

Half-Year Report of Audio Pixels Holdings Limited for the Half-Year Ended 30 June 2023

ACN 094 384 273

This Half-Year Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3.

Current Reporting Period: Half-year ended 30 June 2023

Previous Corresponding Period: Half-year ended 30 June 2022

For personal use only

AUDIO PIXELS HOLDINGS LIMITED

Results for Announcement to the Market

Revenue and Net Profit/(Loss)

		Percentage Change %	Amount
Revenue from ordinary activities	down	73.5%	To \$20,854
(Loss) from ordinary activities after tax attributable to members	down	N/A	To (\$9,187,636)
Net (loss) attributable to members	down	N/A	To (\$9,187,636)

Dividends (Distributions)

	Amount per security	Franked amount per security
Final dividend	Nil¢	Nil¢
Interim dividend	Nil¢	Nil¢
Record date for determining entitlements to the dividend:		
• final dividend		N/A
• interim dividend		N/A

Brief Explanation of Revenue, Net Profit/(Loss) and Dividends (Distributions)

Refer to Directors' Report.

For personal use only

Directors' Report

The directors of Audio Pixels Holdings Limited submit herewith the financial report for the half-year ended 30 June 2023. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the company during or since the end of the half year are:

Mr Fred Bart (Chairman)
Mr Ian Dennis – retired 31 July 2023
Mr Mark Ureda - appointed 31 July 2023
Ms Cheryl Bart AO

PRINCIPAL ACTIVITIES

During the reporting period there were no significant changes in the nature of the Company's principal activities which were predominately focused on the refinement of the fabrication processes required to mass produce a commercial version of the Company's proven ground-breaking MEMS based digital loudspeaker.

Audio Pixels is a world leader in the digital transformation of sound reproduction; combining the emergence of a multibillion-dollar MEMS device industry together with the multibillion-dollar loudspeaker market that has over the course of a century become an indispensable fixture of daily life throughout a myriad of industries and applications.

REVIEW OF OPERATIONS

Achievements during the reporting period were predominantly technical in nature, focused on advancing the Company's proven Digital Sound Reconstruction technologies into a mass-production product.

At the Company's AGM held on 30 May 2023, the company successfully demonstrated to its shareholders various qualitative aspects of its technology; substantiating industry altering claims offered by our solid-state Digital Sound Reconstruction (DSR) platform.

A real-time recording of the demonstration, which is available on the Company's website, exhibited the sound reproduction capabilities of our solid-state DSR chip when compared to the leading microspeakers used worldwide. The qualitative benefits offered by the chip's capability to reproduce the full audible range (from 20Hz to 20KHz and beyond) with a near flat frequency response, is unprecedented, especially when such high performance is offered in a surface mount industry compliant 14x18mm package.

The demonstration was conducted using our prototype platform (MEMS GEN-I). As has been extensively reported, the company's primary technical objective during this reporting period has been to evolve our technology and fabrication capabilities to a commercial generation of our solid-state DSR MEMS chip (MEMS-GEN-II). MEMS-GEN-II is an evolution of our prototype chip which includes certain design elements that provide greater stability, reliability, higher yield, cost efficiency as well as providing a significant boost to the sound pressure level (SPL or "loudness") of the chip.

For personal use only

Directors' Report

It is of critical importance to note that the production version of the chip (MEMS-GEN-II) is fully compatible with all packaging, testing procedures, functional software, algorithms, hardware and electronics that were developed, tried, tested and used in our prototyping and demonstration MEMS-GEN-I platforms.

As has been announced, the company's next significant milestone is the receipt and characterization of MEMS GEN-II chips, delivery of which has been incrementally updated by the vendor, now stated to be mid to late September. The roughly 3-week deviation from their prior projected delivery date (late August 2023, as previously announced to the market), is predominantly attributed to the cumulative precautionary measures the company and vendor have taken to characterize and optimize critical fabrication process steps associated with a first run of our MEMS-GEN-II wafers / chips.

As announced management secured Convertible Notes 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.

Unsecured loans

During the half year ending 30 June 2023, 4F Investments Pty Limited (a company associated with Chairman -Fred Bart) provided an additional \$1,250,000 in unsecured loans. Following the approval at the Annual General Meeting held on 30 May 2023, 4F Investments Pty Limited was issued 165,358 ordinary shares at \$14.00 per share at a cost of \$2,315,012 which reduced the unsecured loan from \$4,535,000 to \$2,219,988 at 30 June 2023.

Capital raising

On 24 August 2022, the Company announced that it had completed a placement of 714,286 ordinary at \$14.00 per share raising \$10m before costs which will be applied towards working capital and repayment of unsecured loans. The placement was arranged by Petra Capital Pty Limited who acted as Sole Lead Manager and Sole bookrunner. Gross proceeds of \$3,368,442 in respect of 240,603 of these 714,286 new ordinary shares were received on 30 August 2022 and these shares were issued on 31 August 2022. 308,325 shares are to be issued on receipt of the funds from EarthMountain. 4F Investments Pty Limited, a company associated with Fred Bart, Chairman has agreed to subscribe for 165,358 new ordinary shares – being \$2,315,012 in this placement subject to shareholder approval at an Annual General Meeting which approved the issue of these shares at the Annual General Meeting held on 30 May 2023.

