

APPENDIX 4D HALF-YEAR FINANCIAL REPORT

Information given to ASX under listing rule 4.2A

Reporting period and Functional Currency

Current reporting period:	30 June 2022
Previous corresponding reporting period:	30 June 2021
Functional Currency:	US dollars

Results for announcement to the market

	30 June 2022 US\$	30 June 2021 US\$	% change
Revenues from continuing operations	4,831,081	767,545	Up 529%
Operating loss	(8,561,079)	(8,435,158)	Up 1%
Loss for the period attributable to members	(8,255,802)	(9,298,244)	Down 11%

	US cents per share	US cents per share
Loss per share		
Basic loss per share	(0.46)	(0.55)
Diluted loss per share	(0.46)	(0.55)

	30 June 2022 US cents per share	30 June 2021 US cents per share
Net tangible assets		
Net tangible assets per share	1.69	0.97

Dividends or dividend reinvestment plan

No dividends were paid or declared during the half-year ended 30 June 2022 (2021: Nil). The Company does not operate a dividend reinvestment plan.

Additional Information

Additional Appendix 4D disclosure requirements can be found in the attached Financial Report for the half-year ended 30 June 2022.

This report is based on the Half-Year consolidated financial statements and notes which have been reviewed by HLB Mann Judd (WA) Partnership. This report should be read in conjunction with the most recent annual financial report.

BrainChip Holdings Ltd

ABN: 64 151 159 812

Financial Report ***For the Half-Year ended*** ***30 June 2022***

Corporate Directory

Board of Directors

Antonio J. Viana	Non-Executive Director and Chair
Sean Hehir	Executive Director, Chief Executive Officer
Peter van der Made	Executive Director, Chief Technical Officer
Geoffrey Carrick	Non-Executive Director
Pia Turcinov	Non-Executive Director

Company Secretary

Kim Clark

Registered Office

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Facsimile: +61 2 9279 0664

Postal Address

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Website

<http://www.brainchipinc.com>

Auditors

HLB Mann Judd (WA) Partnership

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Share Registry

Boardroom Pty Limited

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Telephone: +61 2 9290 9600

Facsimile: +61 2 9279 0664 Online: www.boardroomlimited.com.au

Securities Exchange

Australian Securities Exchange Limited

Exchange Centre, 20 Bridge St, Sydney NSW 2000

Code: BRN

OTCQX Best Market – OTC Markets Groups

Codes: BRCHF, BCHPY

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Directors' Report

The Directors submit their report of the consolidated entity, being BrainChip Holdings Ltd ("BrainChip Holdings" or "Company") and its controlled entities ("Group"), for the half-year ended 30 June 2022.

DIRECTORS

The names and details of the Company's Directors in office during the financial period and until the date of this report are as follows:

Antonio J. Viana	Non-Executive Director and Chair (appointed Chair 1 March 2022)
Sean Hehir	Executive Director, Chief Executive Officer
Peter van der Made	Executive Director, Chief Technical Officer
Geoffrey Carrick	Non-Executive Director
Pia Turcinov	Non-Executive Director
Emmanuel T. Hernandez	Non-Executive Director and Chair (resigned 28 February 2022)

PRINCIPAL ACTIVITIES

The principal activity of the Group is the development and commercialisation of Akida™, the first-to-market semiconductor edge Artificial Intelligence ("AI") acceleration processor architecture, delivering high-performance and ultra-low power for AI computation. Akida is integrated into computer chips and performs AI inference from sensor-captured data.

DIVIDENDS

No dividends have been paid or declared by the Company during the half-year or up to the date of this report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The COVID-19 outbreak and the response of governments in dealing with the pandemic continues to affect general activity levels within the community, the economy and the operations of our business. Whilst there appears to be minimal impact on our business to date, including consideration of key judgements and estimates used in presenting the financial report, there is a possibility of an impact on our future earnings, cash flows and financial condition. We do not consider it practicable to provide a quantitative or qualitative estimate of the potential impact of the pandemic on the Group at this time. The financial statements have been prepared based upon conditions existing at 30 June 2022, including those which are evidenced by events occurring subsequent to that date.

Directors' Report

REVIEW OF OPERATIONS

The financial results of the Group are presented in US dollars, unless otherwise referenced.

During the reporting period, the Company's design and manufacturing partner, SocioNext America Inc ("SocioNext"), provided BrainChip with a successful Silicon Qualification Report, which determined that all chips produced qualified as Production Chips as opposed to Engineering Samples.

Operating Results

The Group made a net loss after income tax for the half-year ended 30 June 2022 of \$8,255,802 (30 June 2021: \$9,298,244).

