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BrainChip Holdings Ltd

Annual Report
2016

Corporate Directory

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Board of Directors

Eric (Mick) Bolto (Non-Executive Chairperson)
Louis DiNardo (Executive Director and CEO)
Peter van der Made (Executive Director)
Julie H. Stein (Non-Executive Director, Audit Committee Chairperson)
Adam Osseiran (Non-Executive Director)

Company Secretary

Mark Pitts

Registered Office

Level 2, 6 Thelma Street West Perth WA 6005 Australia
Telephone: +61 8 9316 9100
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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Chairman's Address

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The Chairman's letter to shareholders in the 2015 Annual Report welcomed the creation of a vibrant new technology company entering a rapidly expanding market sector from a listed mining "shell", and acknowledged the challenges which we were facing. The tasks included identifying and focusing on early market opportunities, developing a market approach based on solutions, identifying clients and collaboration partners and building the management team.

We have made great strides in achieving these goals in 2016, as the operational review of this report demonstrates.

The technical team lead by Peter van der Made and supported by Anil Mankar, put in place the technical developments to meet milestones and create viable commercial products. To do so they identified the importance of neural algorithms in providing the means of delivering the advantages inherent in the SNAP core system. A group of scientists based in Toulouse, France had been working on this aspect of the technology for over ten years and our team partnered with them in the first instance, then assessed the significance of the two technologies working together, with the result that the company, Spikenet Technology SAS, was acquired by Brainchip Holdings Ltd in September 2016. This has accelerated BrainChip's speed to market and widened the early scope of the SNAP technology in terms of viable commercial products.

The difficult task of integrating the two teams and technologies has been achieved over the past six months, with significant contributions from the management and technical staff in France. The commercial markets now readily available are described in the operational review, but I would like to pay tribute to the technical teams in carrying this out.

Another key target for the Company was to appoint a CEO to replace Peter van der Made who had been carrying the burden of this role on an interim basis as well as being the Chief Technology Officer. We were looking for a person with experience and standing in the semi-conductor industry, track record as a CEO with large and complex companies having a US base and global reach, and a leader to inspire and motivate our management, scientists, customers and stakeholders. In September 2016 the Company appointed Lou DiNardo after an intensive and well-researched recruitment program managed by one of the world's leading recruitment firms, and he has shown his abilities in all of these areas.

Lou has spearheaded the transition of the Company in many ways, including the establishment of a corporate base in San Francisco, California U.S., introducing the Company to his networks in the industry, and with the further team appointments referred to in the Operational Review.

Another significant development was the appointment of San Francisco based Julie H. Stein to the Board of the Company in November 2016. Julie's qualifications and experience are set out in the Operational Review. She brings financial, business and investment, and governance skills and has proved invaluable firstly in chairing the Audit Committee with the complex process involving multiple jurisdictions and acquisitions, and secondly in providing support to our executive team.

Julie's appointment coincided with the resignation of Neil Rinaldi, who was a director of the Company prior to its transformation, and served the Company admirably since then. I recognise and thank Neil for his contribution.

In January 2017 we welcomed Mark Pitts as the new company secretary, following the resignation of Nerida Schmidt. Nerida provided excellent guidance and support to BrainChip through the difficult period of transition, and dealt with all issues in a thoroughly professional and patient manner.

I would also like to thank the group of shareholders who supported the two fundraisings undertaken during the 2016 year, which provided the ongoing financial strength to enable the Company to progress.

Finally, I would like to recognise the contributions made by my fellow directors and all team members and consultants, who have helped to create what I believe is a bright future for the Company.

Yours faithfully

E L (Mick) Bolto
Chairman

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During 2016, BrainChip took significant steps to develop a strategic plan that focuses on market selection, product definition, research and development and building a team that can execute a sound commercialization strategy. We have field proven software and algorithms, an extensive new product pipeline that will bring SNAP technology to the forefront of best-in-class Artificial Intelligence solutions, and a growing list of marquee customers and partners:

Markets Selection

The market for Artificial Intelligence solutions is broad. Current solutions include Deep Learning, which currently requires extremely large data sets and long training regimens, Autonomous Supervised Learning for feature extraction and pattern recognition with small sample sets, and Autonomous Unsupervised Learning when no sample set exists. With our proprietary Spiking Neural Network, BrainChip excels in Autonomous Learning (Supervised or Unsupervised). Our significant competitive advantages are based on the combination of well-developed algorithms and our hardware-based processor. Most important of these advantages is the speed at which we can extract a feature or identify a pattern within a very small sample set. From a single screen-shot we can review in real-time, or from storage of many hours of video or images, and identify a face or pattern with great accuracy.

BrainChip has made the decision to focus our sales and marketing effort initially on visual applications in Civil and Commercial Surveillance as well as Machine Learning. This decision is based on the large size of the market, the mission critical and immediate demands presented by the threat of terrorism and crime, and manufacturing efficacy. Our SNAP technology is also well suited for applications in FinTech (Financial Technology) such as commodities and high-frequency trading analysis as well as High Performance Computing (HPC) for data analysis in genomics, seismic analysis, natural resource extraction and cybersecurity.

<u>Civil Surveillance</u>

Civil Surveillance includes Autonomous Feature Extraction (AFE) and Pattern Recognition for Law Enforcement and Homeland Security, Airport Security, as well as School Campus Security. BrainChip has existing customers in each of these categories including the Paris Department of Municipal Law Enforcement and the French Department of Homeland Security (the DHS). Our work with the DHS has resulted in their issuance of a strong formal endorsement for the Company’s Facial and Pattern Recognition products. During 2016 we built upon this endorsement and added new capabilities that serve their critical requirements in fighting the threat of terrorism. We continue to work with the DHS to add improvements in facial recognition and real-time analysis of live video streams.

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We also have existing customers in the Airport Security sector. In Bordeaux, France, BrainChip serves the requirements for perimeter intrusion and airplane security at the Bordeaux-Merignac Airport. Our early success in servicing these needs has resulted in a strong formal endorsement from this customer. Also, in Geneva, Switzerland we serve the requirements of the Operations Centre for Passenger and Restricted Area Surveillance at the Geneva International Airport.

Finally, in 2016, BrainChip made significant inroads into the area of School Campus Security. We currently have one school in New York, U.S., and another municipal school district in New York, U.S., where technical specifications are being reviewed. Deployment for these customers is expected in 2017.

Commercial Surveillance

Commercial Surveillance includes Casino Gaming, Advertising Tracking, Consumer Behavior, and Vehicle Detection. In 2016, BrainChip added customers in the Casino Gaming market. The first of these customers, located in Las Vegas, Nevada, U.S, is one of the largest casinos within the MGM Group (the MGM Group is one of the largest owners of casinos in North America). BrainChip added another significant Casino Gaming customer in 2016, Mohegan Sun, located in Uncasville, Connecticut, U.S. Mohegan Sun is one of the largest independent casino operators in the U.S. We have received numerous inquiries about our Game Outcome solution from casino operators around the world and we are pursuing new opportunities in this space. Our Game Statistics solution will be aggressively marketed to new and existing customers in 2017. We estimate that there are over 2,600 casinos worldwide and over 50,000 gaming tables that would benefit from the use of BrainChip solutions.

In 2016, BrainChip advanced its involvement in the Vehicle Detection arena. The Company is currently collaborating with the Cisco Internet Innovation Center and Curtain University in Western Australia (CIIC) on a two-phase project. Phase 1 involves vehicle detection and identification. Phase 2 involves an in-vehicle camera to help drivers better understand their driving behavior and habits. This project is underway and on schedule. In addition to our work with Cisco, we are working with major automobile manufacturers and/or their suppliers on the potential deployment of our technology in conjunction with their development of autonomous vehicles and Advanced Driver Assistance Systems (ADAS).

Machine Learning

Machine Learning includes Machine Vision and a host of other opportunities in data analytics for financial transactions, genomics, seismic, natural resource analytics and cybersecurity. In 2016, the Company made important advances with regard to Machine Vision. Specifically, we are engaged with customers that require visual inspection for high volume manufacturing as well as mission critical assemblies. Safran, headquartered in Paris and one of France's largest industrial companies in the aeronautics sector, uses our Autonomous Feature Extraction (AFE) and Pattern Recognition competency in a complex assembly process to ensure quality and reliability of the system. Our current strategy is to expand our presence in Machine Learning and Visual Inspection with the development of autonomous drones that can inspect infrastructure and large facilities as well as transportation of products in the natural resources industry.

BrainChip believes that there are numerous other opportunities for the Company to pursue in the natural resources industry. In order to advance this agenda, we signed an agreement in 2016 with Advisian, a consulting group within the WorleyParsons Corporation. The objective of this agreement is to explore and capitalise on important opportunities for our SNAP technology. As our hardware solution, SNAPvision, becomes available in 2017, and this market will be a major focus.

Review of Operations

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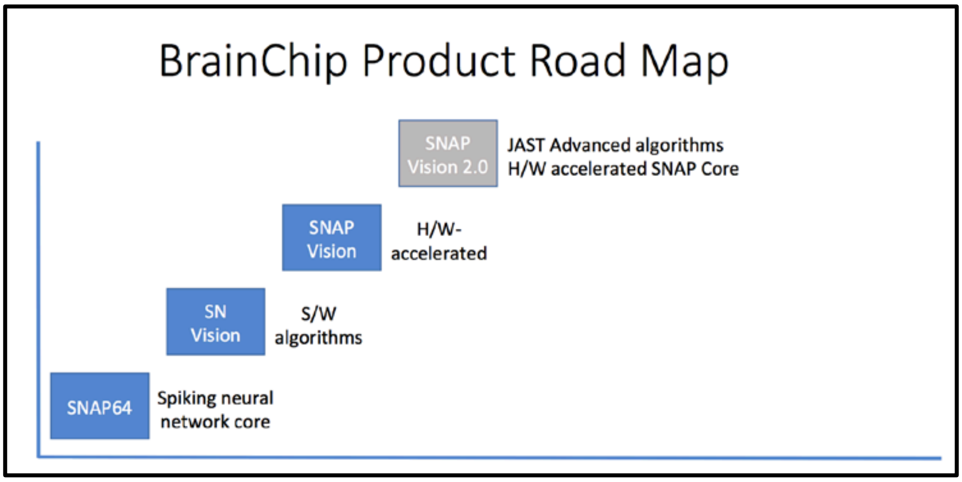
Product Definition

On 15 September 2016, BrainChip announced the acquisition of Spikenet Technology, located in Toulouse, France. Spikenet has been a provider of software-based neural networking technology since its inception in 1999. The company has well developed relationships in Civil Surveillance, Commercial Surveillance, and Machine Vision. The purpose of the acquisition was to accelerate BrainChip's product development plan by integrating the Spikenet algorithms with the BrainChip Spiking Neural Adaptive Processor (SNAP) and learning rules. BrainChip is well positioned to demonstrate leadership products in a broad range of Artificial Intelligence applications. The Company's product road map is depicted as follows:



The integration of these technologies will provide a unique high-speed, low-power image and video processing platform for Autonomous Feature Extraction (AFE) and pattern recognition applications. The culmination of this integration will result in a Field Programmable Gate Array (FPGA) SNAP solution that covers a wide-range of complexity and cost points. BrainChip has defined a 4-Channel, 8-Channel and 16-Channel family of products that are PCIe plug-in cards for Linux or Windows video servers which should open up a wide variety of potential customers to the Company. A representation of the BrainChip FPGA is depicted in the figure below:

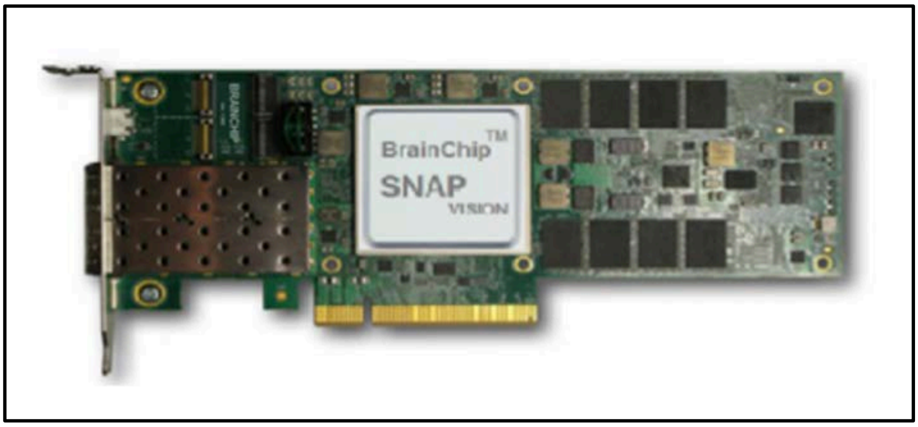


Illustration only – implemented on an FPGA

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Research and Development

Research and Development (R&D) includes neuromorphic semiconductor development and neural computing, algorithm development, software, and hardware development as well as integration engineering. BrainChip now has two design centers in which the Company's R&D activities take place. The first center is in Toulouse, France where we have a team of highly skilled engineers that focus on algorithm and software development. This team has developed Facial and Pattern Recognition technology that has been commercially deployed and is based on several generations of development. The second R&D center is located in Aliso Viejo, California, U.S. This team comprises a similarly highly skilled group of engineers who focus on neuromorphic semiconductor technology, hardware development and system solutions. During 2016 and continuing in 2017, we will add significant resources in all areas of R&D.

