 2023. The categorization of net revenues by customer type is determined using various characteristics of the product and the application into which the Company's product will be incorporated.

Net revenues by core end market and application were as follows for the six-months ended June 30 2022 and 2023 (in thousands):

	<u>2022</u>	<u>2023</u>
Customer type:		
Integrated device manufacturer (IDM)	\$ 1,761	\$ 1,143
Original equipment manufacturer (OEM)	<u>7,261</u>	<u>1,636</u>
Total net revenue	<u>\$ 9,022</u>	<u>\$ 2,779</u>

The Company recognizes revenues net of discounts.

Unsatisfied performance obligations primarily represent contracts for products with future delivery dates. The Company elected to not disclose the amount of unsatisfied performance obligations as these contracts have original expected durations of less than one year.

4. Trade Accounts Receivable

Trade accounts receivable, net consists of the following (in thousands):

	<u>December 31, 2022</u>	<u>June 30, 2023</u>
Trade accounts receivable	\$ 5,243	\$ 1,085
Other receivables	<u>545</u>	<u>545</u>
Total trade accounts receivable	<u>\$ 5,788</u>	<u>\$ 1,630</u>

5. Inventories

Inventories include material, labor and overhead and consists of the following (in thousands):

	<u>December 31, 2022</u>	<u>June 30, 2023</u>
Raw materials	\$ 4,525	\$ 4,485
Work in process	628	459
Finished goods	<u>2,257</u>	<u>2,250</u>
Total inventories	<u>\$ 7,410</u>	<u>\$ 7,194</u>

As of December 31, 2022 and June 30, 2023, the Company recorded inventory provisions totaling \$0.78 million and \$1.2 million, respectively.

6. Notes Payable

On August 27, 2019, the Company entered into a financing agreement with Bridge Bank, a division of Western Alliance Bank. The financing agreement included a revolving line of credit with a maximum borrowing capacity of \$7.0 million (revolving credit line), and a term loan line of credit with a maximum borrowing capacity of \$3.0 million (term loan).

The amount of liquidity available under the revolving credit line is based on the Company's balances and composition of eligible customer receivables and inventory, as well as other factors. As of June 30, 2023, the amount available under the revolving credit line is \$0.07 million. Amounts borrowed under the revolving credit line mature and become due and payable 24 months from the date of borrowing, unless extended by the parties. The agreement was amended on September 27, 2021, extending the maturity date of the revolving credit line to September 27, 2023. The revolving credit line bears interest at a rate equal to 1% above the prime rate, floating on the average outstanding balance. As of December 31, 2022 and June 30, 2023, the outstanding balance of the revolving credit line was \$1.13 million and \$0, respectively. As of June 30, 2023, the interest rate for the revolving credit line was 9.75%.

During the year ended December 31, 2022, the Company fully repaid all outstanding term loan amounts.

The financial covenants of the revolving credit line require that the Company must maintain unrestricted cash and cash equivalents with the lender of not less than \$0.5 million at any time. The Company was in compliance with the financial covenants of its borrowing facilities outstanding as of December 31, 2022 and June 30, 2023.

7. Leases

The Company's operating lease liabilities as of December 31, 2022 and June 30, 2023 are comprised of future payments related to the Company's operating lease agreement for office space, and operating lease for office equipment. Total lease costs for the six-months ended June 30, 2022 and 2023 were as follows (in thousands):

	<u>2022</u>	<u>2023</u>
Operating lease costs	\$ 161	\$ 162

The following table presents the weighted average remaining lease term, and weighted-average discount rates related to the Company's operating leases:

	<u>December 31, 2022</u>	<u>June 30, 2023</u>
Weighted average remaining lease term (in months)	16	12
Weighted average discount rate	7.5%	7.5%

Future minimum payments on operating lease liabilities as of June 30, 2023, are as follows (in thousands):

<u>Period Ending June 30,</u>	
Remainder of 2023	\$ 177
2024	150
2025	<u>4</u>
Total minimum lease payments	331
Less: Imputed interest	<u>(11)</u>
Total	<u>\$ 320</u>

8. Commitments and Contingencies

Legal proceedings

From time to time, the Company becomes subject to various legal proceedings and claims, the outcomes of which are subject to significant uncertainty. The Company records an accrual for legal contingencies when it is determined that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In making such determinations, the Company evaluates, among other things, the degree of probability of an unfavorable outcome and, when it is probable that a liability has been incurred, the ability to make a reasonable estimate of the loss. If the occurrence of liability is probable but not estimable, the Company will disclose the nature of the contingency, or if reasonably possible and estimable, will also provide the likely amount of such loss or range of loss. Furthermore, the Company does not believe there are any matters that could have a material adverse effect on financial position, results of operations or cash flows.