Revenues for the half-year ended 30 June 2022 of \$4,831,081 increased 529% from \$767,545 in the same period a year ago. The increase in revenue is a result of the partnership with MegaChips and predominantly comprised licensing revenues of Akida 1000 recognised in the current period.

Total expenses for the half-year ended 30 June 2022 of \$12,989,990 increased 37% from \$9,471,476 incurred in the half-year ended 30 June 2021. This increase was attributable to:

- 1) Research & development (R&D) expenses of \$4,281,408 for the current period decreased 3%, or \$136,518 from 30 June 2021. R&D costs in the current period included \$450,000 paid to Socionext as the final milestone payment related to the fabrication of the Akida™ device (2021: \$2,250,000), and \$927,590 in third party licenses and hardware related to the development of next-generation Akida engineering samples. The current period also includes an increase in employee expenses related to the headcount at the Australian research centre being employed for the full six months as compared to the prior period, offset by an increase in R&D tax credits claimed from the relevant authorities and increased costs relating to patent registration activity.
- 2) Sales & Marketing (S&M) expenses of \$1,741,958 for the current period increased 64%, or \$679,290 from the comparative period as a result of our complete Company rebranding and continued engagement with current and potential customers.
- 3) General & Administrative (G&A) expenses of \$3,311,042 increased 39%, or \$924,258 from the same period a year ago which is a result of:
 - a) Increase in headcount in the administrative team resulting in higher employee-related expenses;
 - b) Increased software expense and office lease expense as our employees are encouraged to return to new office spaces in the USA; balanced by
 - c) reduced corporate costs associated with lower shareholder activity and cost saving processes adopted when registering new shareholders.
- 4) Share based payment expense of \$3,655,582 for the current period increased 128%, or \$2,051,484 from the comparative period. The increase is attributable to the issues of equity to directors in accordance with the 2022 AGM resolutions and to employees. Share based payments expense is non-cash and represents the value of options, restricted share units and performance rights issued to directors, employees and consultants that have been earned during the reporting period, offset by the effect of cancelled and forfeited equity instruments.

Balance Sheet and Cashflows

At the end of the half-year the Group had consolidated net assets of \$31,254,571 (31 December 2021: \$18,940,486), including cash and cash equivalents of \$28,433,118 (31 December 2021: \$19,367,069).

Cash from Financing Activities includes \$16,153,491 from the issue of shares to LDA Capital and \$1,097,659 from the exercise of options held by LTIP participants.

Directors' Report

SECURITIES ON ISSUE

The Company has the following securities on issue as of the date of this report:

Ordinary shares	1,719,362,144
Options over ordinary shares	77,210,365
Performance rights	2,864,812
Restricted stock units	21,814,738

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

In the period since 30 June 2022 and to the date of this report, the Company has issued 1,692,082 treasury shares under the LTIP on the exercise of 850,416 options (raising \$143,789 (A\$206,342)), and the conversion of 791,666 restricted stock units and 50,000 performance rights. 3,000,000 restricted stock units were forfeited since the end of the reporting period.

The Company has also issued 176,667 restricted stock units in accordance with the Company's 2018 Long Term Incentive Plan and 94,507 restricted stock units to a consultant in accordance with the Company's constitution.

In August 2022, the Company acquired the rights to patents and patent applications that were filed in 2016 by CERCO (Brain and Cognition Research Center), a pre-eminent public research lab based in Toulouse, France. These patents were licensed exclusively to BrainChip in March 2017.

No other matter or circumstance has arisen since the end of the half-year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial periods.

AUDITOR INDEPENDENCE

The Directors received the Independence Declaration, as set out on page 4, from HLB Mann Judd.

Signed in accordance with a resolution of the Directors.



Antonio J. Viana

Chair
California, USA, August 22, 2022

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the consolidated financial report of BrainChip Holdings Limited for the half-year ended 30 June 2022, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) any applicable code of professional conduct in relation to the review.



Perth, Western Australia
23 August 2022

B G McVeigh
Partner

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Liability limited by a scheme approved under Professional Standards Legislation.

HLB Mann Judd (WA Partnership) is a member of HLB International, the global advisory and accounting network.