In the first quarter of 2017, we announced an exclusive license to next-generation learning rules (JAST) and hardware implementation for the CERCO Mind and Brain Cognition Research Center in Toulouse, France. This exclusive license provides BrainChip a new platform for Autonomous Unsupervised Learning. This technology will be implemented on the BrainChip SNAP solution. The result of this integration will be an unparalleled capability for real-time analytics of video and images, audio, and other data streams.

Human Resources

Human Resources includes the establishment of a management team, recruiting and retaining top engineering talent and strengthening our Board of Directors. During 2016, management and the Board of Directors has focused on recruiting a full management team and expanding the skill sets already represented on the Company's Board of Directors. The Company currently employs 24 people and has added senior engineering talent in Aliso Viejo, California, U.S. and Toulouse, France, all of which have significant experience in their respective areas.

<u>Management and Professional Staff</u>

In the fourth quarter of the year, I was hired as CEO of the Company, relieving Peter van der Made who performed the CEO role on an interim basis in concert with his other permanent responsibilities as the Chief Technology Officer.

BrainChip also added a US-based senior finance professional to its team this year, Cossette Drossler. Ms. Drossler joined the Company in November of 2016 as Vice President of Finance and Administration. Ms. Drossler has 30 years of experience as a finance and accounting executive in the San Francisco Bay Area, California U.S.

In the first quarter of 2017 the Company hired Robert Beachler who has joined the Company as Senior Vice President of Marketing and Business Development. Mr. Beachler, a Silicon Valley veteran with over 30 years of success in developing and marketing cutting-edge technologies, is an important hire in support of the Company's mission for growth. His background includes more than 16 years of experience in a variety of engineering and marketing roles at Altera Corporation, a leading provider of Field Programmable Gate Arrays (FPGA) products which was acquired by Intel Corporation in 2015 for over US$16 billion. He has also served as Vice-President of Marketing, Operations, and Systems Design at Stretch Inc., a provider of embedded video processing solutions up until its acquisition by Exar Corporation. While at Exar, Mr Beachler served as Vice President of Corporate Marketing and Business Development. Most recently, Mr. Beachler served at Xilinx Corporation, the leading worldwide independent provider of FPGA products where he led the marketing of imaging, video and machine learning solutions for industrial, scientific, and medical markets.

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Board of Directors

In November of 2016, the Board of Directors recruited Julie H. Stein, a highly seasoned, US-based finance professional. Ms. Stein began her career at Goldman Sachs in 1981. Subsequently, she joined the investment banking firm of Salomon Brothers. She co-founded the investment and development firm of SKS Investments in 1992 and successfully executed a series of joint ventures with major global institutional investors. Over the course of her career, Ms. Stein has been involved with the underwriting, negotiating, structuring and/or placement of financial transactions aggregating over US$10 billion. In addition to holding a number of advanced degrees, Ms. Stein is a National Association of Corporate Directors (NACD) Leadership Fellow and holds a Certificate from Stanford University Directors' College.

Conclusion

In summary, BrainChip made significant progress in 2016. The Company has developed a solid strategic plan with regard to market selection, product definition, technology development and building a team designed for commercialisation and growth. The Company has made important practical advances in each of these areas in 2016, putting BrainChip in an excellent position for growth in 2017. Importantly, we have global leaders working with us to define products and we have an excellent design team. We are now building a best-in-class sales and marketing organization to drive further commercialisation and revenue growth.

Sincerely,

Louis DiNardo

BrainChip
President and Chief Executive Officer

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 year ended 31 December 2016.

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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 (appointed 9 December 2016)
Peter van der Made	Executive Director
Adam Osseiran	Non-Executive Director
Julie H. Stein	Non-Executive Director (appointed 14 November 2016)
Neil Rinaldi	Non-Executive Director (resigned 14 November 2016)

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:

Nerida Schmidt	appointed 14 December 2015; resigned 9 January 2017
Mark Pitts	appointed 9 January 2017

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 1 September 2016 the Company completed the acquisition of Spikenet Technology SAS ("**Spikenet**"), a revenue-producing, France-based Artificial Intelligence (AI) company and leader in computer vision technology (first announced by the Company on 30 June 2016). The Company issued 10,405,488 shares and paid €529,598 cash to the vendors of Spikenet pursuant to a Share Sale Agreement dated 25 August 2016 as consideration for the acquisition of 100% of the shares of Spikenet.

In December 2016 the Group divested the subsidiaries which held the exploration assets within Madagascar.

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 Neuron Adaptive Processor ("SNAP") technology and licensing the SNAP technology designs with potential technology partners.

EMPLOYEES

The Consolidated Entity employed 21 employees at 31 December 2016 (2015: 6).

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DIVIDENDS

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

REVIEW OF OPERATIONS

Operating Results

The Group made a net loss after income tax for the year of US$4,855,614 (2015: US$27,360,115).

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

1) Increased research and development costs as a direct result of the newly acquired subsidiary, Spikenet, and increased number of technical employees in the USA;

2) Increased administrative expenses which are a result of:

    a) increased consulting and professional costs, supporting management's effort to reach BrainChip's operating milestones; and

    b) the acquisition of Spikenet after capital raising efforts.

    Administrative expenses also increased due to a full year of corporate compliance expenditure being incurred in the current year as compared with the post-acquisition period in the comparative year.

3) The comparative period includes a one off non-cash listing expense on acquisition of BrainChip Holdings of US$23,611,942 being the difference between the deemed consideration paid (US$26,709,755) on acquisition less the net assets acquired (US$3,097,813).

4) Share based payment expense of $1,075,382 (2015: $1,939,902) which represents the value of options and performance rights issued to directors, employees and consultants that have vested during the reporting period.

At the end of the financial year the Group had consolidated net assets of US$5,509,106 (2015: net assets US$1,736,570), including cash reserves of US$3,593,951 (2015: US$1,393,869).

Cash of US$7,035,885 was injected into the Group as a result of capital raising efforts and has been used to further advance the BrainChip technology, as well as complete the Spikenet acquisition and fund the extinguishment of various loans and advances held by Spikenet. BrainChip also received $493,337 from the sale of various exploration tenements during the reporting period.

Overall there has been an increase in the amount of cash spent in operating activities to US$3,314,026 (2015: US$1,886,504) as noted in the Statement of Consolidated Cash Flows, which reflects the increased research & development and administrative work completed in acquiring Spikenet and transitioning the Group forward to meet realigned strategies.

Managing the risks to our growth strategies

In developing our strategy, the Board undertook a comprehensive risk review to identify the key risks to our business. The review included an internal and external stakeholder analysis that identified the diverse needs of our various stakeholders and the potential risks to our business if those needs are not met. This analysis is updated annually and is noted in the next table:

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Risk	Response
Execution in new product development including product definition, research and development.	The Group has taken several steps to mitigate the risk regarding product definition, research and development. The acquisition of Spikenet provides additional engineering resources as well as active customer engagements which support the product definition process. The Group has added incremental engineering resources in Aliso Viejo, California, USA. The Group has hired a veteran semiconductor CEO and a veteran semiconductor Senior Vice President of Marketing and Business Development to mitigate the risk regarding product definition and product development.
Cost Structure for hardware products.	The Group has taken steps to evaluate the minimum required Field Programmable Gate Array (FPGA) to reduce cost for specific use cases and is evaluating the efficacy of multiple products and varying price points based on the Cost of Goods.
Key Human Resources in Sales and Marketing that have strong technical skills, an understanding of sales and marketing process for complex solutions.	The Group has recruited and retained a veteran semiconductor professional as Senior Vice President of Marketing and Business Development and has planned for adequate funding in cash compensation as well as equity compensation to secure top-tier sales and marketing talent.
Capital requirements to fund development and commercialisation through profitability.	The Group has a continuous process to evaluate capital requirements. The process includes the quarterly review of an annual budget with the Board of Directors as well as regular communication with financial advisors to stay apprised of capital market conditions.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

It is expected that the Group will further develop its SNAP technology and licensing of the SNAP technology designs with potential technology partners.

Further information regarding likely developments are described in more detail in the Review of Operations above.

SHARE ISSUES

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

- 35,500,000 shares issued on conversion of Class C Performance Rights on attainment of Milestone 3 on 8 April 2016;
- 4,526,634 shares issued at an issue price of A$0.15 per Share in accordance with the non-Renounceable Rights Issue to raise A$678,996 on 18 May 2016;
- 11,666,668 shares issued at an issue price of A$0.15 per Share in accordance with Underwriting Agreements to raise A$1,750,000 on 25 May 2016;
- 10,976,284 shares issued at an issue price of A$0.15 per Share in accordance with Shortfall Agreements to raise A$1,646,443 on 16 June 2016;
- 10,405,488 shares issued at an issue price of A$0.12 per Share as part consideration for the purchase of Spikenet Technology SAS on 1 September 2016;
- 100 shares issued at an issue price of A$0.14 per Share in accordance with the Prospectus dated 1 September 2016 on 5 September 2016;
- 29,750,000 shares issued at an issue price of A$0.18 per Share pursuant to a private placement to institutional and sophisticated investors raising A$5.335m and issued on 1 November 2016; and
- 34,500,000 shares issued on 22 December 2016 on conversion of Class A, B and C Performance Rights, milestones of which had been attained and announced previously.

