

APPENDIX 4D HALF-YEAR FINANCIAL REPORT

Information given to ASX under listing rule 4.2A

1. Reporting period and Functional Currency

| | |
|---|--------------|
| Current reporting period: | 30 June 2017 |
| Previous corresponding reporting period: | 30 June 2016 |
| Functional Currency: | US dollars |

2. Results for announcement to the market

| | 30 June 2017 US\$ | 30 June 2016 US\$ | % change |
|---|------------------------------|------------------------------|-----------------|
| Revenues from continuing operations | 368,956 | 71,447 | 416% |
| Loss from continuing operations after tax | (5,816,603) | (1,468,944) | (296%) |
| Loss from discontinued operations after tax | - | (598,819) | 100% |
| Loss for the period attributable to members | (5,816,603) | (2,067,763) | (181%) |

Dividends

No dividends were paid or declared during the year ended 30 June 2017 (2016: Nil).

| | US cents per share | US cents per share |
|---------------------------------------|-------------------------------|-------------------------------|
| Loss per share | | |
| Basic loss per share | (0.71) | (0.30) |
| Diluted loss per share | (0.71) | (0.30) |
| Net tangible asset | | |
| Net tangible asset per ordinary share | 0.43 | 0.40 |

Dividends or dividend distribution plan

No dividends were paid or declared during the half-year ended 30 June 2017 (2016: Nil). There was no distribution reinvestment plan in operation during the half-years ended 30 June 2017 and 2016.

Additional Information

Additional Appendix 4D disclosure requirements can be found in the attached Financial Report for the half-year ended 30 June 2017.

This report is based on the consolidated financial statements and notes which have been reviewed by Ernst & Young.



BrainChip Holdings Ltd

ACN 151 159 812

Financial Report
For the Half-Year ended
30 June 2017

Board of Directors

Eric (Mick) Bolto (Non-Executive Chairperson)

Louis DiNardo (Executive Director and CEO)

Peter van der Made (Executive Director and CTO)

Julie H. Stein (Non-Executive Director, Audit Committee Chairperson)

Emmanuel T. Hernandez (Non-Executive Director, Remuneration Committee Chairperson)

Adam Osseiran (Non-Executive Director)

Company Secretary

Mark Pitts

Registered Office

Level 2, 6 Thelma Street West Perth WA 6005 Australia

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Facsimile: +61 8 9315 5475

Postal Address

PO Box 278 West Perth WA 6872 Australia

Website

<http://www.brainchipinc.com>

Auditors

Ernst & Young

Ernst & Young Building, 11 Mounts Bay Road, Perth WA 6000

Telephone: +61 8 9429 2222 Facsimile: +61 8 9429 2436

Share Registry

Computershare Investor Services Pty Ltd

Level 11, 172 St George's Terrace, PERTH WA 6000

Telephone: +61 8 9323 2000 Facsimile: +61 8 9323 2033

Securities Exchange

Australian Securities Exchange Limited

Exchange Plaza, 2 The Esplanade, Perth WA 6000

Codes: BRN, BRNAB, BRNAC, BRNAD, BRNAE, BRNAJ

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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 2017.

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:

| | |
|------------------------------|---|
| Eric (Mick) Bolto | Non-Executive Chairman |
| Louis DiNardo | Executive Director |
| Peter van der Made | Executive Director |
| Julie H. Stein | Non-Executive Director |
| Emmanuel T. Hernandez | Non-Executive Director (appointed 10 July 2017) |
| Adam Osseiran | Non-Executive Director |

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

| | |
|-----------------------|--------------------------|
| Mark Pitts | appointed 9 January 2017 |
| Nerida Schmidt | resigned 9 January 2017 |

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

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

PRINCIPAL ACTIVITIES

The principal activity of the Group is the development of neural computing technology with a primary focus on the further development of its spiking neural technology and sale of products and licenses in the Civil and Commercial Surveillance markets.

DIVIDENDS

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

REVIEW OF OPERATIONS

Corporate Structure

The following wholly owned subsidiaries were deregistered and deconsolidated during the period:

- Eternal Resources Pty Ltd - a company incorporated in Australia was deregistered on 16 February 2017;
- Indian Ocean Minerals (Investment) Corporation - a company incorporated in Mauritius was deregistered on 31 March 2017.

On 20 July 2017, Spikenet Technology SAS, a wholly owned subsidiary acquired in September 2016, changed its name to BrainChip SAS.

Operating Results

The Group made a net loss after income tax for the half-year ended 30 June 2017 of \$5,816,603 (30 June 2016: \$2,067,763).

The loss from ordinary activities attributable to members increased due to:

- 1) Increased research and development costs as a direct result of incurring a full six months of activity after the acquisition of BrainChip SAS (previously "Spikenet Technology") in September 2016, and an increased number of technical employees in the USA;
- 2) Increased administrative expenses which is a result of:
 - a) expansion of the Board of Directors and an increase in administration, marketing and management employees as compared to the prior year;
 - b) increased consulting and professional costs, supporting management's effort to reach BrainChip's operating milestones; and
 - c) inclusion of the BrainChip SAS (previously "Spikenet Technology") administrative costs in the current period.
- 3) Share based payment expense of \$2,921,012 (30 June 2016: \$314,696) which represents the value of options and performance rights issued to directors, employees and consultants that have been earned during the reporting period, offset by the value of unvested options that were forfeited during the period. The increase reflects the expansion of the management and operational team, and the drive to retain high calibre employees.

At the end of the half-year the Group had consolidated net assets of \$6,842,550 (31 December 2016: net assets \$5,509,106), including cash reserves of \$4,517,167 (31 December 2016: \$3,593,951).

