

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 2020
Previous corresponding reporting period:	30 June 2019
Functional Currency:	US dollars

2. Results for announcement to the market

	30 June 2020 US\$	30 June 2019 US\$	% change
Revenues from continuing operations	13,397	66,635	Down 80%
Operating loss	(6,199,380)	(4,488,060)	Down 38%
Loss for the period attributable to members	(6,858,171)	(4,493,568)	Down 53%

Dividends

No dividends were paid or declared during the year ended 30 June 2020 (2019: Nil).

Loss per share

	US cents per share	US cents per share
Basic loss per share	(0.48)	(0.42)
Diluted loss per share	(0.48)	(0.42)

Net tangible asset

	30 June 2020 US cents per share	30 June 2019 US cents per share
Net tangible asset per share	0.28	0.32

Dividends or dividend distribution plan

No dividends were paid or declared during the half-year ended 30 June 2020 (2019: Nil). The Company does not operate a distribution reinvestment plan.

Additional Information

Additional Appendix 4D disclosure requirements can be found in the attached Financial Report for the half-year ended 30 June 2020.

This report is based on the interim consolidated financial statements and notes which have been reviewed by Ernst & Young. This report should be read in conjunction with the most recent annual financial report.



BrainChip Holdings Ltd

Financial Report
For the Half-Year ended
30 June 2020

Corporate Directory

Board of Directors

Emmanuel T. Hernandez	Non-Executive Director and Interim Chair
Louis DiNardo	Executive Director, Chief Executive Officer
Peter van der Made	Executive Director, Chief Technical Officer
Steve Liebeskind	Non-Executive Director

Company Secretary

Kim Clark

Registered Office

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Facsimile: +61 2 9279 0664

Postal Address

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Website

<http://www.brainchipinc.com>

Auditors

Ernst & Young

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

Share Registry

Boardroom Pty Limited

Level 12, 225 George Street Sydney NSW 2000

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Securities Exchange

Australian Securities Exchange Limited

Exchange Centre, 20 Bridge St, Sydney NSW 2000

Code: BRN

ABN: 64 151 159 812

Contents

Directors' Report	1
Auditor's Independence Declaration	5
Consolidated Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 30 June 2020	6
Consolidated Statement of Financial Position as at 30 June 2020	7
Consolidated Statement of Cash Flows for the half-year ended 30 June 2020	8
Consolidated Statement of Changes in Equity for the half-year ended 30 June 2020	9
Notes to the Consolidated Financial Statements for the half-year ended 30 June 2020	10
Director's Declaration	22
Independent Auditor's Review Report	23

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 2020.

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:

Emmanuel T. Hernandez	Non-Executive Director and Interim Chair
Louis DiNardo	Executive Director, Chief Executive Officer
Peter van der Made	Executive Director (appointed 29 January 2020), Chief Technical Officer
Steve Liebeskind	Non-Executive Director
Adam Osseiran	Non-Executive Director (resigned 29 January 2020)

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 fast AI Edge Network for vision, audio, olfactory and smart transducer applications.

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

During the period, the COVID-19 outbreak was declared a pandemic by the World Health Organization (March 2020). The outbreak and the response of Governments in dealing with the pandemic is affecting general activity levels within the community, the economy and the operations of our business. The scale and duration of these developments remain uncertain as at the date of this report, however, whilst there appears to be minimal impact on our business to date, including consideration of key judgements and estimates used in presenting the financial report, there is a possibility of an impact on our future earnings, cash flow and financial condition. It is not possible to estimate the impact of the near-term and longer effects of Governments' varying efforts to combat the outbreak and support businesses. This being the case, we do not consider it practicable to provide a quantitative or qualitative estimate of the potential impact of this outbreak on the Group at this time. The financial statements have been prepared based upon conditions existing at 30 June 2020, including those which are evidenced by events occurring subsequent to that date.

On 14 February 2020, the Company officially received an EAR99 classification for its Akida™ Neuromorphic System-on-Chip (NSoC), Akida Software Development Environment (ADE) and related technologies from the U.S. Government. The U.S. Department of Commerce Bureau of Industry and Security (BIS) also established Akida as not being classified as identified technology for the purposes of the Committee on Foreign Investment (CFIUS), which could otherwise limit investment. The BIS ruling now allows BrainChip to export its AI technology, without additional U.S. government license, to non-restricted customers, including to high-growth customers in countries such as Japan, Korea, China and Taiwan.

In May 2020, the Company incorporated a new Australian subsidiary, BrainChip Research Institute Pty Ltd, to pursue the further innovative and develop the next generation of the Akida software. Mr Peter van der Made, Chief Technical Officer, relocated to Perth, Western Australia in January 2020 to lead the research team.

On 24 June 2020, the Company announced the final conversion of Convertible Securities issued in accordance with the Convertible Securities Agreement ("CSA") was completed and the retirement of all associated Collateral Shares, signifying the Company had successfully repaid the US\$2.85 million debt 12 months after it was entered into with CST Capital Pty Ltd ("CST") as trustee of the CST Investment Fund.

