

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 2023
Previous corresponding reporting period:	30 June 2022
Functional Currency:	US dollars

Results for announcement to the market

	30 June 2023 US\$	30 June 2022 US\$	% change
Revenues from continuing operations	115,606	4,831,081	Down 98%
Operating loss	(16,804,470)	(8,561,079)	Down 96%
Loss for the period attributable to members	(17,146,781)	(8,255,802)	Down 108%
Loss per share	US cents per share	US cents per share	
Basic loss per share	(0.93)	(0.46)	
Diluted loss per share	(0.93)	(0.46)	
	30 June 2023 US cents per share	30 June 2022 US cents per share	
Net tangible assets			
Net tangible assets per share	1.18	1.69	

Dividends or dividend reinvestment plan

No dividends were paid or declared during the half-year ended 30 June 2023 (2022: 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 2023.

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 2023

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
Duy-Loan Le	Non-Executive Director

Company Secretary

Kim Clark

Registered Office

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Postal Address

GPO Box 3993, Sydney NSW 2001 Australia

Website

<http://www.brainchip.com>

Auditors

HLB Mann Judd (WA) Partnership

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Telephone: +61 8 9227 7500

Share Registry

Boardroom Pty Limited

Level 8, 210 George Street Sydney NSW 2000

Telephone: +61 2 9290 9600

Facsimile: +61 2 9290 9664

Online: www.clientonline.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" or "Company") and its controlled entities ("Group"), for the half-year ended 30 June 2023.

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
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
Duy-Loan Le	Non-Executive Director

PRINCIPAL ACTIVITIES

The principal activity of the Group is the development of software and hardware accelerated solutions for advanced artificial intelligence ("AI") and machine learning applications with a primary focus on the development of its Akida Neuromorphic Processor to provide a complete ultra-low power and performance leading Edge AI solution.

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

On 13 October 2021, BrainChip and LDA Capital Limited and LDA Capital LLC ("LDA Capital") announced The Second Amendment to the Put Option Agreement ("POA") (refer to ASX announcements dated 13 August 2020 and 26 October 2020), increasing the total LDA commitment under the agreement to A\$65 million. The Company's minimum draw-down obligation was also increased by A\$30 million.

On 14 January 2023, BrainChip submitted a capital call notice to LDA Capital Limited and LDA Capital LLC ("LDA Capital") in accordance with the Put Option Agreement (POA) dated 13 August 2020 to subscribe for up to 30 million shares with an option for LDA Capital to subscribe up to an additional 10,000,000 shares subject to the approval of BrainChip. The purpose of this capital call notice was to support the Akida technology development and working capital commitments, as well as to satisfy the Company's obligation under The Second Minimum Drawdown Amount requiring a minimum of A\$15 million to be drawn no later than 31 December 2023. On 30 March 2023, the capital call notice was settled resulting in the Company receiving US\$8,210,972 (A\$12,232,543) based on the purchase price per capital call share ranging from A\$0.5895 to A\$0.6842.

There have been no other significant changes in the state of affairs of Group.

REVIEW OF OPERATIONS

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

Operating Results

The Group made a net loss after income tax for the half-year ended 30 June 2023 of \$17,146,781 (30 June 2022: \$8,255,802).

Revenues for the half-year ended 30 June 2023 of \$115,606 decreased 98% from \$4,831,081 in the same period a year ago, reflecting the volatility of revenues in the early years of commercialisation and noting that several active customers elected to defer their evaluation of BrainChip's technology until after the expected release of Akida 2.0 in August 2023.

Total expenses for the half-year ended 30 June 2023 of \$16,851,241 increased 30% from \$12,989,990 incurred in the half-year ended 30 June 2022. This increase was attributable to:

- 1) Research & development (R&D) expenses of \$3,938,157 for the current period decreased 8%, or \$343,251 from 30 June 2022. R&D costs in the prior period included \$927,590 in third party licenses and hardware related to the development of next-generation Akida engineering samples. This was offset by a lower allocation of R&D expenditure being allocated to cost of goods sold in line with sales and an increase in employee related expenditures.
- 2) Sales & Marketing (S&M) expenses of \$2,281,086 for the current period increased 31%, or \$539,128 from the comparative period as a result of the increase in headcount for the sales and marketing team in both the USA and international locations, as well as increased travel expenses post pandemic and the continuing engagement with current and potential customers.
- 3) General & Administrative (G&A) expenses of \$3,395,880 increased 3%, or \$84,838 from the same period a year ago which is a result of:
 - a) Increase in employee-related expenses; balanced by
 - b) reduced corporate costs associated with lower shareholder activity and cost saving processes adopted when registering new shareholders.
- 4) Share based payment expense of \$7,236,118 for the current period increased 98%, or \$3,710,562 from the comparative period. The increase is attributable to the issue of equity to third parties totalling \$2,349,954, including the 8 million restricted stock units issued to Mr Manny Hernandez as approved at the 2023 AGM, as well as the issue of equity to senior executives and directors in accordance with the 2023 AGM resolutions and to employees in accordance with the BrainChip Long Term Incentive Plan (LTIP). 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 \$23,194,139 (31 December 2022: \$23,718,406), including cash and cash equivalents of \$21,824,785 (31 December 2022: \$23,165,288).

Cash from Financing Activities includes \$8,210,972 from the issue of shares to LDA Capital and \$957,121 from the exercise of options held by BrainChip LTIP participants.

Directors' Report

SECURITIES ON ISSUE

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

Ordinary shares	1,775,058,145
Options over ordinary shares	67,032,564
Performance rights	5,601,727
Restricted stock units	40,240,952

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

In the period since 30 June 2023 and to the date of this report, the Company has issued 310,417 treasury shares under the LTIP on the exercise of 260,417 options over ordinary shares (raising \$15,571 (A\$23,592)), and the conversion of 50,000 performance rights.

The Company has also issued 610,000 options over ordinary shares in accordance with the Company's 2018 Long Term Incentive Plan.

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 24, 2023

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 2023, 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
24 August 2023

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 2023

	Note	30 June 2023 US\$	30 June 2022 US\$
Continuing operations			
Revenue from contracts with customers	3	115,606	4,831,081
Cost of goods sold		(68,835)	(402,170)
Gross profit		46,771	4,428,911
Research & development expenses	4(a)	(3,938,157)	(4,281,408)
Selling & marketing expenses	4(b)	(2,281,086)	(1,741,958)
General & administrative expenses	4(c)	(3,395,880)	(3,311,042)
Share based payment expense	16(a)	(7,236,118)	(3,655,582)
Operating loss		(16,804,470)	(8,561,079)
Finance income	6(a)	198,372	148,805
Finance expense	6(b)	(130,243)	(36,392)
Net fair value (loss)/gain through profit and loss	6(c)	(380,523)	204,289
Loss from continuing operations before income tax		(17,116,864)	(8,244,377)
Income tax expense		(29,917)	(11,425)
Net loss for the period		(17,146,781)	(8,255,802)
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		(22,672)	(28,890)
<i>Items that may be reclassified subsequently to profit or loss (net of tax):</i>			
Exchange differences on translation of foreign operations		(71,050)	(41,899)
Other comprehensive loss for the period, net of tax		(93,722)	(70,789)
Total comprehensive loss for the period, net of tax		(17,240,503)	(8,326,591)
		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	(0.93)	(0.46)

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 2023

	Note	30 June 2023 US\$	31 December 2022 US\$
CURRENT ASSETS			
Cash and cash equivalents	8	21,824,785	23,165,288
Trade and other receivables	9	2,070,218	2,349,796
Inventory		614,160	397,436
Other assets		360,529	203,623
Total current assets		24,869,692	26,116,143
NON-CURRENT ASSETS			
Right-of-use assets	10	1,537,145	1,750,405
Plant and equipment		417,649	434,934
Intangible assets	11	641,507	674,242
Other assets		260,754	202,054
Total non-current assets		2,857,055	3,061,635
TOTAL ASSETS		27,726,747	29,177,778
CURRENT LIABILITIES			
Trade and other payables		1,794,705	2,668,824
Deferred revenue		41,831	49,592
Financial liabilities	13	32,705	44,922
Lease liabilities	12	424,428	344,938
Employee benefits liabilities		616,932	542,140
Total current liabilities		2,910,601	3,650,416
NON-CURRENT LIABILITIES			
Financial liabilities	13	67,074	66,250
Lease liabilities	12	1,368,824	1,591,155
Defined benefit plan		186,109	151,551
Total non-current liabilities		1,622,007	1,808,956
TOTAL LIABILITIES		4,532,608	5,459,372
NET ASSETS		23,194,139	23,718,406
EQUITY			
Contributed equity	15(a)	144,595,409	135,115,291
Share based payments reserve		40,600,981	33,364,863
Foreign currency translation reserve		47,541	118,591
Other equity reserve		247,872	247,872
Accumulated losses		(162,297,664)	(145,128,211)
TOTAL EQUITY		23,194,139	23,718,406