Cash of \$4,597,620 was injected into the Group as a result of capital raising efforts in June 2017 which has been used to further advance the BrainChip technology through the purchase of the JAST license, and through an increase in the number of employees in technical, marketing and senior management.

Overall there has been an increase in the amount of cash spent in operating activities to \$2,803,629 (30 June 2016: \$1,303,064) as noted in the Statement of Consolidated Cash Flows, which reflects the increased focus on attaining the business milestones and strategies of the Group.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

It is expected that the Group will further develop its spiking neural network technology and sale or licensing of the technology to customers in the Civil and Commercial Surveillance market.

SHARE ISSUES

The following share issues of the Company were completed during the half-year and to the date of this report:

- 40,000,000 shares issued on 5 June 2017 at an issue price of A\$0.15 per Share pursuant to a private placement to institutional and sophisticated investors raising A\$6,000,000.

SHARE OPTIONS

As at the date of this report, there were 183,650,000 unissued ordinary shares under option.

There are no participating rights or entitlements inherent in the options and option holders are not entitled to participate in new issues of capital or bonus issues offered or made to shareholders during the term of the options.

The following options were issued during the half-year and to the date of this report:

- 1,000,000 unlisted options exercisable at A\$0.33 per share before 16 February 2022 issued pursuant to the Company's Long Term Incentive Plan to employees on 16 February 2017 (refer to comment below re cancellation);
- 100,000 unlisted options exercisable at A\$0.32 per share before 16 February 2022 issued pursuant to the Company's Long Term Incentive Plan to employees on 16 February 2017, and
- 6,000,000 unlisted options exercisable at A\$0.32 per share issued pursuant to the Company's Long Term Incentive Plan on 30 July 2015 to consultants on 16 February 2017. 50% of the options expire on 16 February 2022 and 50% expire on 31 December 2022; and
- 20,000,000 unlisted options exercisable at A\$0.275 per share before 31 March 2022 issued pursuant to the Company's Long Term Incentive Plan to employees on 31 March 2017. 12,000,000 of these options have specific performance criteria linked to the attainment of these options; and
- 8,000,000 unlisted options exercisable at A\$0.185 per share issued to directors on 8 June 2017 as approved by shareholders on 31 May 2017. 25% of the options vest on each anniversary date of the offer date (31 January 2017) so long as continuous service is provided and expire five years from each vesting date; and
- 7,000,000 unlisted options exercisable at A\$0.245 per share issued to directors on 8 June 2017 as approved by shareholders on 31 May 2017. 25% of the options vest on each anniversary date of the offer date (1 February 2017) so long as continuous service is provided and expire five years from each vesting date; and
- 20,000,000 unlisted options exercisable at A\$0.23 per share before 31 May 2020 issued on 5 June 2017 as free attaching options as part of the Placement to institutional and sophisticated investors; and
- 8,000,000 unlisted options exercisable at A\$0.165 per share issued to employees on 10 July 2017. 25% of the options vest on each anniversary date of the offer date (7 July 2017) so long as continuous service is provided and expire five years from each vesting date; and
- 27,000,000 unlisted options exercisable at A\$0.16 per share issued to employees on 11 August 2017. 25% of the options vest on each anniversary date of the offer date (9 August 2017) so long as continuous service is provided and expire five years from the issue date of each tranche.

No options were cancelled or lapsed or converted to shares in BrainChip Holdings during the half-year.

The following options were forfeited during and since the end of the half-year:

- 4,000,000 unlisted options issued to an employee on 22 December 2016 exercisable at A\$0.24 per share before 22 December 2021; and
- 1,000,000 unlisted options issued to an employee on 16 February 2017 exercisable at A\$0.33 per share before 16 February 2022.

Directors' Report

PERFORMANCE RIGHTS

As at the date of this report, there were 58,000,000 Performance Rights on issue.

The following Performance Rights were issued during the financial period and to the date of this report pursuant to the Company's Performance Rights Plan:

- 500,000 Class B Performance Rights to employees on 31 March 2017; and
- 1,000,000 Class D Performance Rights to employees on 31 March 2017; and
- 500,000 Class B Performance Rights to employees on 9 August 2017.

No Performance Rights were converted during the half-year and to the date of this report.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

The Company issued the following equity instruments to new employees subsequent to the end of the period:

- 8,000,000 unlisted options exercisable at A\$0.165 per share issued to employees on 10 July 2017. 25% of the options vest on each anniversary date of the offer date (7 July 2017) so long as continuous service is provided and expire five years from each vesting date; and
- 27,000,000 unlisted options exercisable at A\$0.16 per share issued to employees on 11 August 2017. 25% of the options vest on each anniversary date of the offer date (9 August 2017) so long as continuous service is provided and expire five years from the issue date of each tranche, and
- 500,000 Class B Performance Rights issued pursuant to the Company's Performance Rights Plan to employees on 9 August 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 Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in subsequent financial periods.

AUDITOR INDEPENDENCE

The Directors received the Independence Declaration, as set out on page 5, from Ernst & Young.

Signed in accordance with a resolution of the Directors.



E L (Mick) Bolto
Chairman

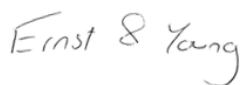
Perth, 29 August 2017

Auditor's Independence Declaration to the Directors of BrainChip Holdings Ltd

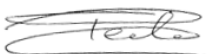
As lead auditor for the review of BrainChip Holdings Ltd for the half-year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

- a. no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b. no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of BrainChip Holdings Ltd and the entities it controlled during the financial period.