SHARE OPTIONS

As at the date of this report, there were 98,650,000 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 financial year and to the date of this report:

- 1,500,000 unlisted options exercisable at A$0.23 per share before 1 February 2021 issued pursuant to the Company's Long Term Incentive Plan as approved by shareholders on 30 July 2015 to employees on 1 February 2016;
- 50,000,000 unlisted options exercisable at A$0.225 per share before 30 September 2021 issued pursuant to the Company's Long Term Incentive Plan as approved by shareholders on 30 July 2015 to the CEO on 30 September 2016. 27,000,000 of these options have specific performance criteria linked to the attainment of these options;
- 4,000,000 unlisted options exercisable at A$0.15 per share before 10 October 2021 issued pursuant to the Company's Long Term Incentive Plan as approved by shareholders on 30 July 2015 to employees on 10 October 2016;
- 2,000,000 unlisted options exercisable at A$0.27 per share before 10 October 2021 issued pursuant to the Company's Long Term Incentive Plan as approved by shareholders on 30 July 2015 to employees on 10 October 2016;
- 7,000,000 unlisted options exercisable at A$0.18 per share before 1 November 2019 issued to Foster Stockbroking Pty Ltd as consideration for acting as Sole & Exclusive Lead Manager to the Placement announced on ASX on 26 October 2016. These options will vest when the share price is trading at 150% of the exercise price ie. $0.27 (based on 30 day VWAP) for 30 consecutive trading days;
- 4,000,000 unlisted options exercisable at A$0.24 per share before 22 December 2021 issued pursuant to the Company's Long Term Incentive Plan as approved by shareholders on 30 July 2015 to employees on 22 December 2016;
- 6,000,000 unlisted options exercisable at A$0.245 per share before 31 December 2022 issued pursuant to the Company's Long Term Incentive Plan as approved by shareholders on 30 July 2015 to employees on 16 February 2017;

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- 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 as approved by shareholders on 30 July 2015 to employees on 16 February 2017; and
- 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 as approved by shareholders on 30 July 2015 to employees on 16 February 2017.

No options were cancelled or lapsed or converted to shares in BrainChip Holdings during the financial year:

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

- 5,000,000 unlisted options exercisable at A$0.24 per share before 21 December 2020 issued pursuant to the Company's Long Term Incentive Plan as approved by shareholders on 30 July 2015 to employees on 21 December 2015.

PERFORMANCE RIGHTS

As at the date of this report, there were 56,000,000 Performance Rights on issue.

The following Performance Rights were issued during the financial year and to the date of this report:

- 500,000 Class C Performance Rights issued pursuant to the Company's Performance Rights Plan as approved by shareholders on 30 July 2015 to employees 1 February 2016.
- 2,000,000 Class D Performance Rights issued pursuant to the Company's Performance Rights Plan as approved by shareholders on 30 July 2015 to employees on 30 September 2016
- 1,000,000 Class B Performance Rights issued pursuant to the Company's Performance Rights Plan as approved by shareholders on 30 July 2015 to employees on 10 October 2016; and
- 500,000 Class C Performance Rights issued pursuant to the Company's Performance Rights Plan as approved by shareholders on 30 July 2015 to employees on 10 October 2016.

The following Performance Rights were converted during the financial year:

- 35,500,000 Class C Performance Rights on 8 April 2016 on the attainment of Milestone 3; and
- 34,500,000 Class A, B and C Performance Rights on 22 December 2016, milestones of which had been attained and announced previously.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matters or circumstances have arisen since the end of the financial 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 years.

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ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group's operations were subject to various environmental regulations in respect of its exploration activities. The Group aims to ensure that an appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with all environmental legislation. The Directors have complied with these regulations and are not aware of any breaches of the legislation during the financial year which are material in nature.

CORPORATE GOVERNANCE

The directors of the Group support and adhere to the principles of corporate governance, recognising the need for the highest standard of corporate behaviour and accountability. Please refer to the Corporate Governance Statement dated 28 March 2017 released to ASX and posted on the Company website.

INFORMATION ON DIRECTORS

Names, qualifications, experience and special responsibilities

Eric (Mick) Bolto, LLB BA FAICD – Non-Executive Chairman (Appointed 3 August 2015)

Mr Bolto served as a partner at Mallesons for twenty years where he worked in mergers and acquisitions. He was instrumental in the structuring of and subsequent execution of numerous large-scale transactions in Asia, Australia, Europe and North America. Following his time at Mallesons, Mr Bolto worked in private equity for a long period where he acquired extensive experience in creating strategy and business planning for small to medium enterprises in order to ensure the delivery of viable business results. Mr Bolto also serves on the Company's Audit Committee.

Mr Bolto has held no other public company directorships in the past three years.

Louis DiNardo, BA – Executive Director (Appointed 9 December 2016) and CEO

Mr DiNardo has a strong track record of growing publicly listed and privately owned technology businesses, and has worked in venture capital firms where he has successfully backed a number of emerging technology companies. He is currently a board member of NYSE-listed Quantum Corp., a data management company; and Conexant, a privately held fabless semiconductor company based in California, USA. Some of his recent past roles include the President and Chief Executive Officer (CEO) of Exar Corporation, where he was credited for turning around the underperforming NYSE-listed mid-cap semiconductor company by revamping the management team, cutting operating expenses and growing revenue and profit. His efforts helped Exar achieve 16 consecutive quarters of revenue and EPS growth. Before Exar, Mr DiNardo was responsible for investing in and overseeing a portfolio of companies, including programmable logic companies, while he served as a partner at Crosslink Capital from 2008 to 2012 and the Managing Director at Vantage Point Venture Partners from 2007 to 2008. Mr DiNardo also served as President and Chief Executive Officer, as well as Co-Chairman of the Board of Directors, at Xicor Corporation from January of 2001 until NASDAQ-listed Intersil Corp acquired the company in July of 2004. He subsequently held senior executive positions at Intersil and became its President and Chief Operating Officer.

Mr DiNardo is currently a board member of NYSE-listed Quantum Corp and in the past three years has held a public company directorship as President and Chief Executive Officer (CEO) of NYSE-listed Exar Corporation.

Peter van der Made – Executive Director (Appointed 10 September 2015)

Mr van der Made has been at the forefront of computer innovation for 40 years. He is the inventor of a computer immune system at vCIS Technology where he served as Chief Technical Officer, and then Chief Scientist when it was acquired by Internet Security Systems, and subsequently IBM. Previously, he designed a high resolution, high speed colour Graphics Accelerator chip for IBM PC graphics at PolyGraphics Systems. He was the founder of PolyGraphics Systems, vCIS Technology, and BrainChip Inc. Most recently he published a book, Higher Intelligence, which describes the architecture of the brain from a computer-science perspective.

Mr van der Made has held no other public company directorships in the past three years.

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INFORMATION ON DIRECTORS (Continued)

Names, qualifications, experience and special responsibilities (continued)

Julie H. Stein, BA, MA, MBA, NACD Leadership Fellow – Non-Executive Director (Appointed 14 November 2016)

Ms Stein began her career at Goldman Sachs in 1981. Subsequently, she joined the investment banking firm of Salomon Brothers. She co-founded SKS Investments in 1992 and successfully executed a series of joint ventures with major global institutional investors. Over the course of her career, Ms. Stein has been involved in the underwriting, negotiating, structuring and/or placement of financial transactions aggregating over $10 billion ($US). Ms Stein holds a B.A. and M.A. from the University of Pennsylvania and an M.B.A. from Columbia University. She is a National Association of Corporate Directors (NACD) Leadership Fellow and holds a Certificate from Stanford University Directors' College. Ms Stein also serves as the Chair of the Company's Audit Committee.

Ms Stein has held no other public company directorships in the past three years.

Adam Osseiran, A/Prof – Non-Executive Director (Appointed 10 September 2015)

Dr Osseiran has been involved with BrainChip since 2012, providing advice and assistance on several aspects of technology, applications and commercial opportunities. Dr Osseiran is the co-founder of Termite Monitoring and Protection Solutions Pty Ltd, founded in 2013, to exploit the unique Wireless Smart Probe acoustic termite detection technology, operating in the US$15B global pest control market. He is also Senior Technical Advisor to Mulpin (MRL) Ltd which has developed a new patented concept of embedding electronic components within a multi-layered printed circuit board. Dr Osseiran is the co-founder and director of Innovate Australia, established to promote and assist Australian innovators and encourage innovation and was the President of the Inventors Association of Australia from 2013-2014. Dr Osseiran holds a Ph.D. in microelectronics from the National Polytechnic Institute of Grenoble, France and a M.Sc. and B.Sc. from the University of Joseph Fourier in Grenoble. Dr Osseiran is currently Associate Professor of Electrical Engineering at Edith Cowan University in Perth, Western Australia. Dr Osseiran also serves on the Company's Audit Committee.

Dr Osseiran has held no other public company directorships in the past three years.

Neil Rinaldi – Non-Executive Director (Appointed 12 June 2013, resigned 14 November 2016)

Mr Rinaldi is a banking and finance sector professional with considerable financial and commercial experience gained over more than 15 years. During this time, he has advised companies on mergers and acquisitions, asset acquisitions and disposals, corporate restructuring and capital raisings. Prior to entering the minerals and energy sectors Mr Rinaldi acted as a banking professional for one of Australia's leading private wealth managers. Mr Rinaldi held the position as Executive Director and CEO of the Company from his appointment to 10 September 2015, when he became a Non-Executive Director. Mr Rinaldi also served on the Company's Audit Committee until his resignation.

Mr Rinaldi has held no other public company directorships in the past three years.

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COMPANY SECRETARY

Mark Pitts BBus FCA GAICD - Company Secretary (appointed 9 January 2017)

Mr Pitts holds a Bachelor of Business from Curtin University, is a Fellow of the Institute of Chartered Accountants in Australia and is a member the Australian Institute of Company Directors. Mr Pitts has over 30 years professional experience in commercial, corporate finance and public practice roles in Australia and has consulted to a number of public Companies holding Directorships and senior financial management positions.

Mr Pitts is a Partner in corporate advisory firm Endeavour Corporate providing company secretarial support, financial services, governance and compliance advice to a number of public companies.

Nerida Schmidt - Company Secretary (appointed 14 December 2015; resigned 9 January 2017)

Ms Schmidt holds a Bachelor of Commerce from the University of Western Australia, is a Certified Practising Accountant and a Fellow of Finsia. She is also a Chartered Secretary and holds a Graduate Diploma in Company Secretarial Practice. Ms Schmidt has 25 years' professional experience as the company secretary of a number of ASX and AIM listed companies in a variety of industries. She has also consulted to a number of listed and unlisted entities providing corporate, company secretarial and financial services. Prior to these roles, Ms Schmidt was a manager in the Corporate division of the stockbroking firm Paterson Ord Minnett and a member of the taxation and corporate recovery divisions of public accounting firm Arthur Andersen.

INTERESTS IN THE SHARES, OPTIONS AND PERFORMANCE RIGHTS OF THE COMPANY

As at the date of this report, the interests of the Directors in the shares, options and performance rights of BrainChip Holdings were:

Director	Fully Paid Ordinary Shares	Options over Ordinary Shares	Performance Rights
E Bolto	-	5,000,000 (1)	-
L DiNardo	-	50,000,000 (2)	2,000,000 (3)
P Van der Made	161,305,508	-	19,500,000 (4)
J Stein	-	-	-
A Osseiran	8,438,500	2,000,000 (1)	900,000 (5)
Total	**169,744,008**	**57,000,000**	**22,400,000**

(1) These options are exercisable at A$0.225 before 30 November 2018.

(2) These options are exercisable at A$0.225 before 30 September 2021. 27,000,000 of these options have specific performance criteria linked to the attainment of these options.

(3) Mr DiNardo holds 2,000,000 Class D Performance Rights.

(4) Mr van der Made holds 6,000,000 Class C Performance Rights and 13,500,000 Class D Performance Rights. Mr van der Made also currently holds an interest in 1,200,000 Class B Performance Rights and 600,000 Class D Performance Rights that will revert to him if they are not issued to new or existing employees by 30 June 2018 as explained in note 20(e).

(5) Dr Osseiran holds 900,000 Class D Performance Rights.