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 2023

	Note	30 June 2023 US\$	30 June 2022 US\$
CASH FLOWS USED IN OPERATING ACTIVITIES			
Receipts from customers		867,779	1,434,653
Grants and R&D credits received from third parties		-	70,710
Payments to suppliers and employees		(11,190,694)	(9,399,652)
Interest received		198,372	31,277
Interest paid		(52,848)	(36,392)
Income taxes paid		(91,674)	(23,704)
Net cash flows used in operating activities		<u>(10,269,065)</u>	<u>(7,923,108)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES			
Payments for property, plant and equipment		<u>(74,871)</u>	<u>(80,515)</u>
Net cash flows used in investing activities		<u>(74,871)</u>	<u>(80,515)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of shares		9,168,093	17,251,150
Payment of share issue costs		(33,144)	(46,812)
Proceeds from loans from third parties		-	(18,520)
Payment of lease liabilities		<u>(132,127)</u>	<u>(91,778)</u>
Net cash flows generated from financing activities		<u>9,002,822</u>	<u>17,094,040</u>
Net increase/(decrease) in cash and cash equivalents		(1,341,114)	9,090,417
Net foreign exchange differences		611	(24,368)
Cash at the beginning of the financial period		<u>23,165,288</u>	<u>19,367,069</u>
Cash and cash equivalents at the end of the period	8	<u>21,824,785</u>	<u>28,433,118</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 2023

	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

	Contributed equity	Share based payment reserve	Other reserves	Foreign currency reserve	Accumulated losses	Total equity
	US\$	US\$	US\$	US\$	US\$	US\$
At 1 January 2023	135,115,291	33,364,863	247,872	118,591	(145,128,211)	23,718,406
Loss for the year	-	-	-	-	(17,146,781)	(17,146,781)
Other comprehensive loss	-	-	-	(71,050)	(22,672)	(93,722)
Total comprehensive loss for the period	-	-	-	(71,050)	(17,169,453)	(17,240,503)
Transactions with owners in their capacity as owners						
Shares issued	8,560,424	-	-	-	-	8,560,424
Converted Treasury shares	957,121					957,121
Share issue costs	(37,427)	-	-	-	-	(37,427)
Share-based payment	-	7,236,118	-	-	-	7,236,118
At 30 June 2023	144,595,409	40,600,981	247,872	47,541	(162,297,664)	23,194,139

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 2023

1. CORPORATE INFORMATION

The interim condensed consolidated financial report of BrainChip Holdings Ltd ("BrainChip" or "Company") and its controlled entities ("Consolidated Entity" or "Group") for the half-year ended 30 June 2023 was authorised for issue in accordance with a resolution of the Directors on 24 August 2023, California, U.S.A.

BrainChip Holdings Ltd 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 8, 210 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 2022, and considered together with any public announcements made by the Company during the half-year ended 30 June 2023 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

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 2022, except for the adoption of new standards effective as of 1 January 2023. 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 2023, but do not have an impact on the interim condensed consolidated financial statements of the Group.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

	30 June 2023 US\$	30 June 2022 US\$
(a) Types of goods or service		
Product revenue	79,074	218,575
License revenue	-	4,049,889
Development service revenue	36,532	562,617
Total revenue from contracts with customers	<u>115,606</u>	<u>4,831,081</u>
(b) Timing of revenue recognition		
Services transferred over time	26,532	162,617
Sale of product and license transferred at a point in time	89,074	4,668,464
Total revenue	<u>115,606</u>	<u>4,831,081</u>

Refer to Note 17 for the disaggregation of revenue from contracts with customers by geographical region.