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 30 June 2022

	Note	30 June 2022 US\$	30 June 2021 US\$
Continuing operations			
Revenue from contracts with customers	3	4,831,081	767,545
Cost of goods sold		(402,170)	(144,562)
Gross profit		<u>4,428,911</u>	<u>622,983</u>
Research & development expenses	4(a)	(4,281,408)	(4,417,926)
Selling & marketing expenses	4(b)	(1,741,958)	(1,062,668)
General & Administrative expenses	4(c)	(3,311,042)	(2,386,784)
Share based payment expense	16(a)	(3,655,582)	(1,604,098)
Other income	5(a)	-	413,335
Operating loss		<u>(8,561,079)</u>	<u>(8,435,158)</u>
Finance income	6(a)	148,805	55,452
Finance expense	6(b)	(36,392)	(5,645)
Net fair value gain/(loss) through profit and loss	6(c)	204,289	(763,809)
Loss from continuing operations before income tax		<u>(8,244,377)</u>	<u>(9,149,160)</u>
Income tax expense		<u>(11,425)</u>	<u>(149,084)</u>
Net loss for the period		<u>(8,255,802)</u>	<u>(9,298,244)</u>
Other comprehensive income / (loss)			
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Remeasurement losses on defined benefit plans		(28,890)	(23,359)
<i>Items that may be reclassified subsequently to profit or loss (net of tax):</i>			
Exchange differences on translation of foreign operations		(41,899)	(95,063)
Other comprehensive loss for the period, net of tax		<u>(70,789)</u>	<u>(118,422)</u>
Total comprehensive loss for the period, net of tax		<u>(8,326,591)</u>	<u>(9,416,666)</u>
		US cents per share	US cents per share
Loss per share attributable to ordinary equity holders of the Company			
Basic and diluted loss per share	7	(0.46)	(0.55)

The above consolidated statement of profit and loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 30 June 2022

	Note	30 June 2022 US\$	31 December 2021 US\$
CURRENT ASSETS			
Cash and cash equivalents	8	28,433,118	19,367,069
Trade and other receivables	9	3,550,377	909,405
Inventory		206,447	254,571
Other assets		346,223	355,077
Total current assets		32,536,165	20,886,122
NON-CURRENT ASSETS			
Right-of-use assets	10	1,634,464	1,600,028
Plant and equipment		394,602	375,812
Intangible assets	11	706,978	739,713
Other assets		232,727	182,474
Total non-current assets		2,968,771	2,898,027
TOTAL ASSETS		35,504,936	23,784,149
CURRENT LIABILITIES			
Trade and other payables		1,603,772	1,300,985
Deferred revenue		17,013	937,579
Financial liabilities	13	42,977	42,881
Lease liabilities	12	239,459	200,943
Employee benefits liabilities		543,788	559,313
Total current liabilities		2,447,009	3,041,701
NON-CURRENT LIABILITIES			
Financial liabilities	13	147,284	172,107
Lease liabilities	12	1,497,973	1,432,835
Defined benefit plan		158,099	197,020
Total non-current liabilities		1,803,356	1,801,962
TOTAL LIABILITIES		4,250,365	4,843,663
NET ASSETS		31,254,571	18,940,486
EQUITY			
Contributed equity	15(a)	134,468,166	117,483,072
Share based payments reserve		27,872,292	24,216,710
Foreign currency translation reserve		90,929	132,828
Other equity reserve		247,872	247,872
Accumulated losses		(131,424,688)	(123,139,996)
TOTAL EQUITY		31,254,571	18,940,486

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the half-year ended 30 June 2022

	Note	30 June 2022 US\$	30 June 2021 US\$
CASH FLOWS USED IN OPERATING ACTIVITIES			
Receipts from customers		1,434,653	1,314,862
Grants and R&D credits received from third parties		70,710	105,784
Payments to suppliers and employees		(9,399,652)	(8,324,815)
Interest received		31,277	17,465
Interest paid		(36,392)	(869)
Income taxes paid		(23,704)	-
Net cash flows used in operating activities		<u>(7,923,108)</u>	<u>(6,887,573)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES			
Payments for property, plant and equipment		<u>(80,515)</u>	<u>(19,054)</u>
Net cash flows used in investing activities		<u>(80,515)</u>	<u>(19,054)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of shares		17,251,150	5,483,748
Payment of share issue costs		(46,812)	(21,718)
Proceeds from loans from third parties		(18,520)	-
Payment of lease liabilities		<u>(91,778)</u>	<u>(24,216)</u>
Net cash flows generated from financing activities		<u>17,094,040</u>	<u>5,437,814</u>
Net increase/(decrease) in cash and cash equivalents		9,090,417	(1,468,813)
Net foreign exchange differences		(24,368)	(14,256)
Cash at the beginning of the financial period		<u>19,367,069</u>	<u>19,136,425</u>
Cash and cash equivalents at the end of the period	8	<u>28,433,118</u>	<u>17,653,356</u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the half-year ended 30 June 2022