Directors' Report

REVIEW OF OPERATIONS

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

The Company reacted to the COVID-19 pandemic, as declared by the World Health Organization in March 2020, in accordance with all Governments advice and restrictions, and where possible, took advantage of Government financial assistance provided.

As the pandemic has continued to the date of this report, there appears to be minimal impact on our business, other than the inability to meet and work with our customers face-to-face. Wafer fabrication of the Akida device was completed as planned by 30 June 2020, cost savings initiatives implemented in late 2019 have been further enhanced by the worldwide travel ban and the Group has been able to support all employees during the period.

The Company has entered into various joint agreements to evaluate the use of the Akida NSoC within the operations of various companies which will commence after the 30 June 2020.

Operating Results

The Group made a net loss after income tax for the half-year ended 30 June 2020 of \$6,858,171 (30 June 2019: \$4,493,568).

Revenues for the half-year ended 30 June 2020 of \$13,397 decreased 80% over the \$66,635 in the same period a year ago.

Total expenses for the half-year ended 30 June 2020 of \$6,212,777 increased 36% from \$4,554,695 incurred in the half-year ended 30 June 2019. This increase was attributable to:

- 1) Research & development (R&D) expenses of \$3,489,038 for the current period increased 81%, or \$1,565,567 from 30 June 2019. R&D costs in the current period include \$1,525,000 paid to Socionext as the next progressive payment related to the fabrication of the Akida™ device.
- 2) Sales & Marketing (S&M) expenses of \$749,534 for the current period increased 50%, or \$248,301 from the comparative period. In the prior year, management reduced S&M headcount and related expenditures until a more advanced stage of development of Akida was attained. Advancement of Akida was achieved in the current period and the Group engaged external marketing consultants and personnel to target potential customers.
- 3) General & Administrative (G&A) expenses of \$1,423,500 decreased 20%, or \$359,793 from the same period a year ago which is a result of:
 - a) A reduction in Director remuneration in the current period due to a reduced number of board members after the 2019 resignations of Mr Stephe Wilks and Ms Julie Stein without replacement.
 - b) The appointment of a new CFO in March 2019 and additional headcount in the administrative team resulted in higher employee related expenses which offset these cost reductions;
 - c) Increased cost saving initiatives implemented in late 2019 and extended into 2020 (as a result of COVID-19) specifically focussed on a reduction in travel expenses, legal and other consultants;and
- 4) Share based payment expense of \$550,705 for the current period increased 59%, or \$204,007 from the comparative period. Share based payments expense represents the value of options, RSUs 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 \$5,894,374 (31 December 2019: \$9,096,350), including cash and cash equivalents of \$5,346,097 (31 December 2019: \$7,622,178).

In the prior period, on 26 June 2019, the Company signed an unsecured Convertible Security Agreement with CST under which the Company issued convertible securities with a face value of US\$2,850,000 for a term of 12 months and an interest rate of 10%pa.

Directors' Report

At 31 December 2019, the Company recognised a receivable at fair value of \$766,818 related to the sale of collateral shares tradeable by CST and financial liabilities related to the Convertible Securities valued at \$736,932. These balances were valued in accordance with the CSA at the lower of \$0.079 or 92% of the average 5 day VWAP during the 20 actual trading days prior to conversion.

In accordance with the CSA, at CST's election, the collateral shares could be used to offset the company's obligation to issue shares upon a conversion notice, otherwise the collateral shares would be returned to the Company. In February 2020, CST elected to purchase one parcel of collateral shares at an agreed price resulting in a gain on settlement of \$87,832. The receivable at fair value related to the sale of collateral shares and financial liabilities related to the Convertible Securities were extinguished in the current period resulting in cash inflows before costs of \$910,971.

Cash from Financing Activities in the current period also includes \$1,989,898 from the issue of shares and \$412,300 received from the U.S. Small Business Administration, "SBA", Payroll Protection Program which is part of a program created by the USA Coronavirus Aid, Relief, and Economic Security Act, "CARES Act", which provides financial relief from the COVID-19 emergency.

Net cash spent in operating activities in the current year of \$5,135,973 increased by \$894,889, or 21%, from the six months of the prior period of \$4,241,084. The current year operating cashflows includes \$1,525,000 paid to Socionext, offset by cash savings resulting from cost reductions due to COVID-19.

Other Business

On 5 May 2020, the Company appointed Dr Simon Thorpe to the Scientific Advisory Board, chaired by Dr Adam Osseiran. Dr Thorpe provides decades of insight in the area of event-based processing and hardware implementation.

SECURITIES ON ISSUE

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

Ordinary shares	1,531,937,324
Options over ordinary shares	220,725,000
Restricted stock units	4,800,000

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 2 July 2020, the Company announced the completion of the wafer fabrication of the Akida device as planned, allowing assembly and testing to be completed by the BrainChip team.

On 23 July 2020, the Company announced the appointment of Professor Barry J. Marshall, a Nobel Prize laureate in Physiology and Medicine, to the Company's Scientific Advisory Board.

In August 2020, 21,868,976 shares were issued on the exercise of options held by CST raising \$1,817,164 (A\$2,558,670).

On 10 August 2020 the Company awarded 8,300,000 share options and 2,100,000 restricted stock units to employees in accordance with the Company's Long Term Incentive Plan.

