

29 July 2021

June 2021 Quarterly Activities Report and Appendix 4C

As has been reported throughout the period, achievements were technical in nature, focused on advancing the Company's proven prototype technologies into a mass-production product. The main focus of the period has been the upgrading of our demonstration systems, by among other means, the incorporation of newly packaged MEMS transducer chips. This achievement enables the company to begin scheduling in-person demonstrations to select strategic companies that maintain relevant staffing in Israel and that have expressed significant commercial interests in our technologies.

As detailed during the most recent AGM (May 25th, 2021), the company had successfully produced single and multi-chip systems that played outside of our cleanroom, demonstrating sound reproduction capabilities that was considered unattainable in comparable form factors when using any other known loudspeaker technology.

That achievement was accomplished despite the use of what the company characterised as inferior MEMS transducer chips. As detailed in the aforementioned AGM, the underlying reason for the initial use of "inferior chips" was the adverse effects the COVID-19 pandemic had on our supply chain. Pandemic related struggles experienced by our primary packaging vendor, demanded the company add an alternative vendor for our chip packaging needs. The process of transferring critical and proprietary knowledge that was developed over years, to a vendor that was unfamiliar and ill-equipped to handle our MEMS chips was considerable. To mitigate the risk, inferior MEMS transducer chips were used throughout the vendor qualification process.

In parallel to the process of onboarding the packaging vendor, the company made a number of other significant improvements to our technology portfolio. The company applied its unique experience and leading-edge proficiency in digital sound reproduction to optimize and improve our technologies by means of electronic and algorithmic control, as evident by our ability to demonstrate high-quality sound reproduction even when using inferior MEMS transducers. In no small part, such achievements were made possible by means of a significant breakthrough achieved by the company during the reporting period, entailing the development of predictive computational modeling of our devices. Newly introduced versions of multiphysics simulation software, that have been fine-tuned to include a multitude of relevant physics regimes, combined with our vast knowledge and domain expertise, permitted the development of a solution that now enables the company to predict the impact most any change or variance to the design, operational control or

manufacturing tolerance may have on the acoustic output of our MEMS transducers. Such examination and experimentation can now be conducted on a computer in a matter of hours, rather than the many man-months it took previously to manufacture, test, measure and analyze the physical devices.

This effort has already paid considerable dividends as it allowed our engineers to detect and try relatively minor changes that enhance the performance of our devices and/or reduce performance dependencies on strict adherence to manufacturing tolerances. Such enhancements are already finding their way into our demonstration systems which are continually being upgraded and optimized to meet or exceed the performance objectives set for inaugural introductions to the marketplace. Due to COVID-19 related restrictions and limitations our demonstrations are initially intended to be conducted in person, to specific prominent industry players that maintain relevant staffing in Israel, and have repeatedly expressed keen interest in our technology.

As informed at the most recent AGM, the Company announced its plans to achieve production capabilities by years-end. As the company presses forward toward mass production, we continue our efforts to develop and introduce improvements that will improve and enhance the appeal of our technology. One such example will be the introduction of our Second-Generation ASIC controller, which is currently undergoing extensive qualification testing, of the added functionality expanded to provide added support for our simplified structure MEMS transducer design.

Details of development expenditures during the quarter are provided as follows:

- Permanent Increase in staffing and staffing onboarding expenditures: two additional engineers were added to the Company's R&D staff (electronics engineer – specialising in design of electronic circuitry, Real-time Embedded Software Engineer).
- Increase in expenditures related to the production of materials required for chip packaging.
- A diversity of activities requiring subcontractors were undertaken during the period leading to a meaningful increase in third party expenditures as follows:
 - Development of Multiphysics simulation models
 - Contract two separate vendors that specialise in Multiphysics modelling.
 - Acquire related software Licenses.
 - Enhance computational / server capabilities required to run simulations.
 - In support of verification of the Multiphysics modelling activities, the Company had to upgrade its measurement capabilities. In addition to the associated hardware, third party vendors specialising in machine vision and machine-learning were contracted in support of the Company's enhancement of its measurement capabilities.
- Chip Packaging – The impact of Covid-19 severely hampered the production capabilities of our primary chip packaging vendor, forcing the Company to qualify and guide a

“temporary” alternative vendor for the production of chip samples. This unplanned expense (and delay) which is still ongoing, has adversely impacted the Company’s development expenditures.

- Demonstration Systems - Development of our demonstration systems required the support of third-party vendors for circuitry layout and design. The constriction of the demonstration systems necessitated third party circuit board fabrication and PCB assembly services in addition to the required materials including electronic components, power supplies, and other required materials.

The amounts included in Item 6.1 of \$44,820 include directors’ fees and superannuation paid to entities associated with non-executive directors of \$37,320 and consulting fees paid to entities associated with a non-executive director of \$7,500.

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")

30 JUNE 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6.months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	33	57
1.2 Payments for		
(a) research and development	(979)	(2,178)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	-	-
(d) leased assets	-	-
(e) staff costs	(130)	(260)
(f) administration and corporate costs	(118)	(252)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	1
1.5 Interest and other costs of finance paid	(2)	(5)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(1,196)	(2,637)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(15)	(44)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6.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	(15)	(44)

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	-	-
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	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Repayment of lease liabilities	(72)	(159)
3.10	Net cash from / (used in) financing activities	(72)	(159)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	3,211	4,751
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,196)	(2,637)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(15)	(44)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6.months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(72)	(159)
4.5	Effect of movement in exchange rates on cash held	19	36
4.6	Cash and cash equivalents at end of period	1,947	1,947

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	536	604
5.2	Call deposits	1,411	2,607
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)	1,947	3,211

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	45
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<p>The amount included in Item 6.1 includes directors fees and superannuation paid to entities associated with the non-executive directors of \$37,320 and consulting fees paid to entities associated with non-executive directors of \$7,500</p>		

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.</i>		
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	2,000	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	2,000	-
7.5 Unused financing facilities available at quarter end		2,000
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.		
The Company has unsecured loan facility agreements with 4F Investments Pty Limited (a company associated with Fred Bart - Chairman) and Link Enterprises Group for A\$1m each. The interest rate on the unsecured loan facilities is 6% and they both expire on 31 December 2021.		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(1,196)
8.2 Cash and cash equivalents at quarter end (item 4.6)	1,947
8.3 Unused finance facilities available at quarter end (item 7.5)	2,000
8.4 Total available funding (item 8.2 + item 8.3)	3,947
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	3.30
<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: N/A	
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: N/A.	
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: N/A	
<i>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.</i>	

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: 29 July 2021

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 – eg 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.