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DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director was as follows:

	Directors Meetings		Audit Committee Meetings	
	Eligible to attend	Attended	Eligible to attend	Attended
E Bolto	10	10	1	1
L DiNardo (Appointed 9 December 2016)	-	-	-	-
P van der Made	10	10	-	-
J Stein (Appointed 14 November 2016)	1	1	-	-
N Rinaldi (Resigned 14 November 2016)	8	8	1	1
A Osseiran	10	10	1	1

Committee Membership

The Company has an Audit Committee of the Board of Directors with the following members:

J Stein (Chair) (appointed 14 November 2016)
E Bolto
A Osseiran (resigned as Chair 14 November 2016)
N Rinaldi (resigned 14 November 2016)

REMUNERATION REPORT (Audited)

This remuneration report for the year ended 31 December 2016 outlines the remuneration arrangements of the Consolidated Entity in accordance with the requirements of the *Corporations Act 2001* ("the Act") and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report is presented under the following sections:

1. Introduction
2. Remuneration governance
3. Non-executive Director remuneration arrangements
4. Executive remuneration arrangements
5. Options and performance rights granted as part of remuneration
6. Company performance and the link to remuneration
7. Executive contractual arrangements
8. Equity instruments disclosures
9. Other transactions and balances with Key Management Personnel

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REMUNERATION REPORT (Audited) (Continued)

1. Introduction

The Remuneration Report details the remuneration arrangements for Key Management Personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Consolidated Entity, including any director of the parent entity.

For the purposes of this Remuneration Report, the term 'executive' includes the Executive Directors and Senior Executives of the Parent and the Consolidated Entity.

Details of KMP of the Consolidated Entity are set out below:

Key Management Personnel

Name	Position	Date of appointment	Date of resignation
Directors			
E Bolto	Non-Executive Chairman	3 August 2015	-
L DiNardo (1)	Executive Director & Chief Executive Officer	30 September 2016	-
P van der Made (2)	Executive Director	10 September 2015	-
J Stein	Non-Executive Director	14 November 2016	-
A Osseiran	Non-Executive Director	10 September 2015	-
N Rinaldi	Non-Executive Director	12 June 2013	14 November 2016
Other Key Management Personnel			
A Mankar	Chief Operating Officer	1 October 2014	-
N Drossler	VP Finance & Administration	9 December 2016	-
H DoDuy (3)	President: Spikenet Technology SAS	1 September 2016	-

(1) Mr DiNardo was appointed as CEO on 30 September 2016, and Executive Director on 9 December 2016.
(2) Mr van der made was acting CEO from 10 September 2015 to 30 September 2016.
(3) Mr DoDuy was President of Spikenet at the time of the acquisition of that company.

On 21 March 2017, Mr Robert Beachler was appointed to the position of Senior Vice President of Marketing and Business Development. There were no other changes to key management personnel after the reporting date and before the date the financial report was authorised for issue.

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REMUNERATION REPORT (Audited) (Continued)

2. Remuneration governance

Remuneration Committee

In the opinion of the Directors the Company is not of sufficient size to warrant the formation of a remuneration committee. It is the Board of Directors' responsibility for determining and reviewing compensation arrangements for the directors and the senior executives.

The Board assesses the appropriateness of the nature and amount of remuneration of non-executive directors and executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high performing director and executive team.

Remuneration approval process

The Board approves the remuneration arrangements of the Executive Directors and executives and all awards made under the long-term incentive plan. The Board also sets the aggregate remuneration of non-executive directors which is then subject to shareholder approval.

Remuneration Strategy

The Company's remuneration strategy is designed to attract, motivate and retain employees and non-executive directors by identifying and rewarding high performers and recognising the contribution of each employee to the continued growth and success of the Group.

To this end, the Company embodies the following principles in its remuneration framework:

- retention and motivation of key executives;
- attraction of quality management to the Company; and
- incentives which allow executives to share the rewards of the success of the Company.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive director and senior executive remuneration is separate and distinct.

3. Non-executive director remuneration arrangements

Remuneration Policy

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

The Company's constitution and the ASX listing rules specify that the non-executive director fee pool shall be determined from time to time by a general meeting. The last determination approved was under the Prospectus dated 14 September 2011 for an aggregate fee pool of A$250,000 per year.

Structure

The remuneration of non-executive directors consists of director's fees. Non-executive directors are entitled to participate in any incentive programs. The Directors' and Officers' Option Plan ("DOOP") was approved by shareholders on 4 December 2015, the terms of which were included in the Prospectus dated 10 December 2015 lodged with the ASX.

The Non-Executive Chairman receives a base fee of A$80,000 per year and each other non-executive director receives a base fee of A$50,000 per year, unless otherwise approved by the Board. The Audit Committee Chair receives an additional fee of A$15,000 per year.

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REMUNERATION REPORT (Audited) (Continued)

4. Executive remuneration arrangements

Remuneration Policy

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company.

The remuneration package of the CEO is linked to the Company's financial performance. The CEO received 3 tranches of performance options at his date of employment which are linked to attainment of certain performance criteria.

The current remuneration policy adopted is that, other than the CEO remuneration package, no element of any other executive package is required to be directly related to the Company's financial performance. Generally, remuneration is not linked to the performance of the Company but rather to the ability to attract and retain executives of the highest calibre. The overall remuneration policy framework however is structured in an endeavour to advance/create shareholder wealth.

Structure

Remuneration consists of the following key elements:

- Fixed remuneration (base salary and superannuation); and
- Variable remuneration (share options and performance rights).

Fixed Remuneration

Executive contracts of employment do not include any guaranteed base pay increase. Fixed remuneration is reviewed annually by the Board. The process consists of a review of the Company, business unit and individual performance, relevant comparative remuneration internally and externally and, where appropriate, external advice independent of management. No external advice was provided in the current or prior years.

Variable Remuneration – Long Term Incentive Plan (LTIP), Performance Rights Plan (PRP) and Directors' and Officers' Option Plan (DOOP)

The objectives of the LTIP, PRP and DOOP are to reward executives in a manner that aligns remuneration with the creation of shareholder wealth. As such, issues under these plans are made to executives who are able to influence the generation of shareholder wealth and thus have an impact on the Consolidated Entity's performance.

Issues to executives are made under the LTIP, PRP and DOOP and are delivered in the form of share options and performance rights. The number of options and/or performance rights issued is determined by the policy set by the Board and is based on each executive's role and position with the Group.

The share options and performance rights will vest over periods as determined by the Board of Directors and executives are able to exercise the share options or convert the performance rights any time after vesting and before the options or performance rights lapse. Where a participant ceases employment prior to the vesting of their share options or performance rights, the share options and/or performance rights are forfeited. Where a participant ceases employment after the vesting but before the exercise or conversion of their share options and/or performance rights under the LTIP and PRP, the share options and/or performance rights automatically lapse up to three months from ceasing employment depending on the circumstances of termination or such longer periods as determined by the Board of Directors. Where a participant ceases employment after the vesting but before the exercise or conversion of their share options under the DOOP, the share options automatically lapse after one month of ceasing employment or such longer periods as determined by the Board of Directors.

REMUNERATION REPORT (Audited) (Continued)

5. Options and performance rights granted as part of remuneration

(a) Options and performance rights with linked performance criteria

The Board of Directors has full discretion in approving specified performance criteria linked with options and performance rights granted to Key Management Personnel with the intention to align management with shareholders and reward the execution of corporate strategies that will increase shareholder wealth.

Options and performance rights with linked performance criteria were issued to the CEO, Mr Lou DiNardo, as approved by the Board of Directors. The performance criteria were selected as they establish specific goals that support adequate capitalisation of the Company, execution of previously established Milestones, and introduction and commercialisation of products that support BrainChip's strategic plan.

Details of Options over ordinary shares in the Company provided as remuneration with linked performance conditions are as follows:

31 December 2016	Year	Options awarded during the year	Grant Date	Vesting criteria	Fair value per option ^	Total Fair Value	Exercise price per option	Expiry date	Options vested during the year	Options lapsed during the year
Directors		**(Number)**			**(US$)**	**(US$)**	**(US$)**		**(Number)**	**(Number)**
L DiNardo	2016	27,000,000	28/09/2016	refer table below	$0.064	1,719,474	$0.161	30/09/2021	-	-

^ For details on valuation of the options, including models and assumptions used, please refer to note 23.

The performance criteria of the above Performance Options issued is as follows:

Tranche	Number of Options awarded	Grant Date	Performance criteria	Vesting period	Expiry date
Tranche 1	15,000,000	28/09/2016	Upon the Company raising funds necessary to attain Milestone 4 of the Share Purchase Agreement dated 10 September 2015	25% over 4 year period from achievement of the performance criteria.	30/09/2021
Tranche 2	6,000,000	28/09/2016	Upon the announcement to the ASX by BrainChip of an unconditional binding licensing or commercial agreement that has an obligation to pay a license fee of US$500,000 in accordance with an agreed timetable	25% over 4 year period from achievement of the performance criteria.	30/09/2021
Tranche 3	6,000,000	28/09/2016	Commercial introduction of the PCIe SNAPvision solution. "Introduction" means a fully qualified card with all supporting collateral material including a User's Manual.	25% over 4 year period from achievement of the performance criteria.	30/09/2021
TOTAL	27,000,000				

Details of Performance Rights over ordinary shares in the Company provided as remuneration to each Key Management Personnel, of which there are performance conditions linked, are set out in the tables below:

		Class D Performance Rights				
31 December 2016	**Year**	**Performance rights awarded during the year (Number)**	**Grant Date**	**Fair value per performance right at grant date (US$)**	**Performance criteria**	**Number vested**
L DiNardo	2016	2,000,000	28/09/2016	0.08	The announcement to the ASX by BrainChip of an unconditional binding licensing agreement that has an obligation to pay a license fee of US$500,000 in accordance with an agreed timetable (Milestone 4).	-

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REMUNERATION REPORT (Audited) (Continued)

5. Options and performance rights granted as part of remuneration (continued)

(b) Options and performance rights with no linked performance criteria

Options were also issued to Key Management Personnel with no performance criteria however included a service condition of a 4 year vesting period from the date of issue of the options to encourage the retention of staff. Details of these Options over ordinary shares in the Company are set out in the table below:

31 December 2016	Year	Options awarded during the year	Grant Date	Vesting Date	Fair value per option ^	Total Fair Value	Exercise price per option	Expiry date	Options vested during the year	Options lapsed during the year
Directors		**(Number)**			**(US$)**	**(US$)**	**(US$)**		**(Number)**	**(Number)**
L DiNardo	2016	23,000,000	28/09/2016	30/09/2020	$0.064	1,461,607	$0.161	30/09/2021	-	-
N Drossler	2016	4,000,000	14/12/2016	14/12/2020	$0.136	545,526	$0.180	22/01/2021	-	-

^ For details on valuation of the options, including models and assumptions used, please refer to note 23.

6. Company performance and the link to remuneration

The actual remuneration earned by Executives and Non-executives in the 2016 year is set out in section 7 of this report. Shareholders can see the remuneration earned and the value ascribed to share based payments which vested during the year.

Remuneration, in the form of share based payments, awarded to Executives has in the past been largely in recognition of the service provided, however as outlined in section 5 of this report the award of Options to Mr DiNardo in 2016 was made with over half the award being subject to specific performance criteria.

The BrainChip Holdings LTIP and DOOP do not have direct performance requirements built into the plans but rather the Board has the ability to add performance criteria as appropriate to the specific terms as and when options or performance rights are issued.

The granting of options and performance rights is carried out to encourage retention and, is in substance, a performance incentive which allows executives to share the rewards of the success of the Company.

The table below shows the performance of the Group as measured by its share price over the past three years. The movements illustrated in the table reflect the considerable change that the Group has undergone since 2015 particularly.

	2016	**2015**	**2014**
Closing share price AUD	$0.28	$0.26	-
Closing share price USD	$0.202	$0.189	-
Loss per share (US cents)	0.67	8.43	0.14
Net tangible assets US cents per share	0.39	0.25	(3.77)

* BrainChip Inc. commenced operations in 2014 therefore no prior periods have been reported.