For the sake of clarity and compliance with ASX disclosure requirements, the Company's upcoming critical milestone is focused on the demonstration of the commercialised version of the technology.

- Earth Mountain's is forecasting that it will be able to begin delivery of MEMS GEN II sometime in September 2023, being the order of the pre-production chips

For personal use only

Directors' Report

- Upon arrival, the chips will undergo characterization to ensure compliance with our specification. This is required not only for usage in demonstration systems, but to also enable Earth Mountain to calibrate mass production processes.
- Upon confirming compliance (within reason) the chips will be incorporated into existing GEN -I demonstration systems.

At the date of this report, Earth Mountain had still not received Chinese Government approval to subscribe for 308,325 ordinary shares at \$14.00 per share amounting to A\$4,316,550 (US\$3m). Earth Mountain have lodged a revised application which has still not been approved.

Working Capital

The Company will need to obtain further funding via an equity raise or additional debt funding by November 2023 to fund anticipated cash outflows for the 12 months post the signing of this financial report. The directors plan to obtain short term funding from further convertible notes, placement of shares and further drawdowns and deferral of the Company's existing loan facility with 4F Investments Pty Ltd.

In the opinion of the directors, the ability of the consolidated entity to continue as a going concern and pay its debts as and when they fall due and payable is dependent upon:

- The receipt of the 40,000 pre-production chips to specification from Earth Mountain in September 2023 to enable testing and subsequent demonstration of the product;
- The successful completion of the current testing phase of the technology, enabling the consolidated entity to successfully demonstrate the technology's capabilities and negotiate commercial contracts with interested parties;
- Shareholder approval at an EGM in October 2023 of additional convertible notes to be issued by the Company to a director-related entity, 4F Investments Pty Ltd, to raise \$500,000 on the same terms and conditions as the May 2023 convertible notes; Drawdown the remaining \$250,000 of the current unsecured loan facility with 4F Investments Pty Ltd by November 2023;
- The receipt of the Earth Mountain proceeds from the August 2022 placement in November 2023;
- The ability of the Company to secure additional capital by November 2023 to fund working capital requirements and fund the production ramp up, including payment of the USD\$9,600,000 purchase order for Earth Mountain, with payment to be made on a progressive basis commencing in December 2023; and
- The ability of the Company to defer repayment of the abovementioned original unsecured finance facility with 4F Investments Pty Ltd or to raise additional funding to repay the expiring convertible notes in January 2024 should they not be converted to equity.

For personal use only

Directors' Report

Convertible Notes

The Company has issued Convertible Notes of A\$2.5m to existing sophisticated shareholders and a further A\$500,000 will be issued subject to shareholder approval, making a total issue of A\$3m.

A\$500,000 of the Convertible Notes issue will require shareholder approval as the note will be taken by 4F Investments Pty Limited, an entity associated with Fred Bart. The other A\$2.5m has been taken up by five other existing sophisticated investors and the funds already received.

The terms of the Convertible Notes will include a term of up to 31 January 2024, unsecured, attract an interest rate of 12% per annum payable quarterly in arrears and be convertible to ordinary shares at A\$9.04, being the five-day volume weighted average price of AKP at the time of the agreement, unless a share capital raise is completed at a lower price.

The investors also received a total of 500,000 unlisted options (100,000 options per A\$500,000 invested) at a strike price of 20% higher than the conversion price of A\$9.04, namely A\$10.84. These unlisted options have a term of 3 years expiring on 4 May 2026 and are fully vested (and not yet issued at the reporting date). 100,000 options will be provided to 4F Investments Pty Limited subject to the convertible note being approved by shareholders.

The Company intends to call a shareholders meeting to consider and approve the participation of 4F Investments Pty Limited, an entity associated with Fred Bart, in the issue.

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 Q4 of this year. Much will depend on the timely receipt and fabrication success of the initial MEMS-GEN-II wafers and chips.

Further information concerning the operations and financial condition of the entity can be found in the financial report and in releases made to the Australian Stock Exchange (ASX) during the half year.

For personal use only

Directors' Report

Auditor's independence declaration

The auditor's independence declaration is included on page 8 of the half-year financial report.

Signed in accordance with a resolution of the directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors



Fred Bart
Director
Sydney, 31 August 2023

For personal use only

31 August 2023

The Board of Directors
Audio Pixels Holdings Limited
Level 12, 75 Elizabeth Street
Sydney NSW 2000

Dear Board of Directors

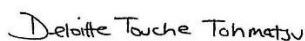
Auditor's Independence Declaration to Audio Pixels Holdings Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Audio Pixels Holdings Limited.