On 17 August 2020, the Company announced it had partnered with Magik Eye Inc. (MagikEye), developers of revolutionary 3D sensors that change how machines see the world, to market a breakthrough solution for object detection, object classification and gesture recognition based on MagikEye's Invertible Light™ 3D depth sensing technology and the Akida™ neuromorphic processor.

LDA Agreement:

On 13 August 2020, the Company announced it has entered into a Put Option Agreement (Agreement) with LDA Capital Limited and LDA Capital LLC (LDA Capital), a United States based investment group, to provide the Company with up to A\$29 million in committed equity capital over the next 12 months which may be extended by the parties for a further 12 months. The Company will control the timing and maximum amount of the draw down under this facility subject only to the minimum draw down commitment of A\$10 million with in the first 12 months.

Directors' Report

In accordance with the Agreement, the Company issued 75,000,000 unlisted options to LDA Capital comprising 37,500,000 unlisted options exercisable at A\$0.15 and 37,500,000 unlisted options exercisable at A\$0.20, expiring on 13 August 2023.

On 19 August 2020, the Company issued a call notice to LDA Capital (a put option) and subsequently issued LDA Capital with 35,000,000 shares for no consideration ("Collateral Shares") which LDA Capital is entitled to sell on-market (subject to certain terms), on 24 August 2020. Any unused Collateral Shares will be adjusted or may be used for subsequent call, brought back by the Company or transferred to a trustee or nominee of the Company. The issue price of the shares will be 90% of the higher of the average VWAP of shares in the 30 trading day period after the issue of the call notice, and the minimum price notified to LDA Capital by the Company upon exercise of the put option. The VWAP calculation is subject to adjustment as a result of certain events occurring including trading volumes falling below an agreed threshold level or a material adverse event occurring in relation to the Company.

The Company will pay a commitment fee of \$580,000, comprising \$290,000 due and payable at the closing of the Company's first capital call and the remaining \$290,000 due and payable at closing of the second capital call. The commitment fee may be paid in shares at the Company's discretion.

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 5, from Ernst & Young.

Signed in accordance with a resolution of the Directors.



Emmanuel Hernandez

Interim Chair
California, USA, August 24, 2020



**Building a better
working world**

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Auditor's independence declaration to the directors of BrainChip Holdings Ltd

As lead auditor for the review of the half-year financial report of BrainChip Holdings Ltd for the half-year ended 30 June 2020, 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

J K Newton
Partner
25 August 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 30 June 2020

	Note	30 June 2020 US\$	30 June 2019 US\$
Continuing operations			
Revenue from contracts with customers	3	13,397	66,635
Research & development expenses	4(a)	(3,489,038)	(1,923,471)
Selling & marketing expenses	4(b)	(749,534)	(501,233)
General & Administrative expenses	4(c)	(1,423,500)	(1,783,293)
Share based payment expense	15(a)	(550,705)	(346,698)
Operating loss		(6,199,380)	(4,488,060)
Finance income	5(a)	14,536	20,919
Finance expense	5(b)	(532,548)	(26,427)
Net fair value loss through profit and loss	5(c)	(140,779)	-
Loss from continuing operations before income tax		(6,858,171)	(4,493,568)
Income tax expense		-	-
Net loss for the period		(6,858,171)	(4,493,568)
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		(5,517)	(1,170)
<i>Items that may be reclassified subsequently to profit or loss (net of tax):</i>			
Exchange differences on translation of foreign operations		(16,765)	(10,620)
Other comprehensive loss for the period, net of tax		(22,282)	(11,790)
Total comprehensive loss for the period, net of tax		(6,880,453)	(4,505,358)
		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	6	(0.48)	(0.42)

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

Consolidated Statement of Financial Position

As at 30 June 2020

	Note	30 June 2020 US\$	31 December 2019 US\$
CURRENT ASSETS			
Cash and cash equivalents	7	5,346,097	7,622,178
Trade and other receivables	8	183,447	1,187,512
Inventories		16,021	16,021
Other assets		151,265	135,534
Total current assets		5,696,830	8,961,245
NON-CURRENT ASSETS			
Right-of-use assets	9	112,959	191,460
Plant and equipment		155,236	178,883
Intangible assets	10	1,743,378	1,776,113
Other assets		33,857	34,801
Total non-current assets		2,045,430	2,181,257
TOTAL ASSETS		7,742,260	11,142,502
CURRENT LIABILITIES			
Trade and other payables		553,476	471,284
Financial liabilities	12	183,244	736,932
Lease liabilities	11	46,372	102,362
Employee benefits liabilities		384,398	280,801
Total current liabilities		1,167,490	1,591,379
NON-CURRENT LIABILITIES			
Financial liabilities	12	455,081	222,667
Lease liabilities	11	67,295	90,691
Defined benefit plan		158,020	141,415
Total non-current liabilities		680,396	454,773
TOTAL LIABILITIES		1,847,886	2,046,152
NET ASSETS		5,894,374	9,096,350
EQUITY			
Contributed equity	14(a)	67,868,040	64,740,268
Share based payments reserve		18,969,569	18,418,864
Foreign currency translation reserve		56,038	72,803
Other equity reserve		247,872	247,872
Accumulated losses		(81,247,145)	(74,383,457)
TOTAL EQUITY		5,894,374	9,096,350