Ernst & Young



P Teale
Partner
29 August 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 30 June 2017

| | Note | 30 June 2017 \$US | 30 June 2016 \$US |
|--|-------|---------------------------|---------------------------|
| Continuing operations | | | |
| Revenue | 3(a) | 133,102 | - |
| Interest revenue | 3(b) | 11,587 | 4,615 |
| Other income | 3(c) | 224,267 | 66,832 |
| | | <u>368,956</u> | <u>71,447</u> |
| Research & development expenses | 4(a) | (556,968) | (359,365) |
| Administration and other expenses | 4(b) | (2,369,626) | (865,449) |
| Amortisation of intangible assets | 4(c) | (334,171) | (881) |
| Share based payment expense | 16(a) | (2,921,012) | (314,696) |
| Interest expense | | <u>(3,782)</u> | <u>-</u> |
| Loss from continuing operations before income tax | | (5,816,603) | (1,468,944) |
| Income tax expense | | <u>-</u> | <u>-</u> |
| Loss from continuing operations after income tax | | (5,816,603) | (1,468,944) |
| Loss from discontinued operations after tax | 19(a) | - | (598,819) |
| Net loss for the period | | <u>(5,816,603)</u> | <u>(2,067,763)</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 gains (losses) on defined benefit plans | | 2,019 | - |
| <i>Items that may be reclassified subsequently to profit or loss (net of tax):</i> | | | |
| Exchange differences on translation of foreign operations | | <u>(28,292)</u> | <u>-</u> |
| Other comprehensive loss for the period, net of tax | | <u>(26,273)</u> | <u>-</u> |
| Total comprehensive loss for the period, net of tax | | <u>(5,842,876)</u> | <u>(2,067,763)</u> |
| | | US cents per share | US cents per share |
| Loss per share from continuing operations attributable to ordinary equity holders of the Company | | | |
| Basic and diluted loss per share | | (0.71) | (0.21) |
| Loss per share from discontinuing operations attributable to ordinary equity holders of the Company | | | |
| Basic and diluted loss per share | | - | (0.09) |
| Loss per share attributable to ordinary equity holders of the Company | | | |
| Basic and diluted loss per share | 5 | (0.71) | (0.30) |

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 30 June 2017

| | Note | 30 June 2017 \$US | 31 December 2016 \$US |
|--------------------------------------|-------|-------------------------|-----------------------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 6 | 4,517,167 | 3,593,951 |
| Trade and other receivables | 7 | 221,812 | 385,477 |
| Inventory | | 1,186 | 1,435 |
| Other assets | 8 | 290,887 | 306,119 |
| Total current assets | | 5,031,052 | 4,286,982 |
| NON-CURRENT ASSETS | | | |
| Plant and equipment | 9 | 205,229 | 140,209 |
| Intangible assets | 10 | 3,364,764 | 2,674,805 |
| Other assets | | 33,841 | 33,689 |
| Total non-current assets | | 3,603,834 | 2,848,703 |
| TOTAL ASSETS | | 8,634,886 | 7,135,685 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 11 | 698,088 | 630,385 |
| Financial liabilities | 13 | 104,053 | 220,562 |
| Other liabilities | 14 | 150,704 | 287,507 |
| Employee benefits liabilities | 12 | 140,593 | 102,770 |
| Total current liabilities | | 1,093,438 | 1,241,224 |
| NON-CURRENT LIABILITIES | | | |
| Trade and other payables | 11 | 342,279 | - |
| Financial liabilities | 13 | 235,386 | 277,232 |
| Defined benefit plan | | 121,233 | 108,123 |
| Total non-current liabilities | | 698,898 | 385,355 |
| TOTAL LIABILITIES | | 1,792,336 | 1,626,579 |
| NET ASSETS | | 6,842,550 | 5,509,106 |
| EQUITY | | | |
| Contributed equity | 15(a) | 38,268,331 | 34,013,023 |
| Share based payments reserve | | 6,713,106 | 3,792,094 |
| Foreign currency translation reserve | | (22,878) | 5,414 |
| Other equity reserve | | 247,872 | 247,872 |
| Accumulated losses | | (38,363,881) | (32,549,297) |
| TOTAL EQUITY | | 6,842,550 | 5,509,106 |

The above 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 2017

| | Note | 30 June 2017 US\$ | 30 June 2016 US\$ |
|--|------|----------------------|----------------------|
| CASH FLOWS USED IN OPERATING ACTIVITIES | | | |
| Receipts from customers | | 183,250 | - |
| Payments to suppliers and employees | | (3,179,763) | (1,312,510) |
| Interest received | | 11,587 | 4,615 |
| Interest paid | | (1,955) | - |
| Grants received from third parties | | 7,639 | - |
| R&D credits received from third parties | | 170,393 | - |
| Other income | | 5,220 | 4,831 |
| Net cash flows used in operating activities | | (2,803,629) | (1,303,064) |
| CASH FLOWS USED IN INVESTING ACTIVITIES | | | |
| Payments for property, plant and equipment | | (86,835) | (16,500) |
| Payments for exploration and evaluation | | - | (117,660) |
| Payments for purchase of patents and licenses | | (229,176) | - |
| Payments for capitalised research and development | | (152,337) | - |
| Proceeds from sale of mineral licences | | - | 85,609 |
| Proceeds from sale of royalty interests | | 32,297 | - |
| Net cash flows used in investing activities | | (436,051) | (48,551) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Receipts from the issue of shares | | 4,597,620 | 2,964,682 |
| Payment of share issue costs | | (342,312) | (171,965) |
| Repayment of loans to third parties | | (186,579) | - |
| Net cash flows from financing activities | | 4,068,729 | 2,792,717 |
| Net increase in cash and cash equivalents | | 829,049 | 1,441,102 |
| Net foreign exchange differences | | 94,167 | 62,001 |
| Cash at the beginning of the financial period | | 3,593,951 | 1,393,869 |
| Cash and cash equivalents at the end of the period | 6 | 4,517,167 | 2,896,972 |

