



ASX Announcement

BrainChip Holdings Ltd Appendix 4C & Quarterly Activities Report for the period ended 30 September 2021

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- Cash Balance as at 30 September 2021 US\$23.9M
 - First batch of Akida1000 production chips delivered by Socionext
 - Testing and evaluation of chips underway prior to delivery to customers
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Sydney, Australia – 21 October 2021 – [BrainChip Holdings Ltd](#) (ASX: BRN, OTCQX: BRCHF), the world's first commercial producer of neuromorphic artificial intelligence chips, today provides the Quarterly Activities Report in conjunction with its Appendix 4C lodged for the quarter ending 30 September 2021.

CEO Statement

CEO Peter van der Made commented, "The September Quarter marked another major milestone for BrainChip. With the delivery of the first batch of production Akida chips from our design partner Socionext, BrainChip is the world's first commercial producer of a neuromorphic artificial intelligence chip.

The Company's two major objectives as we move forward are to focus on building out our sales and marketing organization in preparation for the official commercial launch of the AKD1000 chip and to continue investing in the R&D necessary to bring the next generation of Akida products to market in order to maintain our competitive advantage."

COMMERCIAL AND OPERATIONAL UPDATE

Sales & Marketing

The BrainChip Sales & Marketing team in the US has been expanded throughout 2021 as part of the Company's global commercialisation strategy. The team is engaged in discussions and commercial negotiations with a broad range of global businesses about IP Licensing Agreements, chip and board sales and distribution agreements. These strategic negotiations are aimed at accelerating the expansion of our global market, engaging with more potential customers, and maximizing future revenue growth.

The company will begin taking preorders of Akida AI processor development kits via the company website and will ship once internal testing and validation are completed. This is expected to accelerate the adoption of neuromorphic AI technology and expand our engagement with potential customers, product developers and researchers around the world.

In addition to engaging directly with existing and potential customers, the Sales & Marketing team is engaging with broader audiences through presenting and attending selected technology industry conferences and events, where we are demonstrating the commercial applications of our Akida technology and generating numerous leads and sales enquiries. This is a key element of our commercialisation strategy and will continue into 2022.

VP Global Sales & Marketing Rob Telson said, “We are very excited to engage with current and future potential customers. The feedback we’ve received has been entirely positive and the demand for information about our product is insatiable.”

New CEO

Since the previous update, the Company has progressed its search for a new Chief Executive Officer and anticipates being in a position to announce an appointment once the process is finalized. The process has been conducted with a high-level of engagement from the Board with a strong focus on due-diligence, commercialisation and values alignment.

Engagement with global equity capital markets

The Company is accelerating its engagement with global investors through the appointment of a US-based investor relations firm, Integrous Communications. This strategic engagement is focused primarily on the US market but is also generating significant interest from institutional and retail investors in Europe and the Asia-Pacific region.

As part of the ongoing efforts to improve access to the US capital markets, the company has initiated efforts to pursue an American Depositary Receipts (ADR) program. An ADR is a US trading instrument denominated in USD that allows a non-US issuer of securities to trade on a US trading system or exchange. Typically, one ADR will represent multiple shares of the stock listed on its home exchange. As ADRs are sold in the US, BRN shares will be accumulated on the ASX in a custodial account. The intent of this program is to provide access to US institutional investors who are unable to invest in foreign listed shares (ASX: BRN), US listed foreign shares (OTCQX: BRCHF) or in shares below a certain price point. The ADRs will be listed on the OTCQX. Once the application is approved, the company will provide an update to the market. The Company intends to file Form F-6 with the US Securities and Exchange Commission shortly. Approval is anticipated mid to late Q4, and the details will be announced to the market once effective.

LDA Capital

On 16 August 2021, BrainChip submitted a capital call notice to LDA Capital Limited and LDA Capital LLC (“LDA Capital”) in accordance with the Put Option Agreement (“POA”) (refer ASX announcements dated 13 August 2020 and 26 October 2020) to subscribe for up to 8.75M shares, resulting in a cash injection of US\$2.8M.

The Company also announced the following during the October quarter:

13 October 2021: BrainChip and LDA Capital announced a further amendment to the POA allowing the deferral of the remaining A\$5.3M draw-down obligation until 28 February 2022. This

amendment allows BrainChip to defer its remaining \$5.3M draw-down obligation until 28 February 2022, which was previously due under the first amendment (“First Draw Down Period”) of the agreement expiring on 22 October 2021. Upon completion of the first drawdown period, a second draw-down period becomes effective immediately and requires the company to draw-down an additional \$15M by 31 December 2022 (“Second Draw-Down Period”). A Third draw-down period, also with a \$15M minimum draw-down obligation begins on the 1st of January 2023 and ends on the 31st of December 2023.

CFO Ken Scarince commented, “The LDA Capital relationship provides BrainChip with the flexibility to finance our commercialisation strategy and our R & D investments without the burden of highly dilutive and expensive capital raisings on the equity capital markets. It provides us with a competitively priced source of capital and the relationship has been highly beneficial for BrainChip. We now have sufficient cash to finance our operational requirements for the next 12 months with access to more if needed. We have agreed to extend the relationship with LDA Capital to the end of 2023 for that reason.”

The Company confirms that shares will be issued in accordance with the agreement and only upon issuance of a Capital Call by the Company.

Update to Top 20 Shareholder List

Given the recent volume of share trading activity, the Company believes it is appropriate to provide investors with an update of our Top 20 Shareholder List. This will be lodged with the ASX as a separate document.

FINANCIAL UPDATE

The Company ended the quarter with US\$23.9M in cash compared to US\$17.7M in the prior quarter.