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2023

4. EXPENSES

	30 June 2023 US\$	30 June 2022 US\$
(a) Research & development expenses		
Employee expenses	3,545,044	2,837,672
Grants received	(487,193)	(400,456)
Third party development services	436,492	1,377,590
Patent application fees	88,583	143,915
Software/hardware IT expenses	136,297	97,650
Amortisation of intangible assets	32,735	32,735
Depreciation of plant & equipment	7,745	2,248
Depreciation of right of use assets	35,188	-
Rent expense	-	35,259
Other expenses	143,266	154,795
Total research & development expenses	<u>3,938,157</u>	<u>4,281,408</u>
(b) Selling & marketing expenses:		
Employee expenses	1,738,261	1,029,650
Promotional and advertising	270,633	369,166
Other expenses	272,192	343,142
Total selling & marketing expenses	<u>2,281,086</u>	<u>1,741,958</u>
(c) General & Administrative expenses:		
Employee expenses	1,834,555	1,682,526
Legal and professional expenses	329,226	404,647
Corporate and listing expenses	233,998	404,558
Travel and accommodation expenses	85,509	66,918
Third party recruiting costs	217,844	162,110
Depreciation of plant & equipment	62,242	56,908
Depreciation of right of use assets	174,662	162,146
Office rent	4,963	4,922
Software lease expense	184,758	152,784
Other expenses	268,123	213,523
Total general & administrative expenses	<u>3,395,880</u>	<u>3,311,042</u>

6. FINANCE INCOME AND EXPENSES

	30 June 2023 US\$	30 June 2022 US\$
(a) Finance income		
Interest received	198,372	31,277
Foreign exchange gain	-	117,528
Total finance income	<u>198,372</u>	<u>148,805</u>
(b) Finance expense		
Other interest expense	54,845	36,392
Foreign exchange loss	75,398	-
Total finance expense	<u>130,243</u>	<u>36,392</u>

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2023

6. FINANCE INCOME AND EXPENSES (continued)

	30 June 2023 US\$	30 June 2022 US\$
(c) Net fair value (loss)/gain through profit and loss		
Net (loss)/gain from financial assets and liabilities measured at fair value through the profit and loss	(380,523)	204,289
Total fair value (loss)/gain through profit and loss	<u>(380,523)</u>	<u>204,289</u>

On 14 January 2023, BrainChip submitted a capital call notice to LDA Capital Limited and LDA Capital LLC ("LDA Capital") in accordance with the Put Option Agreement (POA) dated 13 August 2020 to subscribe for up to 30 million shares with an option for LDA Capital to subscribe up to an additional 10,000,000 shares subject to the approval of BrainChip. The purpose of this capital call notice was to support the Akida technology development and working capital commitments, as well as to satisfy the Company's obligation under The Second Minimum Drawdown Amount requiring a minimum of A\$15 million to be drawn no later than 31 December 2023. On 30 March 2023, the capital call notice was settled resulting in the Company receiving US\$8,210,972 (A\$12,232,543) based on the purchase price per capital call share ranging from A\$0.5895 to A\$0.6842.

Recognition of a net loss from financial assets measured at fair value through profit and loss in the current year of \$380,523 has resulted due to the discount provided to LDA after consideration of the market price of the shares issued (refer Note 15(b)). A foreign currency gain of \$31,071 was recognised as a result of the timing of closure of the capital call notice on 30 March and receipt of the cash on 3 April 2023.