The above cash flow statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the half-year ended 30 June 2017

| | Contributed equity | Share based payment reserve | Other reserves | Foreign currency reserve | Accumulated losses | Total equity |
|---|--------------------|-----------------------------|----------------|--------------------------|--------------------|--------------|
| | US\$ | US\$ | US\$ | US\$ | US\$ | US\$ |
| At 1 January 2016 | 27,266,878 | 1,939,902 | 247,872 | - | (27,718,082) | 1,736,570 |
| Loss for the year | - | - | - | - | (2,067,763) | (2,067,763) |
| Other comprehensive income | - | - | - | - | - | - |
| Total comprehensive loss for the period | - | - | - | - | (2,067,763) | (2,067,763) |
| Transactions with owners in their capacity as owners | | | | | | |
| Issue of share capital | 2,964,682 | - | - | - | - | 2,964,682 |
| Costs of share issued | (171,965) | | | | - | (171,965) |
| Forfeiture of options issued in prior year | - | (24,037) | - | - | 24,037 | - |
| Share-based payment | - | 314,696 | - | - | - | 314,696 |
| At 30 June 2016 | 30,059,595 | 2,230,561 | 247,872 | - | (29,761,808) | 2,776,220 |

| | Contributed equity | Share based payment reserve | Other reserves | Foreign currency reserve | Accumulated losses | Total equity |
|---|--------------------|-----------------------------|----------------|--------------------------|--------------------|--------------|
| | US\$ | US\$ | US\$ | US\$ | US\$ | US\$ |
| At 1 January 2017 | 34,013,023 | 3,792,094 | 247,872 | 5,414 | (32,549, 297) | 5,509,106 |
| Loss for the year | - | - | - | - | (5,816,603) | (5,816,603) |
| Other comprehensive loss | - | - | - | (28,292) | 2,019 | (26,273) |
| Total comprehensive loss for the period | - | - | - | (28,292) | (5,814,584) | (5,842,876) |
| Transactions with owners in their capacity as owners | | | | | | |
| Issue of share capital | 4,597,620 | - | - | - | - | 4,597,620 |
| Share issue costs | (342,312) | - | - | - | - | (342,312) |
| Forfeit of options | - | - | - | - | - | - |
| Share-based payment | - | 2,921,012 | - | - | - | 2,921,012 |
| At 30 June 2017 | 38,268,331 | 6,713,106 | 247,872 | (22,878) | (38,363,881) | 6,842,550 |

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2017

1. CORPORATE INFORMATION

The interim financial report of BrainChip Holdings Ltd ("Company") and its controlled entities ("Consolidated Entity" or "Group") for the half-year ended 30 June 2017 was authorised for issue in accordance with a resolution of the Directors on 29 August 2017.

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 2, 6 Thelma Street, West Perth, WA 6005, Australia.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The general purpose condensed consolidated financial report has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Company and the Group as the full annual financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 31 December 2016, and considered together with any public announcements made by the Company during the half-year ended 30 June 2017 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

The accounting policies and method of computation are the same as those adopted by the Group in the most recent annual financial report.

The fair value of the assets and liabilities of BrainChip SAS (formerly Spikenet Technology SAS) acquired on 1 September 2016 have been determined provisionally at 31 December 2016, because the acquisition was completed late in the period. There is no change to this valuation as the Group continues to obtain the necessary information.

The financial report is presented in US dollars, being the functional currency of the Company.

Going concern

This financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

During the period ended 30 June 2017, the Group incurred a net loss after tax of US\$5,816,603 and a cash outflow from operating activities of US\$2,803,629.

At 30 June 2017, the Group had cash and cash equivalents of US\$4,517,167, net assets of US\$6,842,550 and a net working capital of US\$3,937,614.

The Company has prepared a detailed cash budget. The budget indicates a need to generate additional revenue or receive additional funds to finance the Group for the next twelve months.

The Directors have considered the funding and operational status of the business in arriving at their assessment of going concern and believe that the going concern basis of preparation is appropriate, based upon the following:

- the ability to vary cash flows depending upon the achievement of revenue; and
- the ability of the Group to obtain funding through various sources, including debt and/or equity issues.

The Directors have reasonable expectations that they will be able to generate additional revenue or raise the funds needed for the Group to continue to execute the business plan of the Group in the medium term. However, cash flows can be adjusted by controlling headcount and R&D and marketing expenses to ensure that the Company can pay its debts as and when they fall due until such funding is secured, or new commercial agreements are in place.

Should the Group not achieve the matters set out above, there is uncertainty whether the Group would continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include adjustments relating to the recoverability or classification of the recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2017

3. REVENUE

| | 30 June 2017 US\$ | 30 June 2016 US\$ |
|---|----------------------|----------------------|
| (a) Revenue | | |
| Sales to external customers | 133,102 | - |
| (b) Interest revenue | | |
| Interest received | 11,587 | 4,615 |
| (c) Other income | | |
| Other income – oil & gas royalty income | 5,220 | 4,831 |
| Other income – sale of royalty interest | 32,297 | - |
| Foreign exchange gain | 186,750 | 62,001 |
| Total Other income | 224,267 | 66,832 |

4. EXPENSES ⁽¹⁾

| | | |
|--|------------------|----------------|
| (a) Research & development costs ⁽²⁾ | | |
| Wages and salaries | 680,981 | 339,365 |
| Grants received | (161,290) | - |
| Other expenses | 37,277 | 20,000 |
| Total research & development expenses | 556,968 | 359,365 |
| (b) Administration expenses: | | |
| Director fees and executive salaries | 869,196 | 306,123 |
| Wages and salaries | 173,002 | - |
| Legal and professional fees | 839,214 | 375,350 |
| Travel and accommodation expenses | 167,108 | 50,301 |
| Depreciation of plant & equipment | 23,211 | 8,987 |
| Office rent | 119,367 | 30,477 |
| Other administration expenses | 178,528 | 94,211 |
| Total administration expenses | 2,369,626 | 865,449 |
| (c) Amortisation of intangible assets | 334,171 | 881 |

⁽¹⁾ Certain comparative expenditures have been reclassified to align with the current period reporting presentation.