REMUNERATION REPORT (Audited) (Continued)

7. Executive contractual arrangements

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Mr Louis DiNardo is employed under an annual salary employment contract with BrainChip Inc. Mr DiNardo commenced employment with BrainChip Inc. as Chief Executive Officer on 29 September 2016 (USA), 30 September 2016 (Australia). His employment contract has the following terms:

- During the term of his employment Mr DiNardo must render his services exclusively to BrainChip Inc.;
- Mr DiNardo will receive a base salary of US$400,000 effective 30 September 2016 as compensation for his services (Base Salary). The Base Salary is subject to annual reviews by the Board;
- Mr DiNardo will be entitled to receive all reasonable expenses incurred in the fulfilment of his duties. In addition, Mr DiNardo and his family will be entitled to receive all benefits under health and welfare benefit plans, practices, policies and programs provided by BrainChip Inc. to the extent they are offered to other executives of BrainChip Inc.;
- Mr DiNardo's position may be terminated at any time with or without cause or notice by either himself or BrainChip Inc.; and
- Mr DiNardo is entitled to 12 months' severance pay upon termination by BrainChip Inc. at any time without cause. The amount is payable over 12 months from the date of termination.

Mr Peter van der Made, Executive Director, is employed under an annual salary employment contract with BrainChip Inc. Mr van der Made commenced employment with BrainChip Inc. as Chief Technical Officer on 1 December 2014 and was appointed Executive Director of the Company on 10 September 2015. His employment contract has the following terms:

- During the term of his employment Mr van der Made must render his services exclusively to BrainChip Inc.;
- Mr van der Made will receive a base salary of US$200,000 effective 1 October 2015 (US$180,000 prior to this) as compensation for his services (Base Salary). The Base Salary is subject to annual reviews by the Board. In addition to the Base Salary, Mr van der Made will be entitled to a cash bonus on such terms and conditions as determined from time to time by the Board (Annual Bonus). The Annual Bonus may be an amount up to fifty percent (50%) of the base salary in effect at the end of any fiscal year;
- Mr van der Made will be entitled to receive all reasonable expenses incurred in the fulfilment of his duties. In addition, Mr van der Made and his family will be entitled to receive all benefits under health and welfare benefit plans, practices, policies and programs provided by BrainChip Inc. to the extent they are offered to other executives of BrainChip Inc.;
- Mr van der Made's position may be terminated at any time with or without cause or notice by either himself or BrainChip Inc.; and
- Mr van der Made is entitled to 12 months' severance pay upon termination by BrainChip Inc. at any time without cause. The amount is payable over 12 months from the date of termination.

Ms Cossette Drossler is employed under an annual salary employment contract with BrainChip Inc. Ms Drossler commenced employment with BrainChip Inc. as VP Finance & Administration on 9 December 2016. Her employment contract has the following terms:

- During the term of her employment Ms Drossler must render her services exclusively to BrainChip Inc.;
- Ms Drossler will receive a base salary of US$200,000 effective 30 December 2016 as compensation for her services (Base Salary). The Base Salary is subject to annual reviews by the Board;
- Ms Drossler will be entitled to receive all reasonable expenses incurred in the fulfilment of her duties. In addition, Ms Drossler and her family will be entitled to receive all benefits under health and welfare benefit plans, practices, policies and programs provided by BrainChip Inc. to the extent they are offered to other executives of BrainChip Inc.;
- Ms Drossler's position may be terminated at any time with or without cause or notice by either herself or BrainChip Inc.; and
- Ms Drossler is entitled to 6 months' severance pay upon termination by BrainChip Inc. at any time without cause. The amount is payable over 6 months from the date of termination.

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REMUNERATION REPORT (Audited) (Continued)

7. Executive contractual arrangements (continued)

Mr Hung DoDuy was employed by Spikenet as Director of Operations on 1 December 2005, and was appointed President of Spikenet on 16 December 2013. Mr DoDuy has an annual salary contract with Spikenet of €120,000. His employment contract has the following terms:

- During the term of his employment Mr DoDuy is to render his services exclusively to Spikenet;
- Mr DoDuy is entitled to receive all reasonable expenses incurred in the fulfilment of his duties. In addition, Mr DoDuy and his family are entitled to receive all benefits under health and welfare benefit plans, practices, policies and programs provided by Spikenet; and
- In accordance with French Law, Mr DoDuy 's position may be terminated at any time with or without cause or 3 months' notice by either himself or Spikenet. If Mr DoDuy is terminated without fault, Mr DoDuy is entitled to 2 times his annual salary plus 10% of gross salary times the number of years employed by Spikenet.

Mr Anil Mankar is employed by BrainChip Inc. under an annual salary employment contract as Chief Operating Officer, effective 1 October 2014. Under the terms of the contract:

- During the term of his employment Mr Mankar must render his services exclusively to BrainChip Inc.;
- During the term of his employment Mr Mankar will receive a base salary of US$200,000 effective 1 October 2015 (US$180,000 prior to this) as compensation for his services (Base Salary). The Base Salary is subject to annual reviews by the Board. In addition to the Base Salary, Mr Mankar will be entitled to a cash bonus on such terms and conditions as determined from time to time by the Board (Annual Bonus). The Annual Bonus may be an amount up to fifty percent (50%) of the base salary in effect at the end of any fiscal year;
- Mr Mankar will be entitled to receive all reasonable expenses incurred in the fulfilment of his duties. In addition, Mr Mankar and his family will be entitled to receive all benefits under health and welfare benefit plans, practices, policies and programs provided by BrainChip Inc. to the extent they are offered to other executives of BrainChip Inc.;
- Mr Mankar's position may be terminated at any time with or without cause or notice by either himself or BrainChip Inc.; and
- Mr Mankar is entitled to 24 months' severance pay upon termination by BrainChip Inc. at any time without cause. The amount is payable over 24 months from the date of termination.

There are no other formalised KMP employment agreements.

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REMUNERATION REPORT (Audited) (Continued)

7. Executive contractual arrangements (continued)

Remuneration of Directors

		Short Term	Post-Employment	Short Term Annual leave [11]	Share-based Payment	Termin-ation	Total	% Perform-ance related
		Salary and Fees [10]	Super-annuation		Options			
		US$	US$	US$	US$	US$	US$	
Non-Executive Directors								
E Bolto [1]	**2016**	**85,439**	**-**	**-**	**-**	**-**	**85,439**	**-**
	2015	24,750	-	-	548,068	-	572,818	95%
J Stein [2]	**2016**	**12,255**	**-**	**-**	**-**	**-**	**12,255**	**-**
	2015	-	-	-	-	-	-	-
A Osseiran [4]	**2016**	**37,147**	**-**	**-**	**-**	**-**	**37,147**	**-**
	2015	11,492	-	-	219,227	-	230,719	95%
N Rinaldi [3]	**2016**	**46,433**	**-**	**-**	**-**	**-**	**46,433**	**-**
	2015	103,430	8,039	21,539	438,455	-	571,463	76%
P Cook [5]	**2016**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2015	13,082	1,243	-	-	-	14,325	-
P Wall [6]	**2016**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2015	21,061	-	-	-	-	21,061	**-**
Executive Directors								
L DiNardo [7]	**2016**	**105,893**	**-**	**5,946**	**307,261**	**-**	**419,100**	**73%**
	2015	-	-	-	-	-	-	-
P van der Made [8]	**2016**	**216,745**	**-**	**6,731**	**-**	**-**	**223,476**	-
	2015	201,859	-	11,538	-	-	213,397	-
R Mitro [9]	**2016**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2015	12,456	-	11,538	-	216,330	240,324	-
Totals	**2016**	**503,912**	**-**	**12,677**	**307,261**	**-**	**823,850**	
	2015	388,130	9,282	44,615	1,205,750	216,330	1,864,107	

(1) Mr Bolto was appointed as Non-Executive Chairman on 3 August 2015. Short term remuneration includes consulting fees of US$25,291 (refer section 9).

(2) Ms Stein was appointed as Non-Executive Director on 14 November 2016. Short term remuneration includes consulting fees of US$7,226 (refer section 9).

(3) Mr Rinaldi ceased being an Executive Director on 10 September 2015 and continued as a Non-Executive Director. Mr Rinaldi resigned as a Non-Executive Director on 14 November 2016. Short term remuneration includes consulting fees of US$15,475 (refer section 9).

(4) Dr Osseiran was appointed as Non-Executive Director on 10 September 2015.

(5) Mr Cook resigned on 10 September 2015.

(6) Mr Wall resigned on 3 August 2015.

(7) Mr DiNardo was appointed as CEO of BrainChip Inc on 30 September 2016 and is reported as a KMP effective from that date. He was appointed as a Director of BrainChip Holdings on 9 December 2016.

(8) Mr van der Made was appointed as Executive Director of BrainChip Holdings on 10 September 2015. Prior to this date, he was employed as a KMP of BrainChip Inc.

(9) Mr Mitro was appointed as Executive Director and CEO on 10 September 2015 and resigned on 3 October 2015. His termination payment is paid on a monthly basis up to 30 September 2016 and has been accrued at 31 December 2015. Mr Mitro was employed as a KMP of BrainChip Inc. on 1 October 2014.

(10) No bonuses were awarded to any KMP during the year.

(11) The comparative has been amended to include all applicable annual leave benefits.

REMUNERATION REPORT (Audited) (Continued)

7. Executive contractual arrangements (continued)

Remuneration of Key Management Personnel

		Short Term	Post-Employment	Short Term Annual leave [4]	Share-based Payment	Termin-ation	Total	% Perform-ance related
		Salary and Fees	Super-annuation		Options			
		US$	US$	US$	US$	US$	US$	
Other Key Management Personnel								
A Mankar	**2016**	**216,745**	**-**	**10,577**	**-**	**-**	**227,322**	**-**
	2015	201,255	-	11,538	-	-	212,793	-
N Drossler [1]	**2016**	**12,241**	**-**	**703**	**13,038**	**-**	**25,982**	**50%**
	2015	**-**	**-**	**-**	**-**	**-**	**-**	**-**
H DoDuy [2]	**2016**	**43,350**	**-**	**792**	**-**	**-**	**44,142**	**-**
	2015	**-**	**-**	**-**	**-**	**-**	**-**	**-**
R Mitro [3]	**2016**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2015	126,143	-	-	-	-	126,143	-
Totals	**2016**	**272,336**	**-**	**12,072**	**13,038**	**-**	**297,446**	
	2015	327,398	-	11,538	-	-	338,936	

(1) Ms Drossler was employed as a KMP of BrainChip Inc. on 9 December 2016. Prior to her appointment, Ms Drossler provided consulting services to BrainChip Inc totalling $25,000 for the period 11 November to 9 December 2016.

(2) Mr DoDuy is the President of Spikenet Technology S.A.S. and became a KMP of BrainChip upon the acquisition of Spikenet on 1 September 2016.

(3) Mr Mitro was employed as a KMP of BrainChip Inc. on 1 October 2014. He is reported as a KMP until his appointment as Executive Director on 10 September 2015.

(4) The comparative has been amended to include all applicable annual leave benefits.

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REMUNERATION REPORT (Audited) (Continued)

8. Equity Instruments Disclosure

Shareholdings of Key Management Personnel (including nominees)

Shares held in BrainChip Holdings Ltd by Key Management Personnel are summarised as follows:

	Balance held at 1 January 2016	Acquired	Conversion of Performance Rights	Exercise of options	Net change other	Balance held at 31 December 2016
Directors						
E Bolto	-	-	-	-	-	-
L DiNardo [(1)]	-	-	-	-	-	-
P van der Made	126,805,508	-	34,500,000	-	-	161,305,508
J Stein [(2)]	-	-	-	-	-	-
A Osseiran	7,538,500	-	900,000	-	-	8,438,500
N Rinaldi [(2)]	7,803,335	-	-	-	(7,803,335)	-
Other KMPs						
A Mankar	91,885,000	-	17,250.000	-	-	109,135,000
N Drossler [(3)]	-	-	-	-	-	-
H DoDuy [(4)]	-	5,030,685	-	-	-	5,030,685
Total	234,032,343	5,030,685	52,650,000	-	(7,803,335)	283,909,693

[(1)] Mr DiNardo was appointed CEO on 30 September 2016 and an Executive Director on 9 December 2016.
[(2)] Ms Stein was appointed as Non-Executive Director and Mr Rinaldi resigned as Non-Executive Director on 14 November 2016. Mr Rinaldi's shares held are removed from this table.
[(3)] Ms Drossler was appointed a KMP on 9 December 2016.
[(4)] Mr DoDuy became a KMP upon the acquisition of Spikenet on 1 September 2016.