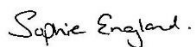
As lead audit partner for the review of the half year financial report of Audio Pixels Holdings Limited for the half year ended 30 June 2023, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- The auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- Any applicable code of professional conduct in relation to the review.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Sophie England
Partner
Chartered Accountants

Independent Auditor's Review Report to the members of Audio Pixels Holdings Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Audio Pixels Holdings Limited (the "Company") and its subsidiaries (the "Consolidated entity"), which comprises the condensed consolidated statement of financial position as at 30 June 2023, the condensed consolidated statement of profit and loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 11 to 27.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the consolidated entity does not comply with the *Corporations Act 2001*, including:

- Giving a true and fair view of the consolidated entity's financial position as at 30 June 2023 and of its performance for the half-year ended on that date; and
- Complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the consolidated entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) ("the Code") that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Material Uncertainty Related to Going Concern

We draw attention to Note 1(e) in the financial report, which indicates that a material uncertainty exists that may cast significant doubt on the Consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' Responsibilities for the Half-year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 30 June 2023 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Sophie England

Sophie England
Partner
Chartered Accountants

Canberra, 31 August 2023

AUDIO PIXELS HOLDINGS LIMITED

Directors' Declaration

The directors declare that:

- a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position as at 30 June 2023 and the performance for the half year ended on that date of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors



Fred Bart
Director
Sydney 31 August 2023

For personal use only

AUDIO PIXELS HOLDINGS LIMITED

**Condensed Consolidated Statement of Profit or Loss and Other
Comprehensive Income for the half-year ended 30 June 2023**

	Note	Consolidated Half-year ended 30 June 2023 \$	Consolidated Half-year ended 30 June 2022 \$
Revenue	2(a)	23,307	78,556
Administrative expenses		(562,604)	(566,529)
Amortisation		(44,139)	(42,002)
Depreciation		(194,299)	(206,909)
Directors' benefits		(75,508)	(74,800)
Exchange gains		1,207,330	2,506,598
Finance costs	13	(3,355,000)	-
Goodwill impairment	10	(2,399,168)	-
Intangible asset impairment	11	(110,686)	-
Interest expense		(354,633)	(79,923)
Loss in fair value of derivative liability		(896,000)	-
Loss on sale of property, plant and equipment		-	(501)
Research and development		(1,753,285)	(1,830,094)
Share based payments		(672,951)	(465,674)
(Loss) before income tax expense	2	(9,187,636)	(681,278)
Income tax expense		-	-
(Loss) for the period	3	(9,187,636)	(681,278)
Other Comprehensive Income			
Items that may be reclassified subsequently to profit and loss			
Exchange differences arising on translation of foreign operations		(1,193,901)	(2,294,404)
Income tax relating to components of other comprehensive income		-	-
Other comprehensive (loss) for the period (net of tax)		(1,193,901)	(2,294,404)
Total Comprehensive (loss) for the period		(10,381,537)	(2,975,682)
(Loss) attributable to:			
Owners of the company		(9,187,636)	(681,278)
		(9,187,636)	(681,278)
Total comprehensive (loss) attributable to:			
Owners of the company		(10,381,537)	(2,975,682)
		(10,381,537)	(2,975,682)
(Loss) per share:			
Basic (cents per share)	4	(31.60 cents)	(2.37 cents)
Diluted (cents per share)	4	(31.60 cents)	(2.37 cents)

Notes to the financial statements are included on pages 16 to 27.

AUDIO PIXELS HOLDINGS LIMITED

**Condensed Consolidated Statement of Financial Position
as at 30 June 2023**

	Note	Consolidated 30 June 2023 \$	Consolidated 31 Dec 2022 \$
Current Assets			
Cash and cash equivalents		2,424,619	1,339,961
Trade and other receivables		78,134	260,374
Prepayment		586,854	586,854
Total Current Assets		3,089,607	2,187,189
Non-Current Assets			
Goodwill	10	-	2,371,014
Right of use asset		217,285	103,162
Intangible	11	-	151,818
Property, plant and equipment		546,589	490,940
Trade and other receivables		13,818	9,180
Total Non-Current Assets		777,692	3,126,114
Total Assets		3,867,299	5,313,303
Current Liabilities			
Trade and other payables		1,471,633	1,490,454
Lease liabilities		191,093	91,155
Convertible notes	12	1,996,000	-
Unsecured loans	13	2,219,988	3,285,000
Provisions		296,803	276,250
Total Current Liabilities		6,175,517	5,142,859
Non-Current liabilities			
Lease liabilities		28,775	8,322
Provisions		15,374	13,915
Total Non-Current Liabilities		44,149	22,237
Total Liabilities		6,219,666	5,165,096
(Deficiency in Net Assets)/ Net Assets		(2,352,367)	148,207
Equity			
Issued capital	7	80,067,610	77,752,597
Reserves	8	(21,125,325)	(25,497,374)
Accumulated losses	3	(61,294,652)	(52,107,016)
Total Equity		(2,352,367)	148,207

Notes to the financial statements are included on pages 16 to 27.