⁽²⁾ Research and development costs expensed in the profit and loss includes costs incurred in relation to the development of SNAP technology which is not eligible for capitalisation to intangible assets.

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2017

5. LOSS PER SHARE

| | 30 June 2017 US\$ | 30 June 2016 US\$ |
|---|----------------------|----------------------|
| Net loss attributable to ordinary equity holders | (5,816,603) | (2,067,763) |
| Net loss attributable to ordinary shareholders for diluted earnings per share | (5,816,603) | (2,067,763) |
| Basic and diluted loss per share (US cents per share) | (0.71) | (0.30) |
| Weighted average number of ordinary shares for basic loss per share | 813,725,288 | 691,887,001 |
| Effect of the dilution of share options and performance rights ^{(1) (2)} | - | - |
| Weighted average number of ordinary shares adjusted for the effect of dilution | 813,725,288 | 691,887,001 |

⁽¹⁾ At 30 June 2017, the Company had on issue 148,650,000 (30 June 2016: 24,550,000) share options that are excluded from the calculation of diluted loss per share for the current period, because they were anti-dilutive however they may be dilutive in the future.

⁽²⁾ At 30 June 2017, the Company had on issue 57,500,000 (30 June 2016: 87,000,000) performance rights that are excluded from the calculation of diluted loss per share for the current period, because they were anti-dilutive however they may be dilutive in the future.

6. CASH AND CASH EQUIVALENTS

| | 30 June 2017 US\$ | 31 December 2016 US\$ |
|--------------------------|-------------------------|-----------------------------|
| Cash at bank and in hand | 4,517,167 | 3,593,951 |
| Total | 4,517,167 | 3,593,951 |

7. TRADE AND OTHER RECEIVABLES

| | | |
|------------------------------------|---------|---------|
| CURRENT | | |
| Trade receivables | 68,177 | 111,372 |
| Research tax credit ⁽¹⁾ | 98,036 | 174,395 |
| Other receivables | 55,599 | 99,710 |
| | 221,812 | 385,477 |

⁽¹⁾ BrainChip SAS (formerly Spikenet Technology SAS) recognised research credits from the French regulatory authorities as receivable according to the French tax regulations.

8. OTHER ASSETS

| | | |
|---|---------|---------|
| CURRENT | | |
| Grants receivable from third parties ⁽¹⁾ | 224,861 | 207,642 |
| Prepayments | 66,026 | 98,477 |
| | 290,887 | 306,119 |

⁽¹⁾ Other current assets are grants to be received from various French government agencies.

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2017

9. PLANT & EQUIPMENT

| | 30 June 2017 US\$ | 31 December 2016 US\$ |
|--------------------------|-------------------------|-----------------------------|
| At cost | 261,723 | 205,890 |
| Accumulated depreciation | (56,494) | (65,681) |
| | <u>205,229</u> | <u>140,209</u> |

10. INTANGIBLE ASSETS

| | | |
|--|------------------|------------------|
| Patents and licenses (a) | 789,882 | 34,931 |
| Capitalised research & development costs (b) | 2,574,882 | 2,639,874 |
| | <u>3,364,764</u> | <u>2,674,805</u> |

| | | |
|--|----------------|---------------|
| (a) At cost – patents and licenses with finite useful life | 818,280 | 41,787 |
| Accumulated amortisation | (28,398) | (6,856) |
| | <u>789,882</u> | <u>34,931</u> |

| | 6 Months to 30 June 2017 | 6 Months to 31 December 2016 |
|--|--------------------------------|------------------------------------|
| <i>Movement in patents and licenses:</i> | | |
| Opening balance | 34,931 | 30,824 |
| Additions upon BrainChip SAS acquisition | - | 5,175 |
| Additions ⁽¹⁾ | 775,276 | 1,688 |
| Foreign exchange movements - cost | 1,218 | (303) |
| Amortisation | (21,055) | (2,504) |
| Foreign exchange movements - cost | (488) | 51 |
| | <u>789,882</u> | <u>34,931</u> |

⁽¹⁾ During the period, BrainChip purchased the rights to certain licenses for a total of \$764,540 (€700,000). The remaining payments of \$228,186 (€200,000) and \$342,279 (€300,000) have been accrued as current and non-current in accordance with the contract terms.

| | 30 June 2017 US\$ | 31 December 2016 US\$ |
|--|-------------------------|-----------------------------|
| (b) Capitalised research & development costs | 3,099,949 | 2,832,309 |
| Accumulated amortisation | (525,067) | (192,435) |
| | <u>2,574,882</u> | <u>2,639,874</u> |

| | 6 Months to 30 June 2017 | 6 Months to 31 December 2016 |
|--|--------------------------------|------------------------------------|
| <i>Movement in capitalised research & development costs:</i> | | |
| Opening balance | 2,639,874 | - |
| Additions upon BrainChip SAS acquisition | - | 2,800,283 |
| Additions | 152,337 | 106,782 |
| Foreign exchange movements - cost | 115,302 | (74,756) |
| Amortisation | (313,117) | (195,925) |
| Foreign exchange movements - cost | (19,514) | 3,490 |
| | <u>2,574,882</u> | <u>2,639,874</u> |

As at 30 June 2017, the Group considered indicators of impairment of these assets and determined there was none.