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 2020

	Note	30 June 2020 US\$	30 June 2019 US\$
CASH FLOWS USED IN OPERATING ACTIVITIES			
Receipts from customers		12,031	177,105
Grants and R&D credits received from third parties		436,610	-
Payments to suppliers and employees		(5,596,505)	(4,444,476)
Interest received		14,536	31,153
Interest paid		(2,645)	(4,866)
Net cash flows used in operating activities		(5,135,973)	(4,241,084)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Payments for property, plant and equipment		(15,010)	(19,105)
Payments for purchase of patents and licenses		-	(203,553)
Payments for capitalised research and development		-	-
Net cash flows used in investing activities		(15,010)	(222,658)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of shares		1,989,898	-
Proceeds from the reduction of collateral share holdings		910,971	-
Payment of share issue costs		(145,293)	-
Proceeds from the issue of convertible securities		-	2,565,000
Payment of convertible securities costs		(2,833)	(11,862)
Proceeds from loans from third parties		412,300	-
Payment of lease liabilities		(82,704)	(113,164)
Net cash flows generated from/(used in) financing activities		3,082,339	2,439,974
Net decrease in cash and cash equivalents		(2,068,644)	(2,023,768)
Net foreign exchange differences		(207,437)	219
Cash at the beginning of the financial period		7,622,178	7,543,326
Cash and cash equivalents at the end of the period	7	5,346,097	5,519,777

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 2020

	Contributed equity	Share based payment reserve	Other reserves	Foreign currency reserve	Accumulated losses	Total equity
	US\$	US\$	US\$	US\$	US\$	US\$
At 1 January 2019	55,143,789	16,463,527	247,872	80,526	(63,056,405)	8,879,309
Loss for the year	-	-	-	-	(4,493,568)	(4,493,568)
Other comprehensive loss	-	-	-	(10,620)	(1,170)	(11,790)
Total comprehensive loss for the period	-	-	-	(10,620)	(4,494,738)	(4,505,358)
Transactions with owners in their capacity as owners						
Share-based payment	-	865,254	-	-	-	865,254
At 30 June 2019	55,143,789	17,328,781	247,872	69,906	(67,551,143)	5,239,205

	Contributed equity	Share based payment reserve	Other reserves	Foreign currency reserve	Accumulated losses	Total equity
	US\$	US\$	US\$	US\$	US\$	US\$
At 1 January 2020	64,740,268	18,418,864	247,872	72,803	(74,383,457)	9,096,350
Loss for the year	-	-	-	-	(6,858,171)	(6,858,171)
Other comprehensive loss	-	-	-	(16,765)	(5,517)	(22,282)
Total comprehensive loss for the period	-	-	-	(16,765)	(6,863,688)	(6,880,453)
Transactions with owners in their capacity as owners						
Shares issued	3,277,030	-	-	-	-	3,277,030
Share issue costs	(149,258)	-	-	-	-	(149,258)
Share-based payment	-	550,705	-	-	-	550,705
At 30 June 2020	67,868,040	18,969,569	247,872	56,038	(81,247,145)	5,894,374

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 2020

1. CORPORATE INFORMATION

The interim condensed consolidated financial report of BrainChip Holdings Ltd ("Company") and its controlled entities ("Consolidated Entity" or "Group") for the half-year ended 30 June 2020 was authorised for issue in accordance with a resolution of the Directors on August 24, 2020, California, U.S.A.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

The interim 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 2019, and considered together with any public announcements made by the Company during the half-year ended 30 June 2020 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

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

New standards, interpretation and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim 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 2019, except for the adoption of new standards effective as of 1 January 2020. 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 2020, but do not have an impact on the interim condensed consolidated financial statements of the Group.

Amendments to IFRS 3: *Definition of a Business*

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group but may impact future periods should the Group enter into any business combinations.

Going concern

This half-year 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 2020, the Group incurred a net loss after tax of \$6,858,171 and a cash outflow used in operating activities of \$5,135,973. As at 30 June 2020, the Group had cash and cash equivalents of \$5,346,097, net assets of \$5,894,374 and a net working capital of \$4,529,340.

Subsequent to 30 June 2020, the Company has received \$1,817,164 through the exercise of options. The Company also entered into a put option agreement (see Note 18 - Events After Balance Date) providing the Company with up to A\$29 million in committed equity capital. The agreement includes certain variables which may be considered uncertain, including a minimum acceptable share price, established by the Company, to determine the minimum drawdown of funds. No funds have been received as of the date of this report.

The Company has prepared a detailed cash budget showing the need to generate additional commercial agreements or receive additional funds in order to finance the Group for the next twelve months. This creates a material uncertainty that may cast doubt as to whether the Group will continue as a going concern and, therefore whether it will settle its liabilities and commitments in the normal course of business.