	Contributed equity	Share based payment reserve	Other reserves	Foreign currency reserve	Accumulated losses	Total equity
	US\$	US\$	US\$	US\$	US\$	US\$
At 1 January 2021	98,741,885	19,854,509	247,872	114,940	(101,229,870)	17,729,336
Loss for the year	-	-	-	-	(9,298,244)	(9,298,244)
Other comprehensive loss	-	-	-	(95,063)	(23,359)	(118,422)
Total comprehensive loss for the period	-	-	-	(95,063)	(9,321,603)	(9,416,666)
Transactions with owners in their capacity as owners						
Shares issued	5,974,801	-	-	-	-	5,974,801
Converted Treasury shares	3,452,514					3,452,514
Share issue costs	(37,110)	-	-	-	-	(37,110)
Share-based payment	-	1,604,098	-	-	-	1,604,098
At 30 June 2021	108,132,090	21,458,607	247,872	19,877	(110,551,473)	19,306,973

	Contributed equity	Share based payment reserve	Other reserves	Foreign currency reserve	Accumulated losses	Total equity
	US\$	US\$	US\$	US\$	US\$	US\$
At 1 January 2022	117,483,072	24,216,710	247,872	132,828	(123,139,996)	18,940,486
Loss for the year	-	-	-	-	(8,255,802)	(8,255,802)
Other comprehensive loss	-	-	-	(41,899)	(28,890)	(70,789)
Total comprehensive loss for the period	-	-	-	(41,899)	(8,284,692)	(8,326,591)
Transactions with owners in their capacity as owners						
Shares issued	15,949,202	-	-	-	-	15,949,202
Converted Treasury shares	1,079,867					1,079,867
Share issue costs	(43,975)	-	-	-	-	(43,975)
Share-based payment	-	3,655,582	-	-	-	3,655,582
At 30 June 2022	134,468,166	27,872,292	247,872	90,929	(131,424,688)	31,254,571

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2022

1. CORPORATE INFORMATION

The interim condensed consolidated financial report of BrainChip Holdings Ltd ("Company") and its controlled entities ("Consolidated Entity" or "Group") for the half-year ended 30 June 2022 was authorised for issue in accordance with a resolution of the Directors on 23 August 2022, California, U.S.A.

BrainChip Holdings is a for-profit company limited by shares, incorporated and domiciled in Australia, and whose shares are publicly traded on the Australian Securities Exchange.

The address of the registered office is Level 12, 225 George Street, Sydney, NSW 2000, Australia.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The half-year condensed consolidated financial statements have been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

The half-year condensed consolidated financial statement does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2021, and considered together with any public announcements made by the Company during the half-year ended 30 June 2022 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

Certain comparative expenditures have been reclassified to align with the current reporting presentation.

New standards, interpretation and amendments adopted by the Group

The accounting policies adopted in the preparation of the half-year condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of new standards effective as of 1 January 2022. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments and interpretations apply for the first time in 2022, but do not have an impact on the interim condensed consolidated financial statements of the Group.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

	30 June 2022 US\$	30 June 2021 US\$
(a) Types of goods or service		
Product revenue	218,575	52,005
License revenue	4,049,889	412,500
Development service revenue	562,617	303,040
Total revenue from contracts with customers	<u>4,831,081</u>	<u>767,545</u>
(b) Timing of revenue recognition		
Services transferred over time	162,617	355,045
Sale of product and license transferred at a point in time	4,668,464	412,500
Total revenue	<u>4,831,081</u>	<u>767,545</u>

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2022

4. EXPENSES

	30 June 2022 US\$	30 June 2021 US\$
(a) Research & development expenses		
Employee expenses	2,837,672	2,221,479
Grants received	(400,456)	(350,248)
Third party development services	1,377,590	2,250,000
Patent application fees	143,915	47,227
Software/hardware IT expenses	97,650	106,187
Amortisation of intangible assets	32,735	32,735
Depreciation of plant & equipment	2,248	-
Rent expense	35,259	27,975
Other expenses	154,795	82,571
Total research & development expenses	<u>4,281,408</u>	<u>4,417,926</u>
(b) Selling & marketing expenses:		
Employee expenses	1,029,650	690,737
Promotional and advertising	369,166	263,235
Other expenses	343,143	108,696
Total selling & marketing expenses	<u>1,741,958</u>	<u>1,062,668</u>
(c) General & Administrative expenses:		
Employee expenses	1,682,526	1,180,694
Legal and professional expenses	404,647	431,171
Corporate and listing expenses	404,558	420,224
Travel and accommodation expenses	66,918	15,125
Third party recruiting costs	162,110	-
Depreciation of plant & equipment	56,908	38,113
Depreciation of right of use assets	162,146	25,067
Office rent	4,922	55,568
Software lease expense	152,784	114,415
Other expenses	213,523	106,407
Total general & administrative expenses	<u>3,311,042</u>	<u>2,386,784</u>

5. OTHER INCOME

	30 June 2022 US\$	30 June 2021 US\$
(a) Forgiveness of borrowings		
Forgiveness of borrowings	-	413,335
Total other income	<u>-</u>	<u>413,335</u>