AUDIO PIXELS HOLDINGS LIMITED

Condensed Consolidated Statement of Changes in Equity for the half-year ended 30 June 2023

	Issued Capital \$	Equity Settled Share Option Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Minority Acquisition Reserve \$	Total \$
Consolidated						
Balance at 1 January 2023	77,752,597	6,385,427	(6,344,109)	(52,107,016)	(25,538,692)	148,207
Other comprehensive (loss) for the period	-	-	(1,193,901)	-	-	(1,193,901)
(Loss) for the period	-	-	-	(9,187,636)	-	(9,187,636)
Total comprehensive (loss) income for the period	-	-	(1,193,901)	(9,187,636)	-	(10,381,537)
Share placement at \$14.00	2,315,013	-	-	-	-	2,315,013
Recognition of share based payments	-	5,565,950	-	-	-	5,565,950
Balance at 30 June 2023	80,067,610	11,951,377	(7,538,010)	(61,294,652)	(25,538,692)	(2,352,367)
Balance at 1 January 2022	73,092,487	6,081,330	(3,358,413)	(49,671,297)	(25,538,692)	605,415
Other comprehensive (loss) for the period	-	-	(2,294,404)	-	-	(2,294,404)
(Loss) for the period	-	-	-	(681,278)	-	(681,278)
Total comprehensive (loss) income for the period	-	-	(2,294,404)	(681,278)	-	(2,975,682)
Recognition of share based payments	-	452,813	-	-	-	452,813
Balance at 30 June 2022	73,092,487	6,534,143	(5,652,817)	(50,352,575)	(25,538,692)	(1,917,454)

Notes to the financial statements are included on pages 16 to 27.

For personal use only

AUDIO PIXELS HOLDINGS LIMITED

Condensed Consolidated Cash flow statement for the half-year ended 30 June 2023

	Consolidated Half-year ended 30 June 2023	Consolidated Half-year ended 30 June 2022
	\$	\$
<i>Cash Flows From Operating Activities</i>		
Receipts from customers	20,854	78,556
Payments to suppliers and employees	(2,339,738)	(2,493,574)
Interest and bill discounts received	2,453	-
Interest paid	(145,047)	(44,522)
Net cash (used in) operating activities	<u>(2,461,478)</u>	<u>(2,459,540)</u>
<i>Cash Flows From Investing Activities</i>		
Payment for property, plant and equipment	<u>(134,205)</u>	<u>(21,191)</u>
Net cash (used in) investing activities	<u>(134,205)</u>	<u>(21,191)</u>
<i>Cash Flows From Financing Activities</i>		
Proceeds from convertible note	2,500,000	-
Proceeds from unsecured loans	1,250,000	2,385,000
Repayment of lease liabilities	(96,894)	(152,477)
Net cash (used in) financing activities	<u>3,653,106</u>	<u>2,232,523</u>
<i>Net (Decrease) in Cash Held</i>	1,057,423	(248,208)
<i>Cash and cash equivalents at the beginning of the half-year</i>	1,339,961	748,373
<i>Effects of exchange fluctuations on the balances of cash held in foreign currencies</i>	<u>27,235</u>	<u>32,241</u>
<i>Cash and cash equivalents at the end of the half-year</i>	<u><u>2,424,619</u></u>	<u><u>532,406</u></u>

Notes to the financial statements are included on pages 16 to 27.

For personal use only

**Notes to the Condensed Consolidated Financial
Statements
for the half-year ended 30 June 2023**

1. Significant accounting policies

1 (a) Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS34 “Interim Financial Reporting”. The half-year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report and any public announcements made by the company during the interim reporting period in accordance with continuous disclosure requirements under the Corporations Act 2001.

1 (b) Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of the historical cost convention. Cost is based on the fair values of the consideration given in exchange for assets. Except where indicated otherwise, all amounts are presented in Australian dollars.

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

1 (c) New Accounting Standards

The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current half-year.

New and revised Standards and amendments thereof and Interpretations effective for the current half year that are relevant to the consolidated entity include:

AASB 2021-2	Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates
-------------	--

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the consolidated entity’s accounting policies and has no effect on the amounts reported for the current or prior half-years.

For personal use only

AUDIO PIXELS HOLDINGS LIMITED

Notes to the Condensed Consolidated Financial Statements for the half-year ended 30 June 2023

1. Significant accounting policies (cont)

1 (c) New Accounting Standards (cont)

New and revised AASB Standards in issue but not yet effective

At the date of authorisation of the financial statements, the consolidated entity has not applied the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective:

Standard/amendment	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current and AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date	1 January 2024	31 December 2024

1 (d) Prior Period Comparatives

Comparative information has been disclosed in respect of the previous period for amounts reported in the financial statements. Where the presentation or classification of items in the financial statements is amended, the comparative amounts have been reclassified to conform with current period presentation.