7. LOSS PER SHARE

	30 June 2023 US\$	30 June 2022 US\$
Net loss attributable to ordinary shareholders for basic and diluted earnings per share	17,146,781	8,255,802
	US cents per share	US cents per share
Basic and diluted loss per share	0.93	0.46
Weighted average number of ordinary shares for basic loss per share ⁽²⁾	1,834,761,868	1,782,309,062
Effect of the dilution of share options and performance rights ⁽¹⁾	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	<u>1,834,761,868</u>	<u>1,782,309,062</u>

⁽¹⁾ At 30 June 2023, the Company had on issue 66,682,981 (30 June 2022: 78,060,781) share options, 40,240,952 restricted stock units (30 June 2022: 24,668,564) and 5,651,727 performance rights (30 June 2022: 2,914,812) 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 2023 US\$	31 December 2022 US\$
Cash at bank and in hand	21,783,307	23,123,805
Term deposits	41,478	41,483
Total	<u>21,824,785</u>	<u>23,165,288</u>

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2023

9. TRADE AND OTHER RECEIVABLES

	30 June 2023 US\$	31 December 2022 US\$
Trade receivables (i)	754,990	1,500,000
R&D refundable tax offset	1,220,998	761,062
Other receivables	94,230	88,734
Total	<u>2,070,218</u>	<u>2,349,796</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 2023 US\$	31 December 2022 US\$
At cost	2,253,241	2,256,307
Accumulated depreciation	<u>(716,096)</u>	<u>(505,902)</u>
	<u>1,537,145</u>	<u>1,750,405</u>

6 Months to 30 June 2023 US\$

Movement in right-of-use assets:

At 1 January	1,750,405
Depreciation	(209,850)
Net foreign exchange movements	<u>(3,410)</u>
At 30 June	<u>1,537,145</u>

11. INTANGIBLE ASSETS

	30 June 2023 US\$	31 December 2022 US\$
(a) Patents and licenses with finite useful life – at cost	1,040,312	1,040,312
Accumulated amortisation	<u>(398,805)</u>	<u>(366,070)</u>
	<u>641,507</u>	<u>674,242</u>

6 Months to 30 June 2023 US\$

Movement in patents and licenses:

At 1 January	674,242
Amortisation	<u>(32,735)</u>
At 30 June	<u>641,507</u>

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2023

12. LEASE LIABILITIES

	30 June 2023 US\$	31 December 2022 US\$
Current	424,428	344,938
Non-Current	1,368,824	1,591,155
	<u>1,793,252</u>	<u>1,936,093</u>
<i>Movement in lease liabilities</i>		
At 1 January		1,936,093
Reduction in liabilities		(134,999)
Net foreign exchange movements		(7,842)
At 30 June		<u>1,793,252</u>

13. FINANCIAL LIABILITIES

	30 June 2023 US\$	31 December 2022 US\$
<i>Current</i>		
Advances from third parties and government grant subsidies (a)	32,705	44,922
	<u>32,705</u>	<u>44,922</u>
<i>Non-current</i>		
Advances from third parties and government grant subsidies (a)	67,074	66,250
	<u>67,074</u>	<u>66,250</u>
<i>Total Financial liabilities</i>	<u>99,779</u>	<u>111,172</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.

	US\$
<i>Movement in advances from third parties</i>	
At 1 January	111,172
Operating grant revenue	(12,816)
Foreign exchange movements	1,423
At 30 June	<u>99,779</u>

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2023

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 2023 and 31 December 2022:

	30 June 2023 US\$	31 December 2022 US\$
(a) Financial assets at amortised cost		
Trade and other receivables	2,070,218	2,349,796
Total financial assets	2,070,218	2,349,796
<i>Current</i>	2,070,218	2,349,796
<i>Non-current</i>	-	-
Total financial assets	2,070,218	2,349,796
Financial liabilities at amortised cost		
Trade and other payables	1,794,705	2,668,824
Financial liabilities		
- Advances from third parties and government grant subsidies	99,779	111,172
Total financial liabilities	1,894,484	2,779,996
<i>Current</i>	1,827,410	2,713,746
<i>Non-current</i>	67,074	66,250
Total financial liabilities	1,894,484	2,779,996

15. CONTRIBUTED EQUITY

	30 June 2023 US\$	31 December 2022 US\$
(a) Ordinary Shares		
Issued and fully paid	144,595,409	135,115,291
	144,595,409	135,115,291

(b) Movements in ordinary shares on issue

	Number	US\$
At 1 January	1,726,862,144	135,115,291
Shares allocated on exercise of LDA Capital put option premium	30,000,000	8,560,424
Issue of shares to the Trustee of the BrainChip LTIP	10,000,000	-
Issue of shares to third party on conversion of restricted stock units	8,196,001	-
Treasury shares issued on conversion of options	-	957,121
Share issue costs	-	(37,427)
At 30 June	1,775,058,145	144,595,409