6. FINANCE INCOME AND EXPENSES

	30 June 2022 US\$	30 June 2021 US\$
(a) Finance income		
Interest received	31,277	17,465
Foreign exchange gain	117,528	37,987
Total finance income	<u>148,805</u>	<u>55,452</u>
(b) Finance expense		
Other interest expense	36,392	5,645
Total finance expense	<u>36,392</u>	<u>5,645</u>

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2022

6. FINANCE INCOME AND EXPENSES (continued)

	30 June 2022 US\$	30 June 2021 US\$
(c) Net fair value gain/(loss) through profit and loss		
Net gain/(loss) from financial assets and liabilities measured at fair value through the profit and loss	204,289	(763,809)
Total fair value gain/(loss) through profit and loss	<u>204,289</u>	<u>(763,809)</u>

On 14 January 2022, BrainChip submitted a capital call notice to LDA Capital in accordance with the Put Option Agreement (POA) dated 13 August 2020 to subscribe for up to 15M shares. The purpose of this capital call notice was primarily to satisfy the Company's obligation under the First Minimum Drawdown Amount to draw a minimum of A\$5.3M no later than 28 February 2022, as well as to ensure the Company will meet the liquidity requirements necessary to execute the business plan. On 18 February 2022, the capital call notice was settled resulting in the Company receiving US\$16,153,490 (A\$22,397,636) based on the purchase price per capital call share ranging from A\$1.466 to A\$1.59.

Recognition of a net gain from financial assets measured at fair value through profit and loss in the current year of \$204,289 has resulted due to the discount provided to LDA after consideration of the market price of the shares issued (refer Note 15(b)).

7. LOSS PER SHARE

	30 June 2022 US\$	30 June 2021 US\$
Net loss attributable to ordinary shareholders for basic and diluted earnings per share	(8,255,802)	(9,298,244)
	US cents per share	US cents per share
Basic and diluted loss per share	(0.46)	(0.55)
Weighted average number of ordinary shares for basic loss per share ⁽²⁾	1,782,309,062	1,699,394,657
Effect of the dilution of share options and performance rights ⁽¹⁾	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	<u>1,782,309,062</u>	<u>1,699,394,657</u>

⁽¹⁾ At 30 June 2022, the Company had on issue 78,060,781 (30 June 2021: 135,557,359) share options, 24,668,564 restricted stock units (30 June 2021: 2,450,000) and 2,914,812 performance rights (30 June 2021: Nil) that were excluded from the calculation of diluted loss per share as they are considered anti-dilutive.

⁽²⁾ Weighted average number of ordinary shares has been adjusted as a result of rights issue to institutional and sophisticated investors for all periods.

8. CASH AND CASH EQUIVALENTS

	30 June 2022 US\$	31 December 2021 US\$
Cash at bank and in hand	28,392,225	19,323,732
Term deposits	40,893	43,337
Total	<u>28,433,118</u>	<u>19,367,069</u>

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2022

9. TRADE AND OTHER RECEIVABLES

	30 June 2022 US\$	31 December 2021 US\$
Trade receivables (i)	2,503,670	98,136
Research tax credits	1,033,137	774,830
Other receivables	13,570	36,439
Total	<u>3,550,377</u>	<u>909,405</u>

- (i) Trade receivables are non-interest bearing and generally on terms of 30-90 days. No allowance for expected credit loss is expected.

10. RIGHT-OF-USE ASSETS

	30 June 2022 US\$	31 December 2021 US\$
At cost	1,934,743	1,746,977
Accumulated depreciation	<u>(300,279)</u>	<u>(146,949)</u>
	<u>1,634,464</u>	<u>1,600,028</u>

6 Months to 30 June 2022 US\$

Movement in right-of-use assets:

At 1 January	1,600,028
Additions	198,956
Depreciation	(162,146)
Net foreign exchange movements	<u>(2,374)</u>
At 30 June	<u>1,634,464</u>

11. INTANGIBLE ASSETS

	30 June 2022 US\$	31 December 2021 US\$
Patents and licenses (a)	706,978	739,713
	<u>706,978</u>	<u>739,713</u>
(a) At cost – patents and licenses with finite useful life	739,713	1,040,807
Accumulated amortisation	<u>(32,735)</u>	<u>(301,094)</u>
	<u>706,978</u>	<u>739,713</u>

6 Months to 30 June 2022 US\$

Movement in patents and licenses:

At 1 January	739,713
Amortisation	<u>(32,735)</u>
At 30 June	<u>706,978</u>

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2022

12. LEASE LIABILITIES

	30 June 2022 US\$	31 December 2021 US\$
Current	239,459	200,943
Non-Current	1,497,973	1,432,835
	<u>1,737,432</u>	<u>1,633,778</u>
<i>Movement in lease liabilities</i>		
At 1 January		1,633,778
Additions		198,956
Reduction in liabilities		(91,788)
Net foreign exchange movements		(3,514)
At 30 June		<u>1,737,432</u>