Flow Device and Systems, Inc. (“Flow Device”) has filed a lawsuit against the Company in the United States District Court Central District of California Southern Division (Case No. 8:21-cv-02089) claiming that certain of the Company’s products infringe U.S. Patent No. 7,204,158, of which Flow Device purports to be the exclusive licensee. The Company believes this lawsuit is without merit and will defend itself vigorously. As of the reporting date, the outcome is not determinable, and no liabilities are accrued as a result.

Indemnification

From time to time, the Company has agreed to indemnify and hold harmless certain customers for potential allegations of infringement of intellectual property rights and patents arising from the use of its products. To date, the Company has not incurred any costs in connection with such indemnification arrangements; therefore, there was no accrual of such amounts as of December 31, 2022, or June 30, 2023.

Purchase Commitments

The Company has current third-party purchase obligations for supplies and manufacturing services with two vendors. The minimum purchase obligations expire by February 2025. The Company made third-party purchases under the commitments totaling \$4.5 million and \$1.1 million during the six months ended June 30, 2022 and June 30, 2023, respectively.

The estimated annual minimum purchase commitments with the suppliers were as follows (in thousands):

Period Ending June 30,	
Remainder of 2023	1,000
2024	2,000
2025	<u>250</u>
Total	<u>\$ 3,250</u>

9. Common and Redeemable Preferred Stock

Common Stock

The holders of common stock participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid common stock has a par value of \$0.00001 and the Company has designated authorized capital of 250,000,000 and 1,200,000,000 shares of common stock as of June 30, 2022, and June 30, 2023, respectively.

Holders of common stock are entitled to one vote for each share of common stock held. There shall be no cumulative voting. Holders are also entitled to receive, when, as and if declared by our board, out of any assets of the Company legally available therefore, any dividends as may be declared from time to time by our board.

On February 3, 2022, the Company entered into an underwritten rights offering of 30,317,527 CDIs to raise maximum gross proceeds of approximately \$10.5 million. (Refer to note 13).

On April 11, 2023, the Company entered into a rights offering of 608,861,361 CDIs to raise maximum gross proceeds of approximately \$3.2 million. (Refer to note 13).

Common Prime Stock

The holders of Common Prime Stock are not entitled to any voting rights or powers, except as otherwise required by law. They are also not entitled to share in any dividends or other distributions of cash, property or shares of the Company as may be declared by our board on the Common Prime Stock. The fully paid Common Prime Stock has a par value of \$0.00001 and the Company has designated authorized capital of 120,000,000 shares of Common Prime Stock. At December 31, 2022 and June 30, 2023 there was no common prime stock issued and outstanding.

Redeemable Preferred Shares

The authorized capital of the Company includes 13,000 shares of redeemable preferred stock, \$0.00001 par value per share, 13,000 of which have been designated redeemable preferred stock. The redeemable preferred stock is held by Anzu RBI Mezzanine Preferred LLC (Anzu RBI Anzu RBI is entitled to a non-cumulative priority preference dividend of 2%, payable at the Company's discretion.

At any time prior to or on the first anniversary of the original issue date, the redemption price is 120% of the original issue price, plus any unpaid dividends. On the day after the first anniversary of the issuance date, and on each anniversary thereafter, the redemption price increases to the original issue price plus the product of \$250 dollars multiplied by the number of years from original issuance. The calculation does not include fractional year increases.

As per the Investment Agreement, the "First Redemption" of redeemable preferred stock will be redeemable based on the aggregate amounts attributed to the prior 10 months (4.0% of net revenues/month). After the First Redemption, subsequent redemptions of shares of redeemable preferred stock will occur on a quarterly basis and will be based on an amount equal to 4.0% of the Company's previous financial quarter revenues. The number of redeemable preferred shares to be redeemed during the quarter is based on the established share price, as defined in the Investment Agreement. If the Company fails to make an anticipated redemption, Anzu RBI may send notice to state that the anticipated redemption has not been made. The Company would have a 30-day period to make the anticipated redemption. If the anticipated redemption is not made at the end of the period, the redeemable preferred stock redemption price would increase to the greater of the current share price plus \$1,000, or \$3,000. If the Company fails to make a demanded redemption, the outstanding amount accrues interest at the lower of 17% or the maximum permissible interest rate which is secured on the assets of the Company.