In the unlikely case where this funding is not able to be provided through utilisation of the put option agreement, the Directors have considered:

- The ability of the Group to vary cash flows depending upon the achievement of new commercial agreements; and
- The ability of the Group to obtain funding through other sources, including debt and equity issues.

The Directors have reasonable expectations that they will be able to generate commercial agreements or raise the funds needed for the Group to continue to execute the business plan of the Group and therefore expect the Group to continue as a going concern.

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Going concern (continued)

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.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

	30 June 2020 US\$	30 June 2019 US\$
(a) Types of goods or service		
Product revenue	-	10,147
License revenue	-	2,260
Development service revenue	13,397	54,228
Total revenue from contracts with customers	13,397	66,635
(b) Timing of revenue recognition		
Services transferred over time	13,397	54,228
Sale of product and license transferred at a point in time	-	12,407
Total revenue	13,397	66,635

4. EXPENSES

	30 June 2020 US\$	30 June 2019 US\$
(a) Research & development expenses		
Employee expenses	1,765,660	1,811,926
Grants received	(196,335)	(210,214)
Third party development services	1,525,000	-
Other contractor fees	252,919	157,639
Amortisation of intangible assets	32,735	28,664
Other expenses	109,059	135,456
Total research & development expenses	3,489,038	1,923,471
(b) Selling & marketing expenses:		
Employee expenses	398,584	316,161
Contractor fees	196,959	121,128
Other expenses	153,991	63,944
Total selling & marketing expenses	749,534	501,233
(c) General & Administrative expenses:		
Employee expenses	759,934	609,229
Legal and professional fees	229,768	580,543
Travel and accommodation expenses	35,400	147,965
Depreciation of plant & equipment	41,868	43,851
Depreciation of right of use assets	78,201	114,266
Office rent	15,899	35,820
Software lease expense	73,126	91,494
Other expenses	189,304	160,125
Total general & administrative expenses	1,423,500	1,783,293

Certain comparative expenditures have been reclassified to align with the current reporting presentation. Significant adjustments comprise the reclassification of employee expenses between department categories.

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2020

5. FINANCE INCOME AND EXPENSES

	30 June 2020 US\$	30 June 2019 US\$
(a) Finance income		
Interest received	14,536	20,919
Total finance income	14,536	20,919
(b) Finance expense		
Convertible Securities interest expense	268,522	-
Other interest expense	3,447	4,866
Foreign exchange loss	260,579	21,561
Total finance expense	532,548	26,427
(c) Net fair value loss through profit and loss		
Gain on settlement of financial asset at fair value through the profit and loss	(87,832)	-
Net loss from financial assets and liabilities measured at fair value through the profit and loss (refer to Notes 8 and 12)	228,611	-
	140,779	-

6. LOSS PER SHARE

	30 June 2020 US\$	30 June 2019 US\$
Net loss attributable to ordinary shareholders for basic and diluted earnings per share	(6,858,171)	(4,493,568)
	US cents per share	US cents per share
Basic and diluted loss per share	(0.48)	(0.42)
Weighted average number of ordinary shares for basic loss per share ⁽³⁾	1,440,509,140	1,064,973,804
Effect of the dilution of share options and performance rights ^{(1) (2)}	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	1,440,509,140	1,064,973,804

⁽¹⁾ At 30 June 2020, the Company had on issue 159,543,976 (30 June 2019: 195,100,000) share options that were excluded from the calculation of diluted loss per share as they are considered anti-dilutive.

⁽²⁾ At 30 June 2020, the Company had 2,850,000 restricted stock units (30 June 2019: 4,950,000) that were excluded from the calculation of diluted loss per share as they are considered anti-dilutive.

⁽³⁾ Weighted average number of ordinary shares has been adjusted as a result of rights issue to institutional and sophisticated investors for all periods.

7. CASH AND CASH EQUIVALENTS

	30 June 2020 US\$	31 December 2019 US\$
Cash at bank and in hand	5,316,929	7,593,022
Term deposits	29,168	29,156
Total	5,346,097	7,622,178

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2020

8. TRADE AND OTHER RECEIVABLES

	30 June 2020 US\$	31 December 2019 US\$
Trade receivables	8,460	4,228
Research tax credit	165,414	402,974
Receivable from the sale of collateral shares (a)	-	766,818
Other receivables	9,573	13,492
Total	183,447	1,187,512

(a) Receivable from the sale of collateral shares

Collateral Shares issuable to CST under the terms of the CSA were treated as treasury shares until traded. During the current period, 418,490 treasury shares were released to CST, valued at \$22,395 (refer note 14(d)). In January 2020, CST and BrainChip agreed to reduce the number of collateral shares held by CST through the sale of 10 million collateral shares at an agreed price, resulting in a net gain to BrainChip of \$87,832. CST also converted Convertible Securities valued at \$136,798 via a reduction in collateral shares. CST traded all remaining collateral shares by the end of the period. The shares were valued in accordance with the CSA, being the lower of \$0.079 per share and 92% of the average 5 day VWAP during the 20 trading days prior to maturity.