1 (e) Going Concern

The financial report has been prepared on the going concern basis which assumes the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The consolidated entity incurred a net loss of \$9,187,636 (2022 half-year: \$681,278) and used net cash in operating activities of \$2,461,478 (2022 half-year: \$2,459,540) during the half-year ended 30 June 2023. As at 30 June 2023, the consolidated entity had cash of \$2,424,619 (31 December 2022: \$1,339,961) of which \$61,131 (31 December 2022: \$61,131) is restricted as it secures future lease payments.

In May 2023, the Company raised \$2,500,000 through the issue of convertible notes to five parties. These convertible notes have an expiry of 31 January 2024 with interest payable at 12% p.a, and are classified as a current liability as at 30 June 2023. If the convertibles notes are not converted to equity on or before their expiry date, they will require repayment.

The consolidated entity had a net asset deficiency of \$2,352,367 (31 December 2022: net asset surplus of \$148,207) and a net current asset deficiency of \$3,085,910 (31 December 2022: \$2,955,670) as at 30 June 2023.

For personal use only

AUDIO PIXELS HOLDINGS LIMITED

Notes to the Condensed Consolidated Financial Statements for the half-year ended 30 June 2023

1. Significant accounting policies (cont)

1 (e) Going Concern (cont)

At 30 June 2023, the Company had an unsecured finance facility of \$2,469,988 from a company associated with one of the Company's directors, Mr Fred Bart, with interest payable at a rate of 12% p.a. Of this facility \$2,219,988 has been drawn down as at 30 June 2023 and is classified as a current liability. The unsecured finance facility with 4F Investments Pty Ltd is repayable when the capital raise announced in August 2022 is completed, being on receipt of the Earth Mountain proceeds of US\$3,000,000, which are currently expected to be received by November 2023. If the receipt of the Earth Mountain proceeds are not received in November 2023, the parties have agreed to extend the due date to 31 January 2024, at which point the parties agree to enter into further discussions around repayment or possible further extensions.

Working Capital

Further testing and enhancement of the technology is continuing as the consolidated entity works towards achievement of the demonstrator milestone to begin the transition to volume production. Net working capital is currently negative.

Furthermore, on the basis that the initial pre-production packaged chips meet all the design specifications by the revised delivery date in mid-to-late September 2023, the Company has committed a further \$US9,600,000 for fully tested packaged production chips. Should the initial pre-production packaged chips meet all the design specifications the Directors expect a phased approach to delivery of the production chips, with details of delivery shipments and payment arrangements to be agreed with Earth Mountain, with a first shipment of fully tested packaged production chips to be delivered in December 2023.

The Company will need to obtain further funding via an equity raise or additional debt funding by November 2023 to fund anticipated cash outflows for the 12 months post the signing of this financial report. The directors plan to obtain short term funding from further convertible notes, placement of shares and further drawdowns and deferral of the Company's existing loan facility with 4F Investments Pty Ltd.

In the opinion of the directors, the ability of the consolidated entity to continue as a going concern and pay its debts as and when they fall due and payable is dependent upon:

- The receipt of the 40,000 pre-production chips to specification from Earth Mountain in September 2023 to enable testing and subsequent demonstration of the product;
- The successful completion of the current testing phase of the technology, enabling the consolidated entity to successfully demonstrate the technology's capabilities and negotiate commercial contracts with interested parties;
- Shareholder approval at an EGM in October 2023 of additional convertible notes to be issued by the Company to a director-related entity, 4F Investments Pty Ltd, to raise \$500,000 on the same terms and conditions as the May 2023 convertible notes;
- Drawdown the remaining \$250,000 of the current unsecured loan facility with 4F Investments Pty Ltd by November 2023; and
- The receipt of the Earth Mountain proceeds from the August 2022 placement in November 2023;

For personal use only

AUDIO PIXELS HOLDINGS LIMITED

Notes to the Condensed Consolidated Financial Statements for the half-year ended 30 June 2023

1. Significant accounting policies (cont)

1 (e) Going Concern (cont)

- The ability of the Company to secure additional capital by November 2023 to fund working capital requirements and fund the production ramp up, including payment of the USD\$9,600,000 purchase order for Earth Mountain, with payment to be made on a progressive basis commencing in December 2023; and
- The ability of the Company to defer repayment of the abovementioned original unsecured finance facility with 4F Investments Pty Ltd or to raise additional funding to repay the expiring convertible notes in January 2024 should they not be converted to equity.