While the total value payable is fixed based on quarterly revenue, the number of shares of redeemable preferred stock to be redeemed decreases if an anticipated redemption is not made. The Company has no contractual obligation to redeem shares of redeemable preferred stock. In the event of a failure to make an anticipated redemption, the Company may indefinitely delay or defer cash settlement at the increased settlement price.

During the six-month period ended June 30, 2023, the Company redeemed 197 redeemable preferred shares at \$1,750 per share for a total of \$0.3 million. The amount of consideration paid by the Company to redeemable preferred stockholders' in excess of the amount originally contributed by such shareholders was treated a deemed dividend to the preferred shareholder. The Company recorded deemed dividends in the amounts of \$203,000 and \$147,750 for the six months ended June 30, 2022 and 2023, respectively. The Company has adjusted its net loss per share computation to reflect the value given to redeemable preferred stockholders by the Company (refer to Note 10).

There is no fixed term to the redemption period on the redeemable preferred stock. The Company will redeem shares of redeemable preferred stock upon the occurrence of insolvency, liquidation or similar bankruptcy; an event of default; a change of control or if the Company disposes all or substantially all its assets, property or business.

The redeemable preferred stock carries voting rights of one vote per share during a period in which a dividend or part of a dividend in respect to redeemable preferred stock is in arrears (declared but not paid), or during the winding up of the Company.

The redeemable preferred stock also carry voting rights of one vote per share, on a proposal:

- that affects rights attached to redeemable preferred stock;
- to wind up the Company; or
- for the disposal of the property, business and undertaking of the Company.

The redeemable preferred stock carries voting rights of one vote per share, on a resolution to approve:

- the terms of a share buy-back arrangement, other than the buy-back of redeemable preferred stock; or
- a reduction in share capital of the Company, other than a reduction with respect to redeemable preferred stock.

10. Net Loss per Share

The following table sets forth the computation of basic and diluted net loss per share attributable to common stockholders (in thousands, except share and per share amounts):

	Ended on June 30,	
	2022	2023
Net loss	\$ (9,839)	\$ (5,962)
Less: Deemed dividend to redeemable preferred stockholders	(203)	(148)
Net loss attributable to common stockholders ...	(10,042)	(6,110)
Weighted average basic and diluted common share	150,667,126	301,986,110
Net loss per share attributable to common stockholders - basic and diluted	\$ (0.07)	\$ (0.02)

Basic net loss per share has been computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is calculated by dividing net loss by the weighted average number of shares of common stock and potentially dilutive securities outstanding during the period. Because the Company is in a net loss position, diluted net loss per share excludes the effects of common stock equivalents consisting of issued and outstanding stock options which are antidilutive. It also excludes the impact of redeemable preferred stock, as they are not convertible into common stock.

The following outstanding potentially dilutive shares were excluded from the computation of diluted net loss per share attributable to common stockholders for the periods presented, because including them would have been anti-dilutive (on an as-converted basis):

	As of June 30,	
	2022	2023
Common stock options issued and outstanding	16,340,631	76,810,853
	<u>16,340,631</u>	<u>76,810,853</u>

11. Stock-Based Compensation

The Company grants stock options to its employees, directors, and consultants for a fixed number of shares with an exercise price equal to or greater than the fair value of the common stock at the date of grant. Granted options expire no later than 10 years from the date of grant and generally vest over a four-year period, with 25% vesting on the first anniversary of the grant date and monthly thereafter.

The 2012 Equity Incentive Plan (the Plan) adopted on June 29, 2012, as amended on June 20, 2019, authorizes the Company to grant incentive stock options and non-statutory stock options to employees, directors, and consultants for up to 26,965,000 shares of common stock. The 2012 Plan expired on May 18, 2022. There are 13,843,635 unexercised options under the 2012 Plan as of June 30, 2023.

The 2022 Equity Incentive Plan (the “2022 Plan”) adopted on April 26, 2022, and amended on May 25, 2023, authorizes the Company to grant incentive stock options and non-statutory stock options to employees, directors, and consultants for up to 116,515,000 shares of common stock as of June 30, 2023. Incentive Stock Options (ISOs) may be granted only to employees. Nonqualified stock options may be granted to employees, directors and consultants. The Company issues new shares of common stock upon the exercise of stock options.