(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 2023

15. CONTRIBUTED EQUITY (continued)

(d) Treasury shares	30 June 2023 Number	31 December 2022 Number
Fully paid shares issued to Trustee of Long Term Incentive Plan ("LTIP")	5,586,054	3,393,490
	<u>5,586,054</u>	<u>3,393,490</u>

Movements in Treasury shares

	Number
At 1 January	3,393,490
Shares issued to Trust from BrainChip Holdings Ltd	10,000,000
Shares issued on exercise of options	(6,322,500)
Shares issued on conversion of restricted stock units	(1,116,666)
Shares issued on conversion of performance rights	<u>(368,270)</u>
At 30 June	<u>5,586,054</u>

(e) Share options on issue

Unissued ordinary shares of the Company under option at 30 June 2023 are as follows:

Type	Expiry Date	Exercise Price (US\$)	30 June 2023 Number	31 December 2022 Number
<i>Options issued as share-based payments</i>				
Unlisted – refer Note 16(b)	Various	Various	66,682,981	71,493,281
Total			<u>66,682,981</u>	<u>71,493,281</u>

(f) Performance rights on issue

Unissued ordinary shares of the Company held as performance rights at 30 June 2023 are as follows:

Type	30 June 2023 Number	31 December 2022 Number
Unlisted – refer Note 16(e) for movement in performance rights	5,651,727	2,864,812
Total	<u>5,651,727</u>	<u>2,864,812</u>

(h) Restricted stock units on issue

Unissued ordinary shares of the Company held as restricted stock units at 30 June 2023 are as follows:

Type	30 June 2023 Number	31 December 2022 Number
Unlisted – refer Note 16(g) for movement in restricted stock units	40,240,952	21,495,446
Total	<u>40,240,952</u>	<u>21,495,446</u>

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2023

16. SHARE-BASED PAYMENTS

	30 June 2023 US\$	30 June 2022 US\$
(a) Recognised share-based payment expenses		
Equity instruments issued to third parties	2,349,954	-
Equity instruments issued in accordance with BrainChip LTIP	4,886,164	3,655,582
Total share-based payment expenses	7,236,118	3,655,582

(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:

	2023 Number	2023 WAEP (US\$)	2022 Number	2022 WAEP (US\$)
At 1 January	71,493,281	0.153	93,791,471	0.148
Granted during the period	1,762,200	0.278	1,330,000	0.621
Exercised during the period	(6,322,500)	(0.162)	(12,178,190)	(0.154)
Forfeited during the period	(250,000)	(0.244)	(3,100,000)	(0.254)
Lapsed during the period	-	-	(8,350,000)	(0.134)
End of reporting period	66,682,981	0.156	71,493,281	0.153
Exercisable (vested and unrestricted) at the end of the period	42,044,113	0.118	41,034,113	0.128

The weighted average remaining contractual life for the share options outstanding at 30 June 2023 is 6.818 years (31 December 2022: 6.483 years).

The weighted average fair value of options granted during the period was \$0.676 (31 December 2022: \$0.562)

The range of exercise prices for options outstanding at the end of the period was \$Nil to \$0.711 (31 December 2022: \$Nil to \$0.711).

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

(c) Movement in share options granted as share-based payments

The movement in unissued ordinary shares of the Company under option during the half-year is as follows:

Grant Type	Grant Date	Expiry Date	Exercise Price (US\$)	Granted	Exercised	Forfeited
AGM 2017	31/05/2017	31/01/2023	0.138	-	2,000,000	-
AGM 2017	31/05/2017	01/02/2023	0.182	-	1,000,000	-
AGM 2017	31/05/2017	01/02/2024	0.182	-	80,000	-
AGM 2017	31/05/2017	01/02/2025	0.182	-	30,000	-
LTIP	13/06/2019	30/05/2029	0.037	-	150,000	-
LTIP	18/03/2019	18/03/2029	0.042	-	62,500	-
LTIP	04/12/2020	21/12/2030	0.244	-	250,000	250,000
LTIP	17/08/2020	26/08/2030	0.144	-	2,500,000	-
LTIP	23/04/2021	23/04/2031	0.464	-	250,000	-
LTIP	21/04/2023	21/04/2033	0.278	1,762,200	-	-
				1,762,200	6,322,500	250,000