If the consolidated entity is unable to achieve successful outcomes in relation to the above matters, material uncertainty would exist that may cast significant doubt as to the ability of the consolidated entity to continue as a going concern and therefore, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

No adjustments have been made to the financial report relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Consolidated Half-year to 30 June 2023 \$	Consolidated Half-year to 30 June 2022 \$
---	---

2. (Loss) for the period

(Loss) from ordinary activities before income tax includes the following items of revenue and expense:

(a) Revenue

Rental income	20,854	78,556
Interest received	2,453	-
Total revenue	23,307	78,556

(b) Expenses

Amortisation	44,139	42,002
Interest expense	354,633	79,923
Goodwill and intangible asset impairment	2,509,854	-
Depreciation of property, plant and equipment and right of use assets	194,299	206,909

For personal use only

AUDIO PIXELS HOLDINGS LIMITED

**Notes to the Condensed Consolidated Financial
Statements
for the half-year ended 30 June 2023**

3. (Accumulated losses)

Balance at beginning of financial period	(52,107,016)	(49,671,297)
Net (loss) for the period	(9,187,636)	(681,278)
Balance at end of financial period	(61,294,652)	(50,352,575)

4. (Loss) Per Share

	2023	2022
	¢ per share	¢ per share
Basic EPS	(31.60 cents)	(2.37 cents)
Diluted EPS	(31.60 cents)	(2.37 cents)

Basic (Loss) per Share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	Half-year to 30 June 2023	Half-year to 30 June 2022
	\$	\$
(Loss) (a)	(9,187,636)	(621,278)

	2023	2022
	No	No
Weighted average number of ordinary shares used in the calculation of basic earnings per share	29,073,097	28,698,663

(a) Earnings used in the calculation of basic earnings per share is the same as net (loss) in the Statement of Profit and Loss and Other Comprehensive Income.

(b) There are potential ordinary shares to be issued in relation to the issue of 173,000 unlisted employee options on 5 June 2023 at an exercise price of \$16.20. These options expire on 17 December 2023.

(c) There are potential ordinary shares to be issued in relation to the issue of 122,000 unlisted employee options on 16 April 2021 at an exercise price of \$27.70. These options expire on 16 April 2025.

(d) There are potential ordinary shares to be issued in relation to the issue of 30,000 unlisted employee options issued on 1 December 2022 at an exercise price of \$14.00. These options expire on 1 December 2026.

For personal use only

AUDIO PIXELS HOLDINGS LIMITED

**Notes to the Condensed Consolidated Financial
Statements
for the half-year ended 30 June 2023**

4. (Loss) Per Share (cont)

(e) There are potential ordinary shares to be issued in relation to the issue of 135,000 unlisted employee options issued on 1 December 2022 at an exercise price of \$14.00. These options expire on 1 December 2027.

(f) There are potential ordinary shares to be issued in relation to the 500,000 unlisted options issued to 4F Investments Pty Limited at an exercise price of \$7.59 issued on 31 May 2023 for a term of 3 years expiring on 30 May 2026.

(g) There are potential ordinary shares in relation to the 500,000 options yet to be issued at an exercise price of \$10.84 for a term of three years expiring on 4 May 2026.

(h) The unlisted options have not been included in dilutive EPS, as they are anti-dilutive.

5. Net tangible assets per security

	30 June 2023	30 June 2022
	\$ per share	\$ per share
Net tangible assets/ liabilities per security including right of use assets	(0.08)	(0.16)

6. Segment information

The Company acted as the parent company for its subsidiaries in the half year period ended 30 June 2023. The company owns a 100% equity interest in Audio Pixels Technologies Pty Limited of Australia and Audio Pixels Limited of Israel. These subsidiaries are involved in the development of digital speakers. Accordingly, the directors are of the opinion that the consolidated entity operates in one segment.

For personal use only

AUDIO PIXELS HOLDINGS LIMITED

**Notes to the Condensed Consolidated Financial
Statements
for the half-year ended 30 June 2023**

7. Share capital

	30 June 2023 \$	31 December 2022 \$
Issued and paid up capital		
Fully paid Ordinary Shares		
Balance at the beginning of the financial period	77,752,597	73,092,487
Placement at \$14.00 per share		
- 31 August 2022	-	3,183,441
- 29 December 2022	-	1,476,669
- 30 May 2023	2,315,012	-
Balance at the end of the financial period	<u>80,067,609</u>	<u>77,752,597</u>

	Number	Number
Fully paid Ordinary Shares		
Balance at the beginning of the financial period	29,044,742	28,698,663
Placement at \$14.00 per share		
- 31 August 2022	-	240,603
- 29 December 2022	-	105,476
- 30 May 2023	165,358	-
Balance at the end of the financial period	<u>29,210,100</u>	<u>29,044,742</u>

8. Reserves

Minority acquisition reserve	(25,538,692)	(25,538,692)
Equity settled share option reserve	11,951,377	6,385,427
Foreign currency translation reserve	(7,538,010)	(6,344,109)
	<u>21,125,325</u>	<u>(25,497,374)</u>

9. Related party transactions

During the period, the Company paid a total of \$54,789 (six month period ended 30 June 2022 - \$54,175) to 4F Investments Pty Limited, a company associated with Mr Fred Bart in respect of directors' fees and superannuation for Mr Fred Bart and Mrs Cheryl Bart.