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2017

11. TRADE AND OTHER PAYABLES

| | 30 June 2017 US\$ | 31 December 2016 US\$ |
|--|-------------------------|-----------------------------|
| Current | | |
| Trade creditors and accruals | 666,175 | 524,630 |
| Vat and other taxes payable to foreign authorities | 31,913 | 105,755 |
| | <u>698,088</u> | <u>630,385</u> |
| Non-Current | | |
| Trade creditors and accruals | 342,279 | - |
| | <u>342,279</u> | <u>-</u> |

12. EMPLOYEE BENEFITS LIABILITIES

| | | |
|----------------------------|----------------|----------------|
| Current | | |
| Provision for annual leave | 140,593 | 102,770 |
| | <u>140,593</u> | <u>102,770</u> |

13. FINANCIAL LIABILITIES

| | | |
|--|----------------|----------------|
| Current | | |
| Financial liabilities from third parties | 104,053 | 220,562 |
| | <u>104,053</u> | <u>220,562</u> |
| Non-Current | | |
| Financial liabilities from third parties | 235,386 | 277,232 |
| | <u>235,386</u> | <u>277,232</u> |

Current and non-current financial liabilities 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.

14. OTHER LIABILITIES

| | | |
|--|----------------|----------------|
| Current | | |
| Deferred income in relation to research & development projects | 150,704 | 287,507 |
| | <u>150,704</u> | <u>287,507</u> |

Deferred income relates to grants acquired from third parties before all attached conditions have been complied with. Deferred income has been released to the profit and loss on a systematic basis over the periods that the related research and development costs are expensed.

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2017

15. CONTRIBUTED EQUITY

| | 30 June 2017 US\$ | 31 December 2016 US\$ |
|--|---------------------------|-----------------------------|
| (a) Ordinary Shares | | |
| Issued and fully paid | 38,268,331 | 34,013,023 |
| | <u>38,268,331</u> | <u>34,013,023</u> |
| (b) Movements in ordinary shares on issue | | |
| | 30 June 2017 Number | 30 June 2017 US\$ |
| At 1 January 2017 | 808,200,426 | 34,013,023 |
| Issue of shares pursuant to private placement ⁽¹⁾ | 40,000,000 | 4,597,620 |
| Share issue costs incurred | - | (342,312) |
| At 30 June 2017 | <u>848,200,426</u> | <u>38,268,331</u> |

⁽¹⁾ On 5 June 2017, 40,000,000 shares were issued at an issue price of A\$0.15 per Share pursuant to a private placement to institutional and sophisticated investors raising A\$6,000,000.

(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.

(d) Performance Rights movements

| | Opening balance 1 January 2017 | Converted | Allocated | Closing balance 30 June 2017 |
|---------------------|---|-----------|------------------|---------------------------------|
| Class B Perf Rights | 1,000,000 | - | 500,000 | 1,500,000 |
| Class C Perf Rights | 6,500,000 | - | - | 6,500,000 |
| Class D Perf Rights | 48,500,000 | - | 1,000,000 | 49,500,000 |
| | <u>56,000,000</u> | <u>-</u> | <u>1,500,000</u> | <u>57,500,000</u> |

(e) Options movements

The movement in unissued ordinary shares of the Company under option is as follows:

| | Expiry Date | Exercise Price (US\$) | Number of options |
|--|-------------|--------------------------|----------------------|
| Opening balance | | | 91,550,000 |
| Unlisted Options issued as free attaching options as part of a placement ⁽¹⁾ | 31/05/2020 | 0.171 | 20,000,000 |
| Unlisted Options issued to Directors, employees and consultants as share based payments ⁽²⁾ | Various | Various | 42,100,000 |
| Unlisted Options forfeited ⁽³⁾ | Various | Various | (5,000,000) |
| Closing balance | | | <u>148,650,000</u> |

Total

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

⁽¹⁾ 20,000,000 options were issued as free attaching option on the basis of 1 option for every 2 shares taken up in a Placement to sophisticated investors. The options were issued on 5 June 2017, and are exercisable at \$0.171 by 31 May 2020.

⁽²⁾ Refer Note 16(c) for details of the options issued to Directors, employees and consultants under the Long Term Incentive Plan and as approved by shareholders on 31 May 2017.

⁽³⁾ Refer Note 16(d) for details of options forfeited during the period.

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2017

16. SHARE-BASED PAYMENTS

| | 30 June 2017 US\$ | 30 June 2016 US\$ |
|--|----------------------|----------------------|
| (a) Recognised share-based payment expenses | | |
| Performance Rights issued to employees | 132,685 | 79,724 |
| Options issued to directors, employees and contractors | 2,788,327 | 234,972 |
| | <u>2,921,012</u> | <u>314,696</u> |

(b) Performance Rights issued during the period as share based payments

The following issues of Performance Rights to employees were completed during the year:

- 500,000 Class B Perf Rights issued on 31 March 2017, at a grant date fair value of US\$0.21 per right and include a 12 month vesting period from the date of offer; and
- 1,000,000 Class D Perf Rights issued on 31 March 2017, at a grant date fair value of US\$0.21 per right and include a minimum 12 month vesting period from the date of offer, however the vesting condition is not satisfied until the Company has executed an unconditional binding licensing agreement that has an upfront payment of no less than \$500,000.