13. FINANCIAL LIABILITIES

	30 June 2022 US\$	31 December 2021 US\$
<i>Current</i>		
Advances from third parties and government grant subsidies (a)	42,977	42,881
	<u>42,977</u>	<u>42,881</u>
<i>Non-current</i>		
Advances from third parties and government grant subsidies (a)	147,284	172,107
	<u>147,284</u>	<u>172,107</u>
<i>Total Financial liabilities</i>	<u>190,261</u>	<u>214,988</u>

(a) Advances from third parties and government grant subsidies

Non-current advances and government grant subsidies include loans from various French government agencies which are granted without any interest and are to be repaid under certain conditions. The benefit of the government loan at a below-market rate of interest is treated as a government grant.

<i>Movement in advances from third parties</i>	US\$
At 1 January	214,988
Operating grant revenue	(8,034)
Foreign exchange movements	(16,693)
At 30 June	<u>190,261</u>

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2022

14. FINANCIAL ASSETS & LIABILITIES

Set out below is an overview of financial assets (other than cash and short term deposits) and financial liabilities held by the Group as at 30 June 2022 and 31 December 2021:

	30 June 2022 US\$	31 December 2021 US\$
(a) Financial assets at amortised cost		
Trade and other receivables	3,550,377	909,405
Total financial assets	3,550,377	909,405
<i>Current</i>	3,550,377	909,405
<i>Non-current</i>	-	-
Total financial assets	3,550,377	909,405
Financial liabilities at amortised cost		
Trade and other payables	1,603,772	1,300,985
Financial liabilities		
- Advances from third parties and government grant subsidies	190,261	214,988
Total financial liabilities	1,794,033	1,515,973
<i>Current</i>	1,646,749	1,343,866
<i>Non-current</i>	147,284	172,107
Total financial liabilities	1,794,033	1,515,973

15. CONTRIBUTED EQUITY

	30 June 2022 US\$	31 December 2021 US\$
(a) Ordinary Shares		
Issued and fully paid	134,468,166	117,483,072
	134,468,166	117,483,072
(b) Movements in ordinary shares on issue		
	Number	US\$
At 1 January	1,693,237,144	117,483,072
Shares allocated on exercise of LDA Capital put option premium	15,000,000	15,949,202
Issue of shares to the Trustee of the BrainChip LTIP	11,000,000	-
Issue of shares to third party on conversion of restricted stock units	125,000	-
Treasury shares issued on conversion of options	-	1,079,867
Share issue costs	-	(43,975)
At 30 June	1,719,362,144	134,468,166

(c) Terms and conditions of contributed equity

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder meetings. In the event of winding up the Company the holders are entitled to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2022

15. CONTRIBUTED EQUITY (continued)

(d) Treasury shares	30 June 2022 Number	31 December 2021 Number
Fully paid shares issued to Trustee of Long Term Incentive Plan ("LTIP")	6,348,281	2,721,471
	<u>6,348,281</u>	<u>2,721,471</u>

Movements in Treasury shares

	Number
At 1 January	2,721,471
Shares issued to Trust from BrainChip Holdings Ltd	11,000,000
Shares issued on conversion of restricted stock units	(12,500)
Shares issued on exercise of options	(7,360,690)
At 30 June	<u>6,348,281</u>

(e) Options on issue

Unissued ordinary shares of the Company under option at 30 June 2022 are as follows:

Type	Expiry Date	Exercise Price (US\$)	30 June 2022 Number	31 December 2021 Number
<i>Options issued as share-based payments</i>				
Unlisted – refer Note 16(b)	Various	Various	78,060,781	93,871,471
Total			<u>78,060,781</u>	<u>93,871,471</u>

(f) Performance rights on issue

Unissued ordinary shares of the Company held as performance rights at 30 June 2022 are as follows:

Type	30 June 2022 Number	31 December 2021 Number
Unlisted – refer Note 16(e) for movement in performance rights	2,914,812	265,000
Total	<u>2,914,812</u>	<u>265,000</u>

(h) Restricted Stock Units on issue

Unissued ordinary shares of the Company held as restricted stock units at 30 June 2022 are as follows:

Type	30 June 2022 Number	31 December 2021 Number
Unlisted – refer Note 16(g) for movement in restricted stock units	25,335,230	7,485,000
Total	<u>25,335,230</u>	<u>7,485,000</u>