<i>Movement in Receivable from the sale of collateral shares</i>	US\$
Opening balance	766,818
Gain on settlement of financial asset at fair value through profit and loss	87,832
Fair value recognised through profit or loss	170,724
Reduction in collateral shareholding through conversion of convertible note – refer note 12(c)	(136,798)
Additional collateral shares traded	22,395
Cash received on reduction in collateral shareholding	(910,971)
Closing balance	-

9. RIGHT-OF-USE ASSETS

	30 June 2020 US\$	31 December 2019 US\$
Cost	140,225	360,732
Accumulated depreciation	(27,266)	(169,272)
Total	112,959	191,460

Movement in Right-of-Use Assets:

	6 Months to 30 June 2020 US\$
Opening balance	191,460
Depreciation	(78,201)
Foreign exchange movements	(300)
Closing balance	112,959

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2020

10. INTANGIBLE ASSETS

	30 June 2020 US\$	31 December 2019 US\$
Patents and licenses (a)	837,920	870,655
Goodwill	905,458	905,458
	<u>1,743,378</u>	<u>1,776,113</u>
(a) At cost – patents and licenses with finite useful life	1,081,491	1,081,320
Accumulated amortisation	<u>(243,571)</u>	<u>(210,665)</u>
	<u>837,920</u>	<u>870,655</u>

6 Months to 30 June 2020 US\$

Movement in patents and licenses:

Opening balance	870,655
Amortisation	<u>(32,735)</u>
Closing balance	<u>837,920</u>

As of 30 June 2020, the Group considered the relevant factors that contributed to the carrying value of Intangible assets and determined that there was none noted.

11. LEASE LIABILITIES

	30 June 2020 US\$	31 December 2019 US\$
Current	46,372	102,362
Non-Current	67,295	90,691
	<u>113,667</u>	<u>193,053</u>

Movement in lease liabilities

Opening balance	193,053
Amortisation	<u>(82,704)</u>
Foreign exchange movements	<u>3,318</u>
	<u>113,667</u>

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2020

12. FINANCIAL LIABILITIES

	30 June 2020 US\$	31 December 2019 US\$
<i>Current</i>		
Borrowings (b)	183,244	-
Convertible liabilities (c)	-	586,673
Derivative liabilities (c)	-	150,259
	<u>183,244</u>	<u>736,932</u>
<i>Non-current</i>		
Advances from third parties (a)	226,025	222,667
Borrowings (b)	229,056	-
	<u>455,081</u>	<u>222,667</u>

(a) Advances from third parties

Non-current advances 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.

Movement in advances from third parties

	US\$
Opening balance	222,667
Fair value recognised through profit or loss	3,254
Foreign exchange movements	104
Closing balance	<u>226,025</u>

(b) Borrowings

In response to the COVID-19 pandemic, on 20 April 2020, BrainChip Inc signed documents with First Republic Bank and received funding of \$412,300 from the US Small Business Administration, "SBA", Payroll Protection Program which is part of a program created by the Coronavirus Aid, Relief, and Economic Security Act, "CARES Act", which provides financial relief from the COVID-19 emergency.

This loan bears interest at a fixed rate equal to 1.0% per annum and is payable every month beginning November 2020. This loan, guaranteed by the SBA, will mature in 2 years. SBA may forgive this loan if certain conditions are met. These conditions include all employees are to be kept on the payroll for eight weeks from receipt of the loan and the money to be used for payroll, rent, mortgage interest, or utilities. As of 30 June 2020, BrainChip Inc has met the prerequisites however is yet to receive confirmation that the loan is forgiven.

(c) Convertible Securities Agreement

On 26 June 2019, the Company entered into an unsecured Convertible Securities Agreement ("CSA") with CST Capital Pty Ltd ("CST") as trustee of the CST Investments Fund, under which the Company has issued Convertible Securities with a face value of US\$2,850,000 ("Convertible Securities") to CST and an interest rate of 10%pa. The effect of the key terms described below gave rise to Convertible Securities held at amortised cost and embedded derivatives (conversion and extension option) held at fair value through profit and loss.

Conversion of debt and treasury shares

During the period to 30 June 2020, the remaining 418,490 treasury shares held by CST were disposed on market. The Company issued 30,734,684 ordinary shares to CST as a result of the conversion of Convertible Securities. The shares were valued in accordance with the CSA at the lower of \$0.079 or 92% of the average 5 day VWAP during the 20 actual trading days prior to conversion. The value of the debt converted totalled \$1,264,737 (refer note 14). CST also converted Convertible Securities valued at \$136,798 via the sale of collateral shares (refer note 8(a))

Movement in convertible and derivative liabilities

	US\$
Opening balance	736,932
Conversion of notes through collateral shares	(136,798)
Value of shares issued on conversion of convertible notes	(1,264,737)
Interest expense	268,522
Fair value recognised through profit or loss	<u>396,081</u>
Closing balance	<u>-</u>

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2020

13. 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 2020 and 31 December 2019:

	30 June 2020 US\$	31 December 2019 US\$
(a) Financial assets at amortised cost		
Trade and other receivables	183,447	420,694
Financial assets at fair value through profit or loss		
Receivable on sale of collateral shares	-	766,818
Total financial assets	183,447	1,187,512
<i>Current</i>	183,447	1,187,512
<i>Non-current</i>	-	-
Total financial assets	183,447	1,187,512
Financial liabilities at amortised cost		
Trade and other payables	553,476	471,284
Financial liabilities		
- Advances from third parties	226,025	222,667
- Convertible liabilities	-	586,673
- Borrowings	412,300	-
Financial liabilities at fair value through profit & loss		
Financial liabilities		
- Derivative liabilities	-	150,259
Financial liabilities at fair value through OCI		
Defined benefit plan	158,020	141,415
Total financial liabilities	1,349,821	1,572,298
<i>Current</i>	736,720	1,208,216
<i>Non-current</i>	613,101	364,082
Total financial liabilities	1,349,821	1,572,298

- (b) The following table provides the fair value measurement hierarchy of the Group's financial assets and liabilities as at 30 June 2020 and 31 December 2019:

	Total US\$	Fair value measurement using Quoted prices in active markets (Level 1) US\$	Significant observable inputs (Level 2) US\$	Significant unobservable inputs (Level 3) US\$
As at 30 June 2020				
Defined benefit plan	158,020	-	158,020	-
	158,020	-	158,020	-
As at 31 December 2019				
Financial assets measurement at fair value				
Receivable on sale of collateral shares	766,818	766,818	-	-
	766,818	766,818	-	-
Financial liabilities measured at fair value				
Derivative liabilities	150,259	-	150,259	-
Defined benefit plan	141,415	-	141,415	-
	291,674	-	291,674	-

There were no transfers between Level 1 and Level 2 during the reporting periods.

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2020

14. CONTRIBUTED EQUITY

	30 June 2020 US\$	31 December 2019 US\$
(a) Ordinary Shares		
Issued and fully paid	67,868,040	64,740,268
	<u>67,868,040</u>	<u>64,740,268</u>

(b) Movements in ordinary shares on issue	30 June 2020 Number	30 June 2020 US\$
At 1 January	1,337,375,663	64,740,268
Shares issued on conversion of Convertible Securities - refer note 12(c)	30,734,684	1,264,737
Treasury shares disposed by CST Capital Pty Ltd – refer note 12(c)	-	22,397
Issue of shares	103,958,000	1,989,897
Shares issued on conversion of RSUs	2,950,000	-
Share issue costs	-	(149,259)
At 30 June	<u>1,475,018,347</u>	<u>67,868,040</u>

(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) Treasury shares	30 June 2020 Number	31 December 2019 Number
Fully paid shares issued to CST Capital Pty Ltd	-	418,490
Fully paid shares issued to Trustee of Long Term Incentive Plan ("LTIP")	450,000	450,000
	<u>450,000</u>	<u>868,490</u>

	30 June 2020 Number
Movements in Treasury shares	
At 1 January	868,490
Shares issued to CST Capital Pty Ltd – refer Note 12(c)	(418,490)
At 30 June	<u>450,000</u>

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2020

14. CONTRIBUTED EQUITY (continued)

(e) Options on issue

Unissued ordinary shares of the Company under option at 30 June 2020 are as follows:

Type	Expiry Date	Exercise Price (US\$)	30 June 2020 Number	31 December 2019 Number
<i>Options issued to shareholders</i>				
Unlisted	31/05/2020	0.171	-	20,000,000
<i>Options issued as share-based payments</i>				
Unlisted – refer Note 15(c)	Various	Various	159,543,976	175,068,976
Total			159,543,976	195,068,976

(f) Restricted Stock Units (RSUs) on issue

Unissued ordinary shares of the Company under option at 30 June 2020 are as follows:

Type	30 June 2020 Number	31 December 2019 Number
Unlisted	2,850,000	5,800,000
Total	2,850,000	5,800,000

(g) Movement in RSUs

1 January	5,800,000
Converted to shares during the period	(2,950,000)
Total	2,850,000

15. SHARE-BASED PAYMENTS

(a) Recognised share-based payment expenses

Equity instruments issued in accordance with BrainChip Long Term Incentive Plan
Fair value of shares and options allocated to derivative liability

Total share-based payment expenses

30 June 2020 US\$	30 June 2019 US\$
550,705	238,671
-	108,027
550,705	346,698

Equity instruments issued in accordance with BrainChip Long Term Incentive Plan
Fair value of shares and options allocated to Convertible Securities

Recognised in share-based payment reserve

30 June 2020 US\$	30 June 2019 US\$
550,705	238,671
-	650,302
550,705	888,973

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2020

15. SHARE-BASED PAYMENTS (continued)

(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:

	2020 Number	2020 WAEP (US\$)	2019 Number	2019 WAEP (US\$)
Outstanding at 1 January	175,068,976	0.117	136,700,000	0.165
Granted during the period	-	-	84,018,976	0.055
Forfeited during the period	(15,525,000)	(0.047)	(18,625,000)	(0.176)
Lapsed during the period	-	-	(11,375,000)	(0.201)
Expired during the period	-	-	-	-
Outstanding at 30 June	159,543,976	0.124	190,718,976	0.115
Exercisable (vested and unrestricted) at the end of the period	112,818,976	0.129	63,262,500	0.151

The weighted average remaining contractual life for the share options outstanding at 30 June 2020 is 3.95 years (31 December 2019: 4.85 years).