The Company used Black-Scholes option pricing model to estimate the fair value of option awards using the following assumptions during the six months ended June 30, 2022 and 2023:

	2022	2023
Expected volatility	59.1% - 65.0%	70.4%
Risk-free interest rate	1.17 % - 2.86%	4.14% - 4.29%
Expected dividend	—%	—%
Expected term (in years)	1 - 4 years	3 - 4 years
ASX market price	\$0.25 - \$0.63	\$0.004

The expected term of options granted to employees is based on the expected life of the stock options, giving consideration to the contractual terms and vesting schedules. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not be the actual outcome. The dividend yield was based on the Company's dividend history and the anticipated dividend payout over its expected term. The risk-free interest rate was based on the U.S. Treasury yield curve in effect at the time of grant and with a maturity that approximated the Company's expected term.

The following table summarizes the stock awards activity for the fiscal years ended as follows:

	Number of Shares	Weighted- Average Exercise Price Per Share	Weighted- Average Grant Date Fair Value	Weighted- Average Remaining Contractual Life (In years)
Outstanding - December 31, 2022	21,126,463	\$ 0.43	\$ 0.17	6.03
Granted	57,357,218	0.01	0.0023	
Exercised	(14,167)	0.17		
Forfeited	(1,658,661)	0.37		
Outstanding - June 30, 2023	<u>76,810,853</u>	\$ 0.12	0.05	5.20
Vested and expected to vest as of June 30, 2023.....	<u>70,579,016</u>	\$ 0.13		7.36
Options exercisable as of June 30, 2023 ..	<u>28,618,056</u>	\$ 0.25		3.73

As of June 30, 2023, 70,579,016 options had vested. The Company recognizes forfeitures as they occur. As of December 31, 2022 and June 30, 2023, the intrinsic value of options outstanding was \$0. During the six-month periods ended June 30, 2022 and June 30, 2023, the intrinsic value of options exercised was \$0.1 million and \$0, respectively. As of December 31, 2022 and June 30, 2023, the aggregate intrinsic value of options vested and expected to vest was \$0. As of December 31, 2022 and June 30, 2023, the aggregate intrinsic value of options exercisable was \$0. During the six months ended June 30, 2022 and June 30, 2023, the grant date fair value of shares vested was \$2.0 million and \$0.26 million, respectively.

As of June 30, 2023, there was \$0.8 million of compensation costs related to non-vested awards granted under the Company's equity incentive plans not yet recognized in the financial statements. The unrecognized compensation cost is expected to be recognized over a weighted average period of 2.3 years.

The Company recorded stock-based compensation expense in the following expense categories of its condensed consolidated statements of operations during the six months ended June 30, 2022 and 2023 (in thousands):

	<u>2022</u>	<u>2023</u>
Cost of goods sold	\$ 18	\$ 13
Research and development	78	31
Selling, general and administrative	<u>272</u>	<u>203</u>
Total stock-based compensation	<u>\$ 368</u>	<u>\$ 247</u>

12. Income Taxes

The Company did not record a provision or benefit for income taxes during the six months ended June 30, 2022 and 2023. The Company continues to maintain a full valuation allowance for its net U.S. federal and state deferred tax assets. For the six months ended June 30, 2022 and 2023, the Company's income tax expense was \$46,000 and \$0, respectively. The Company's income tax expense for the six months ended June 30, 2022 is due primarily to income taxes in foreign jurisdictions.

13. Related Party Transactions

On February 3, 2022, the Company conducted an underwritten rights offering of 30,317,527 CDIs to raise gross proceeds of approximately \$10.5 million. One CDI represents one share of common stock. As a result of this offering, on February 15, 2022, the Company issued 16,410,646 CDIs, and on February 28, 2022 the Company issued 13,906,881 CDIs and raised \$10.1 million, net of \$0.6 million issuance costs. \$3.9 million of the proceeds were received from Viburnum Funds and \$3.7 million from Anzu Partners, LLC, both related parties of the Company. Mr. Joseph Monkowski, a Director of the Company, participated in these rights offering by subscribing for CDI's valued at \$0.1 million.