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2022

16. SHARE-BASED PAYMENTS

	30 June 2022 US\$	30 June 2021 US\$
(a) Recognised share-based payment expenses		
Equity instruments issued in accordance with BrainChip Long Term Incentive Plan	3,655,582	1,604,098
Total share-based payment expenses	3,655,582	1,604,098

(b) Share Options granted as share-based payments

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options issued as share based payments during the half-year:

	2022 Number	2022 WAEP (US\$)	2021 Number	2021 WAEP (US\$)
At 1 January	93,791,471	0.148	154,145,000	0.117
Granted during the period	730,000	0.691	8,680,000	0.374
Exercised during the period	(7,360,690)	(0.153)	(26,517,641)	(0.126)
Forfeited during the period	(1,000,000)	(0.338)	(750,000)	(0.182)
Lapsed during the period	(8,100,000)	(0.125)	-	-
End of reporting period	78,060,781	0.153	135,557,359	0.155
Exercisable (vested and unrestricted) at the end of the period	38,714,114	0.125	75,398,192	0.147

The weighted average remaining contractual life for the share options outstanding at 30 June 2022 is 6.751 years (31 December 2021: 7.047 years).

The weighted average fair value of options granted during the period was \$0.642 (31 December 2021: \$0.385)

The range of exercise prices for options outstanding at the end of the period was \$Nil to \$0.711 (31 December 2021 \$0.031 to \$0.464).

The above options are exercisable after vesting and at any time on or before the expiry date.

No options were granted during the period as share-based payments.

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2022

16. SHARE-BASED PAYMENTS (Continued)

(c) Options granted, exercised, forfeited and lapsed under the Long Term Incentive Plan

Unissued ordinary shares of the Company under option at 30 June 2022 are as follows:

Grant Type	Grant Date	Expiry Date	Exercise Price (US\$)	Granted during year	Exercised during year	Forfeited during year	Lapsed during year
LTIP	21/04/2022	21/04/2032	0.700	450,000	-	-	-
LTIP	29/04/2022	29/04/2032	0.675	280,000	-	-	-
LTIP	30/01/2017	16/02/2022	0.185	-	2,700,000	-	-
LTIP	30/01/2017	31/12/2022	0.185	-	800,000	-	-
LTIP	27/01/2017	16/02/2022	0.242	-	100,000	-	-
AGM 2017	31/05/2017	01/02/2023	0.182	-	160,000	-	-
LTIP	07/07/2017	07/07/2023	0.125	-	-	-	2,000,000
LTIP	07/07/2017	07/07/2024	0.125	-	-	-	2,000,000
LTIP	07/07/2017	07/07/2025	0.125	-	-	-	2,000,000
LTIP	07/07/2017	07/07/2026	0.125	-	-	-	2,000,000
LTIP	31/07/2017	14/12/2022	0.136	-	345,000	-	-
LTIP	28/11/2017	14/12/2022	0.141	-	300,000	-	-
LTIP	01/12/2017	14/12/2022	0.140	-	-	-	100,000
LTIP	05/03/2018	13/03/2028	0.147	-	1,347,000	-	-
LTIP	16/06/2018	16/06/2028	0.105	-	150,000	-	-
LTIP	19/11/2018	05/10/2028	0.103	-	-	100,000	-
LTIP	11/03/2019	11/03/2029	0.047	-	700,000	-	-
LTIP	18/03/2019	18/03/2029	0.042	-	192,024	-	-
LTIP	21/10/2019	21/10/2029	0.035	-	166,666	-	-
LTIP	23/07/2020	06/08/2030	0.125	-	-	150,000	-
LTIP	17/08/2020	26/08/2030	0.144	-	250,000	-	-
LTIP	17/11/2020	03/12/2030	0.256	-	150,000	-	-
LTIP	09/04/2021	09/04/2031	0.411	-	-	750,000	-
				730,000	7,360,690	1,000,000	8,100,000

(d) Options pricing model

Options issued under LTIP - 2022

The fair value of the equity-settled share options granted under the LTIP is estimated as at the date of the offer of the grant using a Black Scholes Option Pricing model. The following table lists the inputs to the models used for the valuation of options during the period ended 30 June 2022:

	Number of options	Fair value at measurement date \$US	Share price at Grant Date US\$	Exercise price US\$	Expected volatility (%)	Risk-free interest rate (%)	Expected life of options in years
Employees	450,000	0.891	0.711	0.700	100.0	3.090	10.0
	280,000	0.950	0.659	0.675	100.0	3.120	10.0

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2022

16. SHARE-BASED PAYMENTS (continued)

(e) Performance Rights granted as share-based payments

The following table summarises the movement in Performance Rights issued as share-based payments:

	30 June 2022 US\$
At 1 January	265,000
Issued during the year	2,649,812
Converted during the year	-
At 30 June	<u>2,914,812</u>