For personal use only

AUDIO PIXELS HOLDINGS LIMITED

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 30 June 2023

9. Related party transactions (continued)

During the period, the Company paid a total of \$20,625 (six month period ended 30 June 2022 - \$20,625) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of directors' fees and superannuation for Mr Ian Dennis.

During the period, the Company paid a total of \$15,000 (six month period ended 30 June 2022 - \$15,000) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of consulting fees for secretarial and accounting services.

On 8 May 2014, the company entered into a lease in respect of office premises at Suite 3, Level 12, 75 Elizabeth Street Sydney for a period of forty eight months to 30 March 2018. The option in the lease was exercised and the lease has been extended for a further 4 years to 30 March 2022 and expired on that date. The Company continues to occupy the premises on a month to month basis pending the finalisation of a new lease. During the half-year period ended 30 June 2023, the company recharged \$9,368 (six month period ended 30 June 2022 - \$24,765) to 4F Investments Pty Limited, a company controlled by Fred Bart and \$11,485 (six month period ended 30 June 2022 - \$31,339) to another tenant who is a shareholder in the company.

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

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

On 28 March 2023, 4F Investments Pty Limited increased the unsecured loan facility by a further \$1.5m and advanced a further \$1,250,000 during the half year period. As part of the extension of the loan facilities, the Company agreed to increase the interest rate on the unsecured loan facility from 6% per annum to 12% per annum and grant 500,000 unlisted options to 4F Investments Pty Limited. These options were approved at the Annual General Meeting held on 30 May 2023 and are immediately exercisable at an exercise price of \$7.59. The options have an exercise period of 3 years expiring on 30 May 2026. Included in the condensed statement of consolidated profit and loss and other comprehensive income for the 6-month period, is a financing expense of \$3,355,000, which is attributable to the issue of these options being treated as a transaction cost related to the unsecured financing facility.

Shareholders also approved the issue of 165,358 ordinary shares to 4F Investments Pty Limited at the Annual General Meeting held on 30 May 2023 reducing the loan by \$2,315,012. The loan balance at 30 June 2023 was \$2,219,988 and there is a further undrawn facility of \$250,000 and the facility is repayable on completion of the capital raising of A\$4,316,550 (US\$3m) from Earth Mountain or another capital raising.

During the half year ended 30 June 2023, the company paid \$141,439 (six month period ended 30 June 2022 - \$26,067) on the unsecured loan to 4F Investments Pty Limited. Interest has been accrued in the financial statements at 30 June 2023 of \$68,116 (six month period ended 30 June 2022 - \$30,439) has been accrued in the financial statements.

AUDIO PIXELS HOLDINGS LIMITED

**Notes to the Condensed Consolidated Financial
Statements
for the half-year ended 30 June 2023**

10. Goodwill

	30 June 2023	31 December 2022
	\$	\$
Goodwill paid on the acquisition of subsidiary company, Audio Pixels Limited of Israel		
Balance at the beginning of the period	2,371,014	2,289,128
Add Exchange differences on translation	28,154	81,886
Less Goodwill impairment	<u>(2,399,168)</u>	<u>-</u>
	<u>-</u>	<u>2,371,014</u>

In the current reporting period, the goodwill and intangible balance were written off. The directors made the assessment that these balances related to the original technology that has been superseded by the developments made since. As a result, the goodwill was attributable to the original technology and is not considered to represent the product that has now been created.

11. Intangible asset

Based on independent valuation performed by Ernst & Young,
Israel as at the acquisition date, 24 September 2010

Intangible	868,000	868,000
Add Exchange differences on translation	203,148	200,171
Less amortisation	(960,462)	(916,323)
Less impairment	<u>(110,686)</u>	<u>-</u>
	<u>-</u>	<u>151,848</u>

The recoverable amount of the intangible asset was assessed during the reporting period with the balance impaired and written off for the same reasons as outlined in Note 10.

12. Convertible notes

On 25 May 2023, the Company announced it had issued 5 Convertible Notes amounting to \$2,500,000 to existing sophisticated shareholders and a further \$500,000 will be issued subject to shareholder approval, making a total issue of \$3,000,000.

\$500,000 of the Convertible Note issue will require shareholder approval as the note will be taken by 4F Investments Pty Limited, an entity associated with Fred Bart. The other

\$2,500,000 has been taken up by five other existing sophisticated investors and the funds already received.

AUDIO PIXELS HOLDINGS LIMITED

**Notes to the Condensed Consolidated Financial
Statements
for the half-year ended 30 June 2023**

12. Convertible notes (cont)

These Convertible Notes mature on 31 January 2024, are unsecured, unlisted and attract an interest rate of 12% per annum payable quarterly in arrears and convertible into ordinary shares at \$9.04, based on the five-day volume weighted average share price of Audio Pixels Holdings Limited on the date of the agreement, unless a share capital raise is undertaken at a lower price.