On April 11, 2023, the Company conducted a rights offering of 608,861,361 CDIs to raise gross proceeds of approximately \$3.2 million. One CDI represents one share of common stock. As a result of this offering, in April 2023, the Company issued 343,836,384 CDIs, in May 2023 the Company issued 31,264,414 CDIs, and in June 2023 the Company issued 233,760,563 CDIs and raised \$3.0 million, net of \$0.3 million issuance costs. \$0.4 million of the proceeds were received from Viburnum Funds and \$1.3 million from Anzu Partners, and \$0.6 million from Anzu RBI, all related parties of the Company. Mr. Joseph Monkowski, a Director of the Company also participated in these rights offering by subscribing CDI's for \$0.1 million.

During the six months ended June 30, 2022, the Company made redemption payments to redeemable preferred stockholders for \$609,000. The Company recorded \$203,000 as deemed dividends in connection with the redemption premium paid to Anzu RBI during the six-month period ended June 30, 2022.

During the six months ended June 30, 2023, the Company made redemption payments to redeemable preferred stockholders for \$344,750. The Company recorded \$147,750 as deemed dividends in connection with the redemption premium paid to Anzu RBI during the six-month period ended June 30, 2023.

14. Subsequent Events

On August 1, 2023, a Company's supplier has filed a complaint against the Company in the United States District Court Central District of California Southern Division (Case No. 5:23-cv-3831-VKD) and brought an action for breach of contract and account stated for recovery of money owed to the supplier pursuant to a volume supply agreement. Unbeknownst to Pivotal, the supplier increased excess inventory of raw materials even though the supplier was unable to assemble them into a finished product due to the unavailability of other needed raw materials. The Company believes this lawsuit is without merit and will defend itself vigorously. As of the reporting date, the outcome is not determinable. The supplier owes the Company \$0.5 million, presented in note 4, as other receivables. There are no liabilities to be recorded as a result of the complaint.

Company has evaluated subsequent events through August 30, 2023, the date these financial statements were available to be issued, and determined that no additional subsequent events had occurred that would require disclosure or recognition in these financial statements.

Directors Declaration

In accordance with a resolution of the directors of Pivotal Systems Corporation, the directors of the Company declare that:

1. The interim condensed consolidated financial statements and notes thereto, comply with accounting principles generally accepted in the United States (U.S. GAAP);
2. The interim condensed consolidated financial statements and notes thereto, give a true and fair view of the Group's financial position as at 30 June 2023 and of the performance for the half-year ended on that date; and
3. In the directors' opinion there are reasonable grounds to believe that Pivotal Systems Corporation will be able to pay its debts as and when they become due and payable.

On behalf of the directors

A handwritten signature in black ink, appearing to read "Kevin Hill".

Kevin Hill
Chief Executive Officer

A handwritten signature in black ink, appearing to read "R. Warrington".

Ronald Warrington
Chief Financial Officer

30 August 2023 (Fremont PDT), 31 August 2023 (Sydney AEST)

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Directors
Pivotal Systems Corporation
Fremont, California

We have reviewed the accompanying condensed consolidated financial statements of Pivotal Systems Corporation (a Delaware corporation), which comprise the condensed consolidated balance sheet as of June 30, 2023, and the related condensed consolidated statements of operations, statements of redeemable preferred stock and stockholders' equity (deficit), and cash flows for the six month period ended June 30, 2023, and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the consolidated financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the condensed consolidated financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the condensed consolidated financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Pivotal Systems Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Substantial Doubt About the Entity's Ability to Continue as a Going Concern

The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1, the Company has suffered recurring losses from operations, has a net capital deficiency, and has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our conclusion is not modified with respect to this matter.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying June 30, 2023 condensed consolidated financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Report on 2022 Financial Statements

The condensed consolidated financial statements of Pivotal Systems Corporation as of June 30, 2022, were reviewed by other accountants whose report dated August 30, 2022, stated that based on their procedures, they are not aware of any material modifications that should be made to those financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Report on Condensed Consolidated Balance Sheet as of December 31, 2022

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Company as of December 31, 2022, and the related consolidated statement of operations, redeemable preferred stock and stockholders' equity (deficit), and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated March 30, 2023. In our opinion, the accompanying condensed consolidated balance sheet of the Company as of December 31, 2022, is consistent, in all material aspects, with the audited consolidated financial statements from which it has been derived.

Armanino LLP

Armanino^{LLP}
San Jose, California

August 30, 2023