Options holdings of Key Management Personnel (including nominees)

Options granted to Key Management Personnel during the current year are detailed in section 5. There were no alterations to the terms and conditions of options awarded as remuneration since their award date. No options were exercised, lapsed or vested during the current year.

	Balance at beginning of period 1 January 2016	Granted as remuneration	Exercised	Net change other	Balance at end of period 31 December 2016	Vested and not exercisable	Vested and exercisable
Directors							
E Bolto	5,000,000	-	-	-	5,000,000	-	5,000,000
L DiNardo [(1)]	-	50,000,000	-	-	50,000,000	-	-
P van der Made	-	-	-	-	-	-	-
J Stein	-	-	-	-	-	-	-
A Osseiran	2,000,000	-	-	-	2,000,000	-	2,000,000
N Rinaldi [(2)]	4,000,000	-	-	(4,000,000)	-	-	-
Other KMPs							
A Mankar	-	-	-	-	-	-	-
N Drossler	-	4,000,000	-	-	4,000,000	-	-
H DoDuy	-	-	-	-	-	-	-
Total	11,000,000	54,000,000	-	(4,000,000)	61,000,000	-	7,000,000

[(1)] Mr DiNardo received 23,000,000 options and 27,000,000 performance options at the date of his appointment as CEO on 30 September 2016.
[(2)] Mr Rinaldi resigned as Non-Executive Director on 14 November 2016 and his options are removed from this table.

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REMUNERATION REPORT (Audited) (Continued)

8. Equity Instruments Disclosure (continued)

Performance Rights held by Key Management Personnel (including nominees)

The table below discloses the number of Performance Rights held by Key Management Personnel that were granted and vested during the year as remuneration. No performance rights lapsed during the year.

	Balance at beginning of period 1 January 2016	Acquired	Exercised[2]	Balance at end of period 31 December 2016	Vested and not exercisable	Vested and exercisable	Value of performance rights exercised US$
Directors							
E Bolto	-	-	-	-	-	-	-
L DiNardo [1]	-	2,000,000	-	2,000,000	-	-	-
P van der Made	54,000,000	-	(34,500,000)	19,500,000	-	6,000,000	6,132,000
J Stein	-	-	-	-	-	-	-
A Osseiran	1,800,000	-	(900,000)	900,000	-	-	122,525
N Rinaldi	-	-	-	-	-	-	-
Other KMPs							**-**
A Mankar	34,500,000	-	(17,250,000)	17,250,000	-	-	2,348,405
N Drossler	-	-	-	-	-	-	-
H DoDuy	-	-	-	-	-	-	-
Total	90,300,000	2,000,000	(52,650,000)	39,650,000	-	6,000,000	8,602,930

(1) Mr DiNardo received 2,000,000 Class D performance rights as part of his remuneration package at the date of his appointment as CEO on 30 September 2016.
(2) Class A, B and C Performance Rights were exercised and converted to shares in the year ended 31 December 2016.

Performance rights do not carry any voting or dividend rights and can only be exercised once the vesting conditions have been met, until their expiry date.

For details on the vesting conditions of each class of Performance Rights please refer to note 20(e).

9. Other transactions and balances with Key Management Personnel

Effective 1 December 2016, Mr. Bolto and Ms. Stein each have a consulting agreement with the Company as requested by the CEO for ad hoc services related to the next transitional phases of the Company. Consulting fees payable to each of Mr. Bolto and Ms. Stein pursuant to these contracts are A$10,000 per month. In addition, Mr. Bolto received A$25,000 in consulting fees for an ad hoc assignment related to the sale of the Mauritius company, Blue Sky Corporation, and its subsidiaries. These consulting services are outside the scope of what is expected of Mr. Bolto and Ms. Stein in their roles as Non-Executive Directors of the Company. Consulting fees payable to Mr. Bolto and Ms. Stein as at 31 December 2016 totaled US$25,291 and US$7,226 respectively (31 December 2015: US$Nil)

Mr Rinaldi provided consulting services for 6 months from 10 September 2015 at a rate of A$50,000 per annum.

No further transactions with other Key management personnel have been incurred, other than reported above.

End of Audited Remuneration Report.

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INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the Company paid a premium in respect to a contract of insurance to insure Directors and officers of the Company and related bodies corporate against those liabilities for which insurance is permitted under section 199B of the Corporations Act 2001. Disclosure of the nature of the liabilities and the amount of the premium is prohibited under the conditions of the contract of insurance.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

AUDITOR INDEPENDENCE

The Directors received the Independence Declaration, as set out on page 28, from Ernst & Young.

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services to BrainChip Holdings:

	2016 US$	**2015 US$**
Tax compliance services	25,260	9,314

Signed in accordance with a resolution of the Directors.

E L (Mick) Bolto
Chairman

Perth, 30 March 2017

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

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

As lead auditor for the audit of BrainChip Holdings Ltd for the financial year ended 31 December 2016, 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 audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Ernst & Young

Ernst & Young

Philip Teale
Partner
30 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2016

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	Note	31 December 2016 $US	31 December 2015 $US
Continuing operations			
Revenue	5(a)	149,284	-
Interest revenue	5(b)	16,975	6,863
Other income	5(c)	11,427	42,560
		177,686	49,423
Research & development expenses	6(a)	(867,360)	(386,288)
Administration and other expenses	6(b)	(2,629,617)	(1,362,064)
Amortisation of intangible assets	6(c)	(199,310)	(1,347)
Share based payment expense	23(a)	(1,075,382)	(1,939,902)
Interest expense		(10,602)	(43,957)
Listing fee expense on acquisition of BrainChip	30(c)	-	(23,611,942)
Loss from continuing operations before income tax		(4,604,585)	(27,296,077)
Income tax expense	8(c)	-	-
Loss from continuing operations after income tax		(4,604,585)	(27,296,077)
Loss from discontinued operations after tax	31(a)	(251,029)	(64,038)
Net loss for the period		(4,855,614)	(27,360,115)
Other comprehensive income / (loss)			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):			
Remeasurement gains (losses) on defined benefit plans		362	-
Items that may be reclassified subsequently to profit or loss (net of tax):			
Exchange differences on translation of foreign operations		5,414	-
Other comprehensive loss for the period, net of tax		5,776	-
Total comprehensive loss for the period, net of tax		(4,849,838)	(27,360,115)
		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		(0.64)	(8.42)
Loss per share from discontinuing operations attributable to ordinary equity holders of the Company			
Basic and diluted loss per share		(0.03)	(0.01)
Loss per share attributable to ordinary equity holders of the Company			
Basic and diluted loss per share	9	(0.67)	(8.43)

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

Consolidated Statement of Financial Position
As at 31 December 2016

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	Note	31 December 2016 $US	31 December 2015 $US
CURRENT ASSETS			
Cash and cash equivalents	10	3,593,951	1,393,869
Trade and other receivables	11	385,477	571,885
Inventory		1,435	-
Other assets	12	306,119	62,555
Total current assets		4,286,982	2,028,309
NON-CURRENT ASSETS			
Plant and equipment	13	140,209	65,381
Intangible assets	14	2,674,805	31,704
Other assets		33,689	6,196
Total non-current assets		2,848,703	103,281
TOTAL ASSETS		7,135,685	2,131,590
CURRENT LIABILITIES			
Trade and other payables	15	630,385	354,290
Financial liabilities	17	220,562	-
Other liabilities	18	287,507	-
Employee benefits liabilities	16	102,770	40,730
Total current liabilities		1,241,224	395,020
NON-CURRENT LIABILITIES			
Financial liabilities	17	277,232	-
Defined benefit plan	19	108,123	-
Total non-current liabilities		385,355	-
TOTAL LIABILITIES		1,626,579	395,020
NET ASSETS		5,509,106	1,736,570
EQUITY			
Contributed equity	20(a)	34,013,023	27,266,878
Share based payments reserve	21	3,792,094	1,939,902
Foreign currency translation reserve	21	5,414	-
Other equity reserve	21	247,872	247,872
Accumulated losses	22	(32,549,297)	(27,718,082)
TOTAL EQUITY		5,509,106	1,736,570

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

Consolidated Statement of Cash Flows
For the year ended 31 December 2016

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	Note	31 December 2016 US$	31 December 2015 US$
CASH FLOWS USED IN OPERATING ACTIVITIES			
Receipts from customers		48,953	-
Payments to suppliers and employees		(3,449,312)	(1,855,708)
Interest received		16,975	6,863
Interest paid		(10,602)	(43,238)
Grants received from third parties		68,533	-
Other income		11,427	5,579
Net cash flows used in operating activities	10	(3,314,026)	(1,886,504)
CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(88,544)	(71,703)
Payments for exploration and evaluation		(254,541)	(64,038)
Payments for purchase of patents		(1,688)	(6,342)
Payments for capitalised research and development		(106,782)	-
Proceeds from sale of mineral licences		493,337	134,364
Cash disposed on sale of subsidiaries		48,256	-
Advance to Spikenet prior to Acquisition	29(a)	(139,554)	-
Acquisition of a subsidiary, net of overdraft/cash acquired	29(c)	(667,786)	2,627,240
Net cash flows (used in)/from investing activities		(717,302)	2,619,521
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from the issue of shares		7,035,885	118
Payment of share issue costs		(445,401)	-
Loans from BrainChip Holdings prior to Acquisition		-	190,210
Loans from shareholders		-	190,000
Loans to third parties	31(a)	(54,000)	-
Repayment of loans to third parties		(237,458)	-
Loans from third parties via convertible notes		-	247,872
Loans repaid to shareholders		(5,268)	(35,961)
Net cash flows from financing activities		6,293,758	592,239
Net increase in cash and cash equivalents		2,262,430	1,325,256
Net foreign exchange differences		(62,348)	36,980
Cash at the beginning of the financial period		1,393,869	31,633
Cash and cash equivalents at the end of the period	10	3,593,951	1,393,869

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

Consolidated Statement of Changes in Equity
For the year ended 31 December 2016

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	Contributed equity	Share based payment reserve	Other reserves	Foreign currency reserve	Accumulated losses	Total equity
	US$	US$	US$	US$	US$	US$
At 1 January 2015	20,112	-	-	-	(357,967)	(337,855)
Loss for the year	-	-	-	-	(27,360,115)	(27,360,115)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	(27,360,115)	(27,360,115)
Transactions with owners in their capacity as owners						
Issue of share capital	27,246,766	-	-	-	-	27,246,766
Shares issued to extinguish Group convertible notes	-	-	247,872	-	-	247,872
Share-based payment	-	1,939,902	-	-	-	1,939,902
At 31 December 2015	27,266,878	1,939,902	247,872	-	(27,718,082)	1,736,570

	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	-	-	-	-	(4,855,614)	(4,855,614)
Other comprehensive loss	-	-	-	5,414	362	5,776
Total comprehensive loss for the period	-	-	-	5,414	(4,855, 252)	(4,849,838)
Transactions with owners in their capacity as owners						
Issue of share capital	7,974,326	-	-	-	-	7,974,326
Share issue costs	(1,228,181)			-	-	(1,228,181)
Forfeit of options	-	(24,037)	-	-	24,037	-
Share-based payment	-	1,876,229	-	-	-	1,876,229
At 31 December 2016	34,013,023	3,792,094	247,872	5,414	(32,549, 297)	5,509,106

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1. CORPORATE INFORMATION

The annual financial report of BrainChip Holdings Ltd ("Company") and its controlled entities ("Consolidated Entity" or "Group") for the year ended 31 December 2016 was authorised for issue in accordance with a resolution of the Directors on 28 March 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 financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis.