The following table summarises the movement in Performance Rights issued to employees:

| | Opening balance 1 January 2017 | Issued during the year | Converted during the year | Closing balance 30 June 2017 |
|---------------------|---|------------------------------|---------------------------------|------------------------------------|
| Class B Perf Rights | 1,000,000 | 500,000 | - | 1,500,000 |
| Class C Perf Rights | 500,000 | - | - | 500,000 |
| Class D Perf Rights | 2,000,000 | 1,000,000 | - | 3,000,000 |
| | <u>3,500,000</u> | <u>1,500,000</u> | <u>-</u> | <u>5,000,000</u> |

(c) Options granted as share based payments to Directors, employees and consultants

Unissued ordinary shares of the Company under option granted as share based payments during the period are as follows:

| Type | Grant Date | Expiry Date | Exercise Price (US\$) | Number of options |
|-------------------------|------------|-------------|--------------------------|----------------------|
| Unlisted ⁽¹⁾ | 27/01/2017 | 16/02/2022 | 0.242 | 100,000 |
| Unlisted ⁽²⁾ | 20/01/2017 | 16/02/2022 | 0.249 | 1,000,000 |
| Unlisted ⁽³⁾ | 30/01/2017 | 16/02/2022 | 0.241 | 3,000,000 |
| Unlisted ⁽³⁾ | 30/01/2017 | 31/12/2022 | 0.241 | 3,000,000 |
| Unlisted ⁽⁴⁾ | 05/03/2017 | 31/03/2022 | 0.209 | 8,000,000 |
| Unlisted ⁽⁴⁾ | 05/03/2017 | 31/03/2022 | 0.209 | 6,000,000 |
| Unlisted ⁽⁴⁾ | 05/03/2017 | 31/03/2022 | 0.209 | 6,000,000 |
| Unlisted ⁽⁵⁾ | 31/05/2017 | 31/01/2023 | 0.138 | 2,000,000 |
| Unlisted ⁽⁵⁾ | 31/05/2017 | 31/01/2024 | 0.138 | 2,000,000 |
| Unlisted ⁽⁵⁾ | 31/05/2017 | 31/01/2025 | 0.138 | 2,000,000 |
| Unlisted ⁽⁵⁾ | 31/05/2017 | 31/01/2026 | 0.138 | 2,000,000 |
| Unlisted ⁽⁶⁾ | 31/05/2017 | 01/02/2023 | 0.182 | 1,750,000 |
| Unlisted ⁽⁶⁾ | 31/05/2017 | 01/02/2024 | 0.182 | 1,750,000 |
| Unlisted ⁽⁶⁾ | 31/05/2017 | 01/02/2025 | 0.182 | 1,750,000 |
| Unlisted ⁽⁶⁾ | 31/05/2017 | 01/02/2026 | 0.182 | 1,750,000 |
| Total | | | | <u>42,100,000</u> |

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2017

16. SHARE-BASED PAYMENTS (continued)

(c) Options granted as share based payments to Directors, employees and consultants (continued)

The following options were issued during the period pursuant to the Company's Long Term Incentive Plan as approved by shareholders on 30 July 2015:

- (1) 100,000 unlisted options issued to employees on 16 February 2017. These options vest equally over a 4-year period and, after vesting, are exercisable before 16 February 2022.
- (2) 1,000,000 unlisted options issued to employees on 16 February 2017. These options vest equally over a 4-year period and, after vesting, are exercisable before 16 February 2022.
- (3) 6,000,000 unlisted options issued to consultants on 16 February 2017. 50% of these options vested immediately and expire on 16 February 2022. 50% will vest on 31 December 2017 as long as continuous service is provided and expire 31 December 2022.
- (4) 20,000,000 unlisted options issued to employees on 31 March 2017. 8,000,000 of these options vest equally over a 4-year period as long as continuous service is provided. 12,000,000 of these options vest equally over a 4-year period subject to the employee achieving various operational KPIs as determined by the Board, and continuous services. After vesting, all options expire 31 March 2022.

The following options were issued to Directors on 8 June 2017 as approved by shareholders on 31 May 2017:

- (5) 8,000,000 unlisted options of which 25% of the options vest on each anniversary date of the offer date (31 January 2017) so long as continuous service is provided and expire five years from each vesting date.
- (6) 7,000,000 unlisted options of which 25% of the options vest on each anniversary date of the offer date (1 February 2017) so long as continuous service is provided and expire five years from each vesting date.

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

(d) Options forfeited

The following options were forfeited during the period due to cessation of employment :

- 4,000,000 unlisted options issued to employees on 22 December 2016;
- 1,000,000 unlisted options issued to employees on 16 February 2017.

(e) Movement in 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:

| | 2017 Number | 2017 WAEP (US\$) |
|---|----------------|------------------------|
| Outstanding at 1 January | 85,300,000 | 0.160 |
| Granted during the period | 42,100,000 | 0.197 |
| Forfeited during the period | (5,000,000) | (0.194) |
| Lapsed during the period | - | - |
| Expired during the period | - | - |
| Outstanding at the end of the period | 122,400,000 | 0.171 |
| Exercisable (vested and unrestricted) at the end of the period | 17,325,000 | 0.180 |

The weighted average remaining contractual life for the share options outstanding at 30 June 2017 is 4.32 years (31 December 2016: 4.18 years).

The weighted average fair value of options granted during the year was US\$0.155 (31 December 2016: US\$0.09)

The range of exercise prices for options outstanding at the end of the half-year was US\$0.138 to US\$0.249

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2017

16. SHARE-BASED PAYMENTS (continued)

(f) Options pricing model

The fair value of the equity-settled share options granted under the LTIP, DOOP and by shareholder approval is estimated as at the date of grant using a Black Scholes Option Pricing model.