BrainChip reported net operating cash outflows of US\$4.0M (Q2-21: net outflows of US\$3.1M). Receipts from customers for the quarter were US\$0.1, a decrease of 42% from US\$0.2M in Q2-21. Upon the completion of assembly and testing, the Company expects to release the Akida production units and boards to our EAP customers in Q4, potentially leading to increased revenues.

Payments to suppliers and employees were up quarter-on-quarter, totaling US\$4.3M (Q221: US\$3.3M). The increase in payments to suppliers and employees was primarily driven by the payment of US\$0.8M as a milestone payment to a major supplier for the production of the Akida device; and general merit increases awarded to employees.

Included in payments for operating activities are payments to BrainChip’s related parties and their associates totaling US\$162,000 as noted in item 6.1 of the accompanying Appendix 4C, comprising directors’ fees for Non-Executive Directors and salaries for Executive Directors.

Net investing cash outflows for the quarter were US\$0.03M (Q221: US\$0.003M), primarily related to new computer equipment to be installed in the new offices in California, USA.

Cash inflows from financing activities included US\$5.46M cash receipts from the exercise of Long-Term Incentive Plan (“LTIP”) stock options and US\$2.8M from the issue of shares to LDA Capital

in accordance with the Put Option Agreement. The Company also received US\$2.1M of cash inflows resulting from the sale of LTIP shares in excess of the exercise price of the underlying options. These funds will be remitted to LTIP participants in the future.

BrainChip currently has entities in Perth Australia, Aliso Viejo California (United States), Toulouse France and Hyderabad India. The Company continues to maintain strict cost controls, as well as adhering to travel restrictions and precautionary measures related to the COVID-19 pandemic.

The Company will continue to update the market on material events and maintain monthly Podcasts designed to inform all constituents of the Company's progress and industry trends.

This announcement is authorised for release by the BRN Board of Directors.

About BrainChip Holdings Ltd (ASX: BRN)

BrainChip is a global technology company that is producing a groundbreaking neuromorphic processor that brings artificial intelligence to the edge in a way that is beyond the capabilities of other products. The chip is high performance, small, ultra-low power and enables a wide array of edge capabilities that include on-chip training, learning and inference. The event-based neural network processor is inspired by the spiking nature of the human brain and is implemented in an industry standard digital process. By mimicking brain processing BrainChip has pioneered a processing architecture, called Akida™, which is both scalable and flexible to address the requirements in edge devices. At the edge, sensor inputs are analyzed at the point of acquisition rather than through transmission via the cloud to a data center. Akida is designed to provide a complete ultra-low power and fast AI Edge Network for vision, audio, olfactory and smart transducer applications. The reduction in system latency provides faster response and a more power efficient system that can reduce the large carbon footprint of data centers.

Additional information is available at:

<https://www.brainchipinc.com>

Investor Relations Contact: IR@brainchip.com

Follow BrainChip on Twitter: https://www.twitter.com/BrainChip_inc

Follow BrainChip on LinkedIn: <https://www.linkedin.com/company/7792006>

Company contact:

Tony Dawe

IR@brainchip.com

[+61 405 989 743](tel:+61405989743)

BrainChip Holdings Ltd

ACN 151 159 812

Level 12 225 George St Sydney NSW 2000

T: +61 2 9290 9606 | F: +61 2 9297 0664 | W: www.brainchipinc.com

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

BrainChip Holdings Ltd

ABN

64 151 159 812

Quarter ended ("current quarter")

30 September 2021

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (9 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	112	1,426
1.2 Payments for		
(a) research and development	(1,340)	(3,712)
(b) product manufacturing and operating costs *	(883)	(3,302)
(c) advertising and marketing	(611)	(1,670)
(d) leased assets	-	-
(e) staff costs	(682)	(1,842)
(f) administration and corporate costs	(754)	(2,044)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	6	23
1.5 Interest and other costs of finance paid	(1)	(1)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	190	271
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(3,963)	(10,851)

* \$800,000 relates to third party expenses associated with the Akida device development.

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(28)	(47)

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (9 months) \$US'000
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(28)	(47)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	2,775	2,775
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	5,459	10,942
3.4 Transaction costs related to issues of equity securities or convertible debt securities	(15)	(36)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)		
- Reduction in leases	(12)	(36)
- Funds received from shareholders on exercise of options	2,075	2,075
3.10 Net cash from / (used in) financing activities	10,282	15,720

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (9 months) \$US'000
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4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	17,653	19,136
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(3,963)	(10,851)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(28)	(47)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	10,282	15,720
4.5 Effect of movement in exchange rates on cash held	(4)	(18)
4.6 Cash and cash equivalents at end of period	23,940	23,940

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$US'000	Previous quarter \$US'000
5.1 Bank balances	23,896	17,608
5.2 Call deposits	44	45
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	23,940	17,653

6. Payments to related parties of the entity and their associates	Current quarter \$US'000
6.1 Aggregate amount of payments to related parties and their associates included in item 1	162
6.2 Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

7. Financing facilities	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	23	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	23	-
7.5 Unused financing facilities available at quarter end		
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
BrainChip SAS has a secured overdraft facility with Credit Agricole, France, to the value of 20,000 Euros which incurs interest at 8.02%.		

8. Estimated cash available for future operating activities	\$US'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(3,963)
8.2 Cash and cash equivalents at quarter end (item 4.6)	23,940
8.3 Unused finance facilities available at quarter end (item 7.5)	23
8.4 Total available funding (item 8.2 + item 8.3)	23,963
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	6.05
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: n/a	
8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: n/a	

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: n/a

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 21 October 2021

Authorised by: Board of Directors

(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.