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2023

16. SHARE-BASED PAYMENTS (continued)

(d) Options pricing model

Options issued under LTIP - 2022

The fair value of the equity-settled share options granted 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 half-year ended 30 June 2023:

	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	1,762,200	0.251	0.278	0.278	100.0	3.49	10.0

(e) Performance rights granted as share-based payments

The following table summarises the movement in performance rights issued as share-based payments:

	30 June 2023 US\$
At 1 January	2,864,812
Issued during the half-year under LTIP	3,155,185
Converted during the half-year under LTIP	(368,270)
At 30 June	<u>5,651,727</u>

(f) Performance rights valuation model

The fair value of the performance rights granted 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 half-year ended 30 June 2023:

	Number of performance rights	Grant date	Fair value at measurement date \$US
Employees	1,492,591	28/04/2023	0.278
Directors	1,662,594	25/05/2023	0.278

(g) Restricted stock units granted as share-based payments

The following table summarises the movement in restricted stock units issued as share-based payments:

	30 June 2023 US\$
At 1 January	21,495,446
Issued during the half-year under LTIP	20,100,530
Converted during the half-year under LTIP	(1,116,666)
Cancelled during the half-year under LTIP	(563,851)
Issued during the half-year to third parties (non-LTIP)	8,521,494
Converted during the half-year to third parties (non-LTIP)	(8,196,001)
At 30 June	<u>40,240,952</u>

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2023

16. SHARE-BASED PAYMENTS (continued)

(h) Restricted Stock Units valuation model

The fair value of the restricted stock units granted 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 restricted stock units issued during the half-year ended 30 June 2023:

	Number of restricted stock units	Grant date	Fair value at measurement date \$US
Employees	600,000	27/01/2023	0.466
	13,138,711	21/04/2023	0.278
	1,359,675	12/05/2023	0.292
	150,000	31/05/2023	0.295
	1,600,000	23/06/2023	0.231
	150,000	29/06/ 2023	0.241
Directors	3,102,144	25/05/2023	0.278
Contractors	101,494	19/02/2023	0.870
	420,000	20/03/2023	0.311
Former Director	8,000,000	29/05/2023	0.278

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 2023 US\$	30 June 2022 US\$
Revenue from external customers		
Americas	82,462	4,631,170
Oceania	-	1,005
Europe, Middle East & Asia (EMEA)	33,143	198,906
Revenue from continuing operations	115,605	4,831,081

Customers representing more than 10% of revenues in the current year amounted to \$98,905 (2022: \$4,246,196) comprising development service revenue of \$10,000, product revenue of \$62,373 and engineering services revenue of \$26,532 of which \$73,611 was earned from customers located in the Americas and \$25,294 earned from EMEA. (2022: 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).

	30 June 2023 US\$	31 December 2022 US\$
Non-current assets		
North America	2,172,987	2,359,034
Oceania	303,861	318,173
EMEA	380,207	384,428
	2,857,055	3,061,635

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2023

18. COMMITMENTS

The Group has no commitments as at 30 June 2023.

19. EVENTS AFTER BALANCE SHEET DATE

In the period since 30 June 2023 and to the date of this report, the Company has issued 310,417 treasury shares under the LTIP on the exercise of 260,417 options over ordinary shares (raising \$15,571 (A\$23,592)), and the conversion of 50,000 performance rights.

The Company has also issued 610,000 options over ordinary shares in accordance with the Company's 2018 Long Term Incentive Plan.

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 2023 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 2023.

On behalf of the Board.



Antonio J. Viana

Chair
California, USA, August 24, 2023

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 half-year financial report of BrainChip Holdings Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2023, 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, a summary of significant accounting policies and other explanatory information, and the directors' declaration, for the Group 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 accompanying 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 Group's financial position as at 30 June 2023 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 Group'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.

Independence

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



HLB Mann Judd
Chartered Accountants

Perth, Western Australia
24 August 2023



B G McVeigh
Partner