The following table lists the inputs to the models used for the valuation of options issued during the half-year to 30 June 2017 to Directors, employees and consultants:

| | 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 |
|------------|-------------------|--|-----------------------------------|------------------------|---------------------|--------------------------------|-----------------------------------|
| Employee | 100,000 | 0.193 | 0.242 | 0.242 | 110 | 2.28 | 5.1 |
| | 1,000,000 | 0.198 | 0.249 | 0.249 | 110 | 2.32 | 5.1 |
| | 20,000,000 | 0.166 | 0.209 | 0.209 | 110 | 2.32 | 5.1 |
| Consultant | 3,000,000 | 0.192 | 0.241 | 0.241 | 110 | 2.24 | 5.1 |
| | 3,000,000 | 0.201 | 0.241 | 0.241 | 110 | 2.35 | 5.9 |
| Director | 2,000,000 | 0.116 | 0.142 | 0.138 | 110 | 2.06 | 5.7 |
| | 2,000,000 | 0.121 | 0.142 | 0.138 | 110 | 2.16 | 6.7 |
| | 2,000,000 | 0.125 | 0.142 | 0.138 | 110 | 2.26 | 7.7 |
| | 2,000,000 | 0.128 | 0.142 | 0.138 | 110 | 2.35 | 8.7 |
| Director | 1,750,000 | 0.112 | 0.142 | 0.182 | 110 | 2.06 | 5.7 |
| | 1,750,000 | 0.118 | 0.142 | 0.182 | 110 | 2.16 | 6.7 |
| | 1,750,000 | 0.123 | 0.142 | 0.182 | 110 | 2.26 | 7.7 |
| | 1,750,000 | 0.127 | 0.142 | 0.182 | 110 | 2.35 | 8.7 |

The expected life of the share options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

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 its France based subsidiary, BrainChip SAS (previously "Spikenet Technology").

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 2017 US\$ | 30 June 2016 US\$ |
|--|----------------------|----------------------|
| Revenue from external customers | | |
| North America | 15,540 | - |
| Australasia | 2,434 | - |
| Europe | 115,128 | - |
| Revenue from continuing operations | 133,102 | - |

Customers representing more than 10% of revenues in the current year amounted to \$114,845 comprising:

- license revenue of \$53,735 (2016: \$Nil) of which \$15,540 was earned from North American customers and \$38,195 earned from customers in Europe; and
- engineering services revenue of \$61,110 (2016: \$Nil) which was earned from European customers.

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2017

17. OPERATING SEGMENTS (continued)

| | 30 June 2017 US\$ | 31 December 2016 US\$ |
|---------------------------|-------------------------|-----------------------------|
| Non-current assets | | |
| USA | 977,620 | 174,153 |
| France | 2,626,214 | 2,674,550 |
| | <u>3,603,834</u> | <u>2,848,703</u> |

18. EVENTS AFTER BALANCE DATE

The Company issued the following equity instruments to new employees subsequent to the end of the period:

- 8,000,000 unlisted options exercisable at A\$0.165 per share issued to employees on 10 July 2017. 25% of the options vest on each anniversary date of the offer date (7 July 2017) so long as continuous service is provided and expire five years from each vesting date; and
- 27,000,000 unlisted options exercisable at A\$0.16 per share issued to employees on 11 August 2017. 25% of the options vest on each anniversary date of the offer date (9 August 2017) so long as continuous service is provided and expire five years from the issue date of each tranche, and
- 500,000 Class B Performance Rights issued pursuant to the Company's Performance Rights Plan on 9 August 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 Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in subsequent financial periods.

19. DISCONTINUED OPERATION

On 21 December 2016, Blue Sky Corporation, a wholly owned subsidiary within the BrainChip Group, was sold to a third party for A\$1. The transaction, including a further deed of mutual release dated 30 June 2017, resulted in the disposal of Blue Sky Corporation and its wholly owned subsidiaries, and released BrainChip from all or any existing or future obligations or liabilities in respect of the Madagascar assets or operations of the companies including any future exploration lease commitments.

The Group also dissolved two US subsidiaries, Eternal Resources (USA) LLC and Eternal Resources (USA) Inc., after the assignment of an overriding royalty agreement from Eternal Resources (USA) LLC to BrainChip Inc.

| (a) Financial performance | 2016 US\$ |
|--|------------------|
| Revenue from the sale of exploration tenements | 60,791 |
| Impairment of exploration expenses | (119,586) |
| Impairment of receivable from third parties ⁽¹⁾ | (532,356) |
| Other costs | (7,668) |
| Operating loss from discontinued operations | <u>(598,819)</u> |
| Income tax expense | - |
| Loss attributable to discontinued operations after tax | <u>(598,819)</u> |

⁽¹⁾ The Company impaired a receivable at 30 June 2016 relating to the 2013 sale of mining licenses from two separate purchasers. Subsequent to 30 June 2016, US\$414,000 was received.

(b) Cash flow information for the period 1 January 2016 to 30 June 2016

| | |
|--|---------------|
| Net cash outflow from operating activities | - |
| Net cash inflow from investing activities | 32,051 |
| Net cash outflow from financing activities | - |
| Net cash flow | <u>32,051</u> |

Director's 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 Consolidated Entity are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2017 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) subject to the matters described in note 2(a), 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 2017.

On behalf of the Board.



E L (Mick) Bolto
Chairman

Perth, 29 August 2017

Independent Auditor's Report to the Shareholders of BrainChip Holdings Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of BrainChip Holdings Ltd (the Company) and its subsidiaries (collectively the Group), which comprises the condensed consolidated statement of financial position as at 30 June 2017, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a. giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial 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*.

Material Uncertainty Related to Going Concern

Without modifying our opinion, we draw attention to Note 2 in the financial report, which describes the principal conditions that raise doubt about the consolidated entity's ability to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

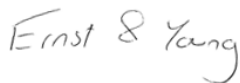
Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including:

- a. giving a true and fair view of the Group's consolidated financial position as at 30 June 2017 and its consolidated financial 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*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

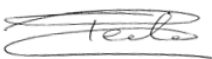
A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards 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*.



Ernst & Young



P Teale
Partner
Perth
29 August 2017