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

Except for the adoption of new and amended standards, the policies are consistently applied.

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016. Although these new standards and amendments applied for the first time in 2016, they did not have a material impact on the annual consolidated financial statements of the Group.

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AASB 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 *Materiality*	The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.
AASB 2014-4	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)	AASB 116 *Property Plant and Equipment* and AASB 138 *Intangible Assets* both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.
AASB 1057	Application of Australian Accounting Standards	This Standard lists the application paragraphs for each other Standard (and Interpretation), grouped where they are the same. Accordingly, paragraphs 5 and 22 respectively specify the application paragraphs for Standards and Interpretations in general. Differing application paragraphs are set out for individual Standards and Interpretations or grouped where possible. The application paragraphs do not affect requirements in other Standards that specify that certain paragraphs apply only to certain types of entities.
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle which are relevant to the Group.	The subjects of the principal amendments to the Standards are set out below: AASB 119 *Employee Benefits*: • Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level. AASB 134 *Interim Financial Reporting:* • Disclosure of information 'elsewhere in the interim financial report' - amends AASB 134 to clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.

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AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	The Standard makes amendments to AASB 101 *Presentation of Financial Statements* arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.
AASB 2015-9	Amendments to Australian Accounting Standards – Scope and Application Paragraphs [AASB 8, AASB 133 & AASB 1057]	This Standard inserts scope paragraphs into AASB 8 and AASB 133 in place of application paragraph text in AASB 1057. This is to correct inadvertent removal of these paragraphs during editorial changes made in August 2015. There is no change to the requirements or the applicability of AASB 8 and AASB 133.

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 31 December 2016, the Group incurred a net loss after tax of US$4,855,614 and a cash outflow from operating activities of US$3,314,026.

At 31 December 2016, the Group had cash and cash equivalents of US$3,593,951, net assets of US$5,509,106 and a net working capital of US$3,045,758.

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 an 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.

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 further vary cash flows depending upon the achievement of new commercial agreements; and
- The ability of the Group to obtain funding through various sources, including debt and/or equity issues which are currently being investigated by management.

The Directors have reasonable expectations that they will be able to generate additional commercial agreements or raise the funds needed for the Group to continue to execute the business plan of the Group in the medium term. However, cashflows 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board. The financial report also complies with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The following Standards and Interpretations have been issued by the AASB, are relevant to the Group, but are not yet effective and have not been adopted by the Group for the period ending 31 December 2016. The Group has yet to fully assess the impact of these Standards and Interpretations when applied in future periods.

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AASB 9	*Financial Instruments*	AASB 9 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments. **Classification and measurement** AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. There are also some changes made in relation to financial liabilities. The main changes are described below. ***Financial assets*** a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. ***Financial liabilities*** Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option. Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows: ► The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ► The remaining change is presented in profit or loss AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains or losses attributable to changes in the entity's own credit risk would be recognised in OCI. These amounts recognised in OCI are not recycled to profit or loss if the liability is ever repurchased at a discount.	1 January 2018	1 January 2018

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		Impairment The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. **Hedge accounting** Amendments to AASB 9 (December 2009 & 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E. AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014. AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.		
AASB 15	Revenue from Contracts with Customers	AASB 15 *Revenue from Contracts with Customers* replaces the existing revenue recognition standards AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related Interpretations (Interpretation *13 Customer Loyalty Programmes*, Interpretation 15 *Agreements for the Construction of Real Estate,* Interpretation 18 *Transfers of Assets from Customers*, Interpretation 131 *Revenue—Barter Transactions Involving Advertising Services* and Interpretation 1042 *Subscriber Acquisition Costs in the Telecommunications Industry*). AASB 15 incorporates the requirements of IFRS 15 *Revenue from Contracts with Customers* issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB). AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps: (a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligations in the contract (c) Step 3: Determine the transaction price (d) Step 4: Allocate the transaction price to the performance obligations in the contract (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation AASB 2015-8 amended the AASB 15 effective date so it is now effective for annual reporting periods commencing on or after 1 January 2018. Early application is permitted. AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15. AASB 2016-3 *Amendments to Australian Accounting Standards – Clarification to AASB 15* amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a license and provides further practical expedients on transition to AASB15.	1 January 2018	1 January 2018

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AASB 16	Leases	The key features of AASB 16 are as follows: **Lessee accounting** • Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. • Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. • AASB 16 contains disclosure requirements for lessees. **Lessor accounting** • AASB 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. • AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk. AASB 16 supersedes: (a) AASB 117 Leases; (b) Interpretation 4 Determining whether an Arrangement contains a Lease; (c) SIC-15 Operating Leases—Incentives; and (d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16.	1 January 2019	1 January 2019
AASB 2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]	This Standard amends AASB 112 *Income Taxes* (July 2004) and AASB 112 *Income Taxes* (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017	1 January 2017
AASB 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	This Standard amends AASB 107 *Statement of Cash Flows* (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017	1 January 2017

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AASB 2016-5	Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions [AASB 2]	This standard amends AASB 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: • The effects of vesting and non-vesting conditions on the measurement of cash- settled share-based payments • Share-based payment transactions with a net settlement feature for withholding tax obligations • A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity- settled	1 January 2018	1 January 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle^	Annual Improvements to IFRS Standards 2014–2016 Cycle	This amending standard addresses the following: • IFRS 12 Disclosure of Interests in Other Entities Clarification of the scope of the Standard (effective date 1 January 2017) • IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters (effective date 1January 2018) • IAS 28 Investments in Associates and Joint Ventures - Measuring an associate or joint venture at fair value. (effective date 1 January 2018)	1 January 2017	1 January 2017
IFRIC Interpretation 22^	IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration, which addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency, is effective 1 January 2018.	1 January 2018	1 January 2018

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, Designates the beginning of the applicable annual reporting period unless otherwise stated.
^ Currently only issued by the IASB but may be adopted by the AASB in future periods.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent entity and its subsidiaries ('the Consolidated Entity') as at 31 December each year. Control is achieved when the Consolidated Entity is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Consolidated Entity controls an investee if and only if the Consolidated Entity has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Consolidated Entity has less than a majority of the voting or similar rights of an investee, the Consolidated Entity considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Consolidated Entity's voting rights and potential voting rights

The Consolidated Entity re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Consolidated Entity obtains control over the subsidiary and ceases when the Consolidated Entity loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Consolidated Entity gains control until the date the Consolidated Entity ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Consolidated Entity and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Consolidated Entity's accounting policies. All intra-Consolidated Entity assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Consolidated Entity are eliminated in full on consolidation.

(d) Business Combination

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Business Combination (continued)

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(e) Foreign currency translation

(i) Functional and presentation currency

The functional currency of each entity within the Consolidated Entity is the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in United States Dollars which is the parent entity's functional and presentation currency. The United States Dollar is also the functional currency of all subsidiaries in the Group except for Spikenet which has a functional currency of Euros.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. All exchange differences arising from the above policies are recognised in the profit and loss.

(iii) Translations of subsidiary Companies' functional currency to presentation currency

The results of non-US$ reporting subsidiaries, if any, are translated into United States Dollars (presentation currency). Income and expenses are translated at the exchange rates at the date of the transactions. Assets and liabilities are translated at the closing exchange rate for each balance sheet date. Share capital, reserves and accumulated losses are converted at applicable historical rates.

Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity. On consolidation, exchange differences arising from the translation of monetary items considered to be part of the net investment in subsidiaries are taken to the foreign currency translation reserve. If a subsidiary were sold, the proportionate share of the foreign currency translation reserve would be transferred out of equity and recognised in the statement of comprehensive income.

(f) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

(g) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest bearing loans and borrowings in the current liabilities on the statement of financial position.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Trade and other receivables

Trade and other receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment.

Collectability of trade and other receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment allowance is recognised when there is objective evidence that the Consolidated Entity will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(i) Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation.

Capital work-in-progress is stated at cost and comprises all costs directly attributable to bringing the assets under construction ready to their intended use. Capital work-in-progress is transferred to property, plant and equipment at cost on completion.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset which ranges between 3 and 25 years.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the period the item is derecognised.

(j) Exploration and evaluation expenditure

Expenditure on acquisition, exploration and evaluation relating to an area of interest is carried forward at cost where rights to tenure of the area of interest are current and;

(i) it is expected that expenditure will be recouped through successful development and exploitation of the area of interest or alternatively by its sale and/or;

(ii) exploration and evaluation activities are continuing in an area of interest but at balance date have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Where it is probable that no future benefits will be obtained, the value of the area of interest is written off to the statement of comprehensive income.

(k) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Intangible assets (continued)

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the car carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

(l) Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in profit and loss. During the period of development, the asset is tested for impairment annually.

Patents and licences

The Group made upfront payments to purchase patents and licences. The patents have been granted for a period of 20 years by the relevant government agency with the option of renewal at the end of this period.

A summary of the policies applied to the Group's intangible assets is, as follows:

	Patents	**Development costs**
Useful life	Finite (5 - 20 years)	Finite (5 - 20 years)
Amortisation method	Amortised on a straight-line basis over the period of the patent	Amortised on a straight-line basis over the period of expected future sales from the related project
Internally generated or acquired	Acquired	Internally generated

(m) Trade and other payables

Trade payables and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial year that are unpaid and arise when the Consolidated Entity becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and usually paid within 30 days of recognition.

(n) Convertible notes

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the Statement of Financial Position, net of transaction costs.

On issuance of the convertible notes, the fair value of the liability component is determined using an estimated market rate for an equivalent non-convertible bond and this amount is carried as a liability on an amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. Interest on the liability component of the instruments is recognised as an expense in the Statement of Comprehensive Income.

The fair value of any derivative features embedded in the convertible notes, other than the equity component, are included in the liability component. Subsequent to initial recognition, these derivate features are measured at fair value with gains and losses recognised in the profit and loss if they are not closely related to the host contract.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Provisions

Provisions are recognised when the Consolidated Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

(p) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(q) Share-based payment transactions

The Consolidated Entity provides benefits to employees (including Directors) in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The Consolidated Entity has three plans in place that provides these benefits.

(i) The Long Term Incentive Plan ("LTIP") provides benefits to all employees including Directors. The terms of the share options are as determined by the Board. Terms of the LTIP were included in the Notice of General Meeting lodged with the ASX 30 June 2015 and approved by shareholders on 30 July 2015.
(ii) The Performance Rights Plan ("PRP") provides for the granting of performance rights to senior executives and other staff members of the Consolidated Entity. The terms of the performance rights are as determined by the Board. Terms of the PRP were included in the Notice of General Meeting lodged with the ASX on 30 June 2015 and approved by shareholders on 30 July 2015.
(iii) The Directors and Officers Option Plan ("DOOP") provides for the granting of options to the Board members of the Consolidated Entity in accordance with guidelines established by the Board of the Company. Terms of the DOOP were included in the Prospectus dated 10 December 2015 lodged with ASX.

The cost of these equity-settled transactions to employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a Black & Scholes model. Further details of which are given in note 23.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the statement of comprehensive income is the product of (i) the grant date fair value of the award; (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and (iii) the expired portion of the vesting period.

The charge to the statement of comprehensive income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding credit to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not the market condition is fulfilled, provided that all other conditions are satisfied.