The 5 investors also received a total of 500,000 unlisted options (100,000 options per A\$500,000 invested) at a strike price of 20% higher than the conversion price of \$9.04, being \$10.84. These unlisted options have a term of 3 years expiring on 4 May 2026.

	30 June 2023	31 December 2022
	\$	\$
Borrowings – Convertible note		
Carrying amount at start of period	-	-
Face value of notes issued	2,500,000	-
Convertible notes conversion feature on issue	(472,000)	-
Value of options issued taken to equity settled share option reserve	<u>(1,538,000)</u>	-
	490,000	-
Add – accrued interest expense	<u>138,000</u>	-
Current Liability at end of period	<u>628,000</u>	-
Derivative liability		
Carrying value at start of the period	-	-
Fair value of the convertible note feature at issue	472,000	-
Fair value movement to the end of the reporting period	<u>896,000</u>	-
Derivative liability	<u>1,368,000</u>	-
Total borrowings	<u>1,996,000</u>	-
Face value of convertible notes	<u>2,500,000</u>	-

For personal use only

AUDIO PIXELS HOLDINGS LIMITED

Notes to the Condensed Consolidated Financial Statements for the half-year ended 30 June 2023

	30 June 2023 \$	31 December 2022 \$
13. Unsecured loans		
4F Investments Pty Limited – related party of director	<u>2,219,988</u>	<u>3,285,000</u>

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

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

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

On 28 March 2023, 4F Investments Pty Limited increased the unsecured loan facility by a further \$1.5m and advanced a further \$1,250,000 during the half year period. As part of the extension of the loan facilities, the Company agreed to increase the interest rate on the unsecured loan facility from 6% per annum to 12% per annum and grant 500,000 unlisted options to 4F Investments Pty Limited. These options were approved at the Annual General Meeting held on 30 May 2023 and are immediately exercisable at an exercise price of \$7.59. The options have an exercise period of 3 years expiring on 30 May 2026. Included in the condensed statement of consolidated profit and loss and other comprehensive income for the 6-month period, is a financing expense of \$3,355,000, which is attributable to the issue of these options being treated as a transaction cost related to the unsecured financing facility.

Shareholders also approved the issue of 165,358 ordinary shares to 4F Investments Pty Limited at the Annual General Meeting held on 30 May 2023 reducing the loan by \$2,315,012. The loan balance at 30 June 2023 was \$2,219,988 and there is a further undrawn facility of \$250,000 and the facility is repayable on completion of the capital raising of A\$4,316,550 (US\$3m) from Earth Mountain or another capital raising.

During the half year ended 30 June 2023, the company paid \$141,439 (six month period ended 30 June 2022 – \$26,067) on the unsecured loan to 4F Investments Pty Limited. Interest has been accrued in the financial statements at 30 June 2023 of \$68,116 (six month period ended 30 June 2022 - \$30,439) has been accrued in the financial statements.

As at 30 June 2023, \$250,000 of the facility remains undrawn.

14. Subsequent events

The Directors are not aware of any significant subsequent events since the end of the financial period and up to the date of this report.

For personal use only

AUDIO PIXELS HOLDINGS LIMITED

Notes to the Condensed Consolidated Financial Statements for the half-year ended 30 June 2023

15. Contingent Liabilities and Commitments

a) At 30 June 2023 the subsidiary company, Audio Pixels Limited of Israel has entered into agreements with strategic suppliers for delivery of certain components which on delivery of components meeting the required specifications of the Consolidated entity will result in final payments being due of \$521,141 (31 December 2022 - \$521,141).

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

c) On 17 December 2021, the Consolidated entity announced to the Australian Stock Exchange Limited that it had entered into an agreement with Earth Mountain (Shanghai) Intelligent Technology Co., to mass produce Audio Pixels transformational digital speaker products.

d) On 29 December 2022, the parent entity entered into a pre-production packaged chip purchase order with Earth Mountain (Shanghai) Intelligent Technology Co., Ltd for US\$400,000 which is shown as a prepayment in the financial statements as at 31 December 2022. On the basis that these initial pre-production packaged chips meet all the design specifications, the parent company has committed a further US\$9,600,000 for fully tested packaged production chips at a unit price to be finalised based on actual yields. Should the initial pre-production packaged chips meet all the design specifications the Directors expect a phased approach to delivery of the production chips, with details of delivery shipments and payment arrangements to be agreed with Earth Mountain, with a first shipment of fully tested packaged production chips expected to be delivered in December 2023.

For personal use only

AUDIO PIXELS HOLDINGS LIMITED

Information on Audit or Review

This half yearly report is based on accounts to which one of the following applies.

- | | |
|---|---|
| <input type="checkbox"/> The accounts have been audited. | <input checked="" type="checkbox"/> The accounts have been subject to review. |
| <input type="checkbox"/> The accounts are in the process of being audited or subject to review. | <input type="checkbox"/> The accounts have not yet been audited or reviewed. |

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

Not applicable

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

Not applicable

For personal use only