The weighted average fair value of options granted during the half-year was \$0.076 (31 December 2019: \$0.081)

The range of exercise prices for options outstanding at the end of the half-year was \$0.031 to \$0.242.

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

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

(c) Options forfeited or lapsed during the period are as follows:

Type	Grant Date	Expiry Date	Exercise Price (US\$)	Number forfeited	Number lapsed
Unlisted	5/03/2018	13/03/2028	0.171	600,000	-
Unlisted	30/05/2019	30/05/2029	0.037	300,000	-
Unlisted	18/03/2019	18/03/2029	0.042	14,625,000	-
Total				15,525,000	-

(d) Restricted Stock Units issued during the period as share-based payments

During the period, 2,950,000 restricted stock units were converted to shares. No restricted stock units were issued or cancelled.

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2020

16. 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 2020 US\$	30 June 2019 US\$
Revenue from external customers		
North America	-	10,000
Europe, Middle East & Asia (EMEA)	13,397	56,635
Revenue from continuing operations	13,397	66,635

Customers representing more than 10% of revenues in the current year amounted to \$13,397 (2019: \$59,515) comprising:

- engineering services revenue of \$13,397 (2019: \$17,556) which was earned from a European customer.
- In the prior year license and software development revenues of \$10,000 which was earned from an Asian-based customer and \$31,959 which was earned from European customers.

	30 June 2020 US\$	31 December 2019 US\$
Non-current assets		
Oceania	2,050	-
North America	987,234	1,104,788
EMEA	1,056,146	1,076,469
	2,045,430	2,181,257

17. COMMITMENTS

The Group has no commitments as at 30 June 2020.

18. EVENTS AFTER BALANCE DATE

On 2 July 2020, the Company announced the completion of the wafer fabrication of the Akida device as planned, allowing assembly and testing to be completed by the BrainChip team.

On 23 July 2020, the Company announced the appointment of Professor Barry J. Marshall, a Nobel Prize laureate in Physiology and Medicine, to the Company's Scientific Advisory Board.

In August 2020, 21,868,976 shares were issued on the exercise of options held by CST raising \$1,817,164 (A\$2,558,670).

On 10 August 2020 the Company awarded 8,300,000 share options and 2,100,000 restricted stock units to employees in accordance with the Company's Long Term Incentive Plan.

On 17 August 2020, the Company announced it had partnered with Magik Eye Inc. (MagikEye), developers of revolutionary 3D sensors that change how machines see the world, to market a breakthrough solution for object detection, object classification and gesture recognition based on MagikEye's Invertible Light™ 3D depth sensing technology and the Akida™ neuromorphic processor.

Notes to the Consolidated Financial Statements

For the half-year ended 30 June 2020

18. EVENTS AFTER BALANCE DATE (continued)

LDA Agreement:

On 13 August 2020, the Company announced it has entered into a Put Option Agreement (Agreement) with LDA Capital Limited and LDA Capital LLC (LDA Capital), a United States based investment group, to provide the Company with up to A\$29 million in committed equity capital over the next 12 months which may be extended by the parties for a further 12 months. The Company will control the timing and maximum amount of the draw down under this facility subject only to the minimum draw down commitment of A\$10 million within the first 12 months.

In accordance with the Agreement, the Company issued 75,000,000 unlisted options to LDA Capital comprising 37,500,000 unlisted options exercisable at A\$0.15 and 37,500,000 unlisted options exercisable at A\$0.20, expiring on 13 August 2023.

On 19 August 2020, the Company issued a call notice to LDA Capital (a put option) and subsequently issued LDA Capital with 35,000,000 shares for no consideration ("Collateral Shares") which LDA Capital is entitled to sell on-market (subject to certain terms), on 24 August 2020. Any unused Collateral Shares will be adjusted or may be used for subsequent call, brought back by the Company or transferred to a trustee or nominee of the Company. The issue price of the shares will be 90% of the higher of the average VWAP of shares in the 30 trading day period after the issue of the call notice, and the minimum price notified to LDA Capital by the Company upon exercise of the put option. The VWAP calculation is subject to adjustment as a result of certain events occurring including trading volumes falling below an agreed threshold level or a material adverse event occurring in relation to the Company.

The Company will pay a commitment fee of \$580,000, comprising \$290,000 due and payable at the closing of the Company's first capital call and the remaining \$290,000 due and payable at closing of the second capital call. The commitment fee may be paid in shares at the Company's discretion.

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.

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 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 2020 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 2020.

On behalf of the Board.



Emmanuel T. Hernandez

Interim Chair
California, USA, August 24, 2020



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Independent auditor's review report to the members of BrainChip Holdings Ltd

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 consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 2020 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*.

Emphasis of matter - material uncertainty related to going concern

We draw attention to Note 2 Going Concern 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 events or conditions indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our review conclusion is not modified in respect of this matter.

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: giving a true and fair view of the Group's consolidated financial position as at 30 June 2019 and its consolidated financial performance for the half-year ended on that date; and 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.



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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

J K Newton
Partner
25 August 2020