(f) Performance Rights valuation model

The fair value of the performance rights granted under the LTIP is estimated as on the date of the grant using the share price and the exchange rate at the date of the offer of the grant. The following table lists the inputs to the models used for the valuation of performance rights issued during the period ended 30 June 2022:

	Number of performance rights	Grant date	Fair value at measurement date \$US
Employees	433,000	11 Apr 2022	0.673
	145,000	28 Apr 2022	0.702
Directors	2,071,812	24 May 2022	0.814

(g) Restricted Stock Units granted as share-based payments

The following table summarises the movement in Performance Rights issued as share-based payments:

	30 June 2022 US\$
At 1 January	7,485,000
Issued during the year	18,287,730
Converted during the year	(137,500)
Cancelled during the year	<u>(300,000)</u>
At 30 June	<u>25,335,230</u>

(h) Restricted Stock Units valuation model

The fair value of the performance rights granted under the LTIP is estimated as on the date of the grant using the share price and the exchange rate at the date of the offer of the grant. The following table lists the inputs to the models used for the valuation of performance rights issued during the period ended 30 June 2022:

	Number of restricted stock units	Grant date	Fair value at measurement date \$US
Employees	3,750,000	11 Apr 2022	0.674
	4,376,000	28 Apr 2022	0.702
	80,000	24 May 2022	0.814
Directors	10,081,730	24 May 2022	0.814

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2022

17. OPERATING SEGMENTS

For management purposes, the Group is organised into one operating segment, being the technological development of designs that can be licensed to OEM (Original Equipment Manufacturer) Customers, End Users and System Integrators based on Artificial Neural Networks.

All the activities of the Group are interrelated, and each activity is dependent on the others. Accordingly, all significant operating disclosures are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole.

The Group currently derives revenue from BrainChip Inc., located in the USA, and BrainChip SAS, its France based subsidiary.

Geographically, the Group has the following revenue information based on the location of its customers and non-current assets from where its investing activities are managed.

	30 June 2022 US\$	30 June 2021 US\$
Revenue from external customers		
Americas	4,631,170	658,338
Oceania	1,005	4,667
Europe, Middle East & Asia (EMEA)	198,903	104,540
Revenue from continuing operations	<u>4,831,081</u>	<u>767,545</u>

Customers representing more than 10% of revenues in the current year amounted to \$4,246,196 (2021: \$512,502) comprising license revenue of \$4,049,889, product revenue of \$77,194 and engineering services revenue of \$119,113 which was earned from customers located in the Americas (2021: license revenue of \$412,500 and engineering services revenue of \$100,002 which was earned from customers located in the Americas).

	30 June 2022 US\$	31 December 2021 US\$
Non-current assets		
Oceania	79,684	23,710
Americas	2,539,427	2,652,000
EMEA	349,660	222,317
	<u>2,968,771</u>	<u>2,898,027</u>

18. COMMITMENTS

The Group has no commitments as at 30 June 2022.

19. EVENTS AFTER BALANCE SHEET DATE

In the period since 30 June 2022 and to the date of this report, the Company has issued 1,692,082 treasury shares under the LTIP on the exercise of 850,416 options (raising \$143,789 (A\$206,342)), and the conversion of 791,666 restricted stock units and 50,000 performance rights. 3,000,000 restricted stock units were forfeited since the end of the reporting period.

The Company has also issued 176,667 restricted stock units in accordance with the Company's 2018 Long Term Incentive Plan and 94,507 restricted stock units to a consultant in accordance with the Company's constitution.

In August 2022, the Company acquired the rights to patents and patent applications that were filed in 2016 by CERCO (Brain and Cognition Research Center), a pre-eminent public research lab based in Toulouse, France. These patents were licensed exclusively to BrainChip in March 2017.

No other matters or circumstances have arisen since the end of the half-year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial periods.

Directors' Declaration

In accordance with a resolution of the Directors of BrainChip Holdings Ltd, I state that:

1. In the opinion of the Directors:
 - (a) the financial statements and notes of the Group are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the half-year ended on that date; and
 - (ii) complying with the Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001; and
 - (b) 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
2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the half-year ended 30 June 2022.

On behalf of the Board.



Antonio J. Viana

Chair
California, USA, August 22, 2022

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of BrainChip Holdings Limited

Report on the Condensed Half-Year Financial Report*Conclusion*

We have reviewed the accompanying half-year financial report of BrainChip Holdings Limited ("the company") which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration, for the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2022 and of its performance for the half-year ended on that date; and
- (b) 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 financial report* section of our report. We are independent of the company 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.

Responsibility of the directors for the 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.

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Auditor's responsibility for the review of the 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 2022 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.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

Perth, Western Australia
23 August 2022

B McVeigh

B McVeigh
Partner