If a non-vesting condition is within the control of the Consolidated Entity, Company or the employee, the failure to satisfy the condition is treated as a cancellation. If a non-vesting condition within the control of neither the Consolidated Entity, Company nor employee is not satisfied during the vesting period, any expense for the award not previously recognised is recognised over the remaining vesting period, unless the award is forfeited.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Share-based payment transactions (continued)

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(r) Employee benefits

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled wholly within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(iii) Superannuation

Contributions made by the Consolidated Entity to employee superannuation funds, which are defined contribution plans, are charged as an expense when incurred.

(iv) Defined benefit plan

The Group's net obligation in respect of defined benefits plans is calculated by estimating the discounted amount of future benefit that employees have earned in the current and prior periods.

The calculation of defined benefit plan obligations is performed annually by a qualified actuary using the projected unit credit method, taking into account staff turnover and mortality probability.

Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in OCI. The Group determines the net interest expense (Income) on the defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to then-net defined benefit liability(asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

(t) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

(u) Income tax

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- when the taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- when the deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised income taxes are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Statement of comprehensive income.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of amounts of GST recoverable from, or payable to, the taxation authority.

(w) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share are calculated as net profit attributable to members of the parent adjusted for:

- cost of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discriminatory changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(i) Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Management has identified the following key estimates and assumptions that have the most significant impact on the financial statements. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

- **Share-based payment transactions**

  The Consolidated Entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a Black & Scholes model, using the assumptions as discussed in note 23. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities in the next annual reporting period but may impact expenses and equity.

- **Impairment of non-financial assets other than goodwill**

  The Group assesses impairment of all non-financial assets other than goodwill at each reporting date by evaluating the carrying value of the asset and the recoverable amount, which is the higher of fair value less costs to sell and its value in use. This requires assessment of conditions specific to the Consolidated Entity and to the particular asset which may lead to an impairment being recognised.

- **Development costs**

  The Group capitalises development costs for a project in accordance with the accounting policy. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. At 31 December 2016, the carrying amount of capitalised development costs was $2,639,874 (2015: $Nil).

- **Defined benefit plans**

  The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These includes the determination of the discount rate, future salary growth, mortality rates and employee turnover rate. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Further details about defined benefit plans are provided in Note 19.

- **Business combination**

  Management exerts judgement in assessing whether the consolidation of a new entity is a business combination or an asset acquisition in the consolidated results. Management considers the definitions of a business combination within AASB3 and the various terms and conditions of relevant purchase agreements in determining the correct accounting treatment.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

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4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Overview

This note presents information about the Consolidated Entity's exposure to credit, liquidity and market risks, its objectives, policies and processes for measuring and managing risk, and the management of capital.

The Consolidated Entity does not use any form of derivatives as it is not at a level of exposure that requires the use of derivatives to hedge its exposure. Exposure limits are reviewed by management on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Group through regular reviews of the risks.

Credit risk

Credit risk is the risk of financial loss to the Consolidated Entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents and receivables from customers.

Presently, the Group undertakes technology development activities in the USA and France, and is exposed to credit risk from its operating activities (primarily trade and other receivables).

Cash and cash equivalents and investment securities

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have an acceptable credit rating.

Trade and other receivables

The Group operates primarily in technology development and has trade receivables. The Group has other receivables related to the receipt of various research & development credits from regulatory authorities. There is risk that these receivables may not be recovered however the Group does not consider this to be likely. The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables (see Note 11).

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

		Carrying amount	
		2016	**2015**
	Note	**US$**	**US$**
Cash and cash equivalents	10	3,593,951	1,393,869
Trade and other receivables	11	385,477	571,885

Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated Entity's reputation.

The Consolidated Entity manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual cash flows. The Consolidated Entity does not have any external borrowings.

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4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying amount US$	Contractual cash flows US$	6 mths or less US$	6-12 mths US$	1-5 years US$	5+ years US$
31 December 2016						
Trade and other payables	630,385	630,385	630,385	-	-	-
Financial liabilities	497,794	220,562	124,477	96,085	277,232	-
	1,128,179	850,947	754,862	96,085	277,232	-
31 December 2015						
Trade and other payables	354,290	354,290	354,290	-	-	-
	354,290	354,290	354,290	-	-	-

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Foreign currency risk

The Consolidated Entity is exposed to fluctuations in foreign currencies arising from the purchase of goods and services in currencies other than the transacting entity's functional currency. The French subsidiary, Spikenet, operates in Euros, the legal parent has cash balances in AUD and the Madagascan subsidiaries divested in November 2016 operated cash balances denominated in Madagascan Ariary (MGA). As as result, the Consolidated Entity's statement of financial position can be affected by movements in the USD/Euro, USD/MGA and USD/AUD exchange rates when translating to the USD functional currency.

Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the subsidiary – primarily Euro. This provides an economic hedge without derivatives being entered into and therefore hedge accounting is not applied in these circumstances.

In respect of other monetary assets and liabilities denominated in foreign currencies (MGA and AUD), the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances

The Consolidated Entity's exposure to foreign currency risk at the reporting date was as follows:

		2016			2015	
	AUD US$	Euro US$	Total US$	AUD US$	Ariary US$	Total US$
Cash	2,066,159	266,179	2,332,338	61,427	4,589	66,016
Trade and other receivables	12,866	-	12,866	-	-	-
Trade and other payables	(112,824)	-	(112,824)	-	-	-
	1,966,201	266,179	2,232,380	61,427	4,589	66,016

The table below highlights the effect on the Consolidated Entity's equity and post-tax losses of a +/- 5% change in the foreign exchange rates. This analysis assumes that all other variables remain constant:

	2016		2015	
	Losses US$	Equity US$	Losses US$	Equity US$
AUD	68,563	68,563	-	-
EURO	13,320	13,320	-	-

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4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk

The Consolidated Entity is exposed to interest rate risk (primarily on its cash and cash equivalents), which is the risk that a financial instrument's value will fluctuate as a result of changes in the market interest rates on interest-bearing financial instruments. The Consolidated Entity does not use derivatives to mitigate these exposures.

The Consolidated Entity adopts a policy of ensuring that as far as possible it maintains excess cash and cash equivalents in interest bearing accounts.

Profile

At the reporting date the interest rate profile of the Consolidated Entity's interest-bearing financial instruments was:

	Carrying amount	
	2016	**2015**
	US$	**US$**
Cash and cash equivalents		
Cash at bank and on hand	2,066,159	21,888
Short term deposits	-	36,495
	2,066,159	58,383

A change of 100 basis points in interest rates would have increased or decreased the Consolidated Entity's equity and post-tax profits by $20,659 (2015: $500). This analysis assumes that all other variables remain constant.

Fair values

Fair values versus carrying amounts

The carrying amounts of financial assets and liabilities approximate fair value. The basis for the assessment of fair values versus carrying value of financial instruments not carried at fair value is described below.

(i) Trade and other receivables, trade and other payables and current financial liabilities:

Trade and other receivables, trade and other payables and current financial liabilities are short term in nature. As a result, the fair value of these instruments is considered to approximate its fair value.

(ii) Non-current financial liabilities:

Non-current financial liabilities have been discounted using the variable market rate to calculate the fair value.

Capital Management

Capital managed by the Board includes contributed equity totalling $34,013,023 and other equity reserves of $247,872 at 31 December 2016 (2015: $27,266,878 and $247,872 respectively). When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity. Managed capital is disclosed on the face of the Statement of financial position and comprises contributed equity and reserves.

Management may adjust the capital structure to take advantage of favourable costs of capital or higher returns on assets. As the market is constantly changing, management may issue new shares or sell assets to raise cash, change the amount of dividends to be paid to shareholders (if at all) or return capital to shareholders.

During the financial year ending 31 December 2016, management did not pay a dividend and does not expect to pay a dividend in the foreseeable future.

The Consolidated Entity encourages employees to be shareholders through the Long Term Incentive Plan.

There were no changes in the Consolidated Entity's approach to capital management during the year. Risk management policies and procedures are established with regular monitoring and reporting.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

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5. REVENUE

		2016 US$	2015 US$
(a)	**Revenue**		
	Sales to external customers	149,284	-
(b)	**Interest revenue**		
	Interest received	16,975	6,863
(c)	**Other income**		
	Other income – oil & gas royalty income	9,801	5,580
	Other income	1,626	-
	Foreign exchange gain	-	36,980
	Total Other income	11,427	42,560

6. EXPENSES [1]

		2016 US$	2015 US$
(a)	**Research & development costs [2]**		
	Wages and salaries	885,147	381,262
	Grants received	(42,903)	-
	Other expenses	25,116	5,026
	Total research & development expenses	867,360	386,288
(b)	**Administration expenses:**		
	Director fees and executive salaries	800,997	780,963
	Wages and salaries	90,917	-
	Acquisition related transaction costs	113,030	-
	Legal and professional fees	1,004,057	414,645
	Travel and accommodation expenses	109,871	84,936
	Depreciation of plant & equipment	24,979	12,808
	Office rent	108,558	49,823
	Administration expenses	314,860	18,889
	Loss on foreign exchange	62,348	-
	Total administration expenses	2,629,617	1,362,064
(c)	Amortisation of intangible assets	199,310	1,347

[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.

7. DIVIDENDS PAID AND PROPOSED

No dividends have been paid or declared by the Company during the financial period or up to the date of this report.

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8. INCOME TAX

	Consolidated 2016 US$	Consolidated 2015 US$
(a) Major components of income tax expense		
Consolidated income statement		
Current income tax:		
Current income tax expense/(benefit)	-	-
Tax losses previously not recognised	-	-
Deferred tax asset not recognised	-	-
Income tax (benefit)/expense reported in the statement of comprehensive income	**-**	**-**
(b) Amounts charged or credited directly to equity		
Current income tax related to items charged or credited directly to equity	-	-
Deferred income tax related to items charged or credited directly to equity	-	-
Income tax (benefit)/expense reported in equity	**-**	**-**

(c) A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Consolidated Entity's applicable income tax rate is as follows:

	2016	2015
Accounting loss before tax	4,855,614	27,360,115
At statutory income tax rate of 28.5% (2015: 30%)	(1,383,850)	(8,208,035)
Non-deductible (income) / expenses	457,205	7,699,799
Deductible capital raising items	-	(52,477)
Effect of lower/(higher) taxation rates of foreign subsidiaries	(123, 948)	281,700
Unrecognised tax losses and deferred income tax	1,050,593	279,013
Income tax expense/(benefit) reported in statement of comprehensive income	-	-
Effective income tax rate	0%	0%

(d) Deferred tax relates to the following:

	Consolidated Statement of financial position 2016	Consolidated Statement of financial position 2015
Accrued expenses	40,726	20,744
Tax losses	2,193,951	401,456
Business related expenditure, Borrowing costs	128,220	-
Share based compensation	1,114,947	-
Intangible assets - USA	73,379	-
Intangible assets - France	(469,588)	-
Deferred State Tax deduction	(130,691)	-
Other	34,923	-
Not recognised	(2,985,866)	(422,200)
Net deferred tax liability	-	-
Deferred tax income/ (expense)	**-**	-

(e) Unrecognised losses

At 31 December 2016, there are unrecognised losses of $2,193,951 for the Consolidated Entity (2015: $5,259,296).

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9. LOSS PER SHARE

	2016 US$	2015 US$
Net loss attributable to ordinary equity holders	(4,855,614)	(27,360,115)
Net loss attributable to ordinary shareholders for diluted earnings per share	(4,855,614)	(27,360,115)
Basic and diluted loss per share (US cents per share)	(0.67)	(8.43)
Weighted average number of ordinary shares for basic loss per share	722,076,531	324,371,513
Effect of the dilution of share options and performance rights (1) (2)	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	722,076,531	324,371,513

(1) At 31 December 2016, the Company had on issue 91,550,000 (2015: 28,050,000) share options that are excluded from the calculation of diluted loss per share for the current period, because they were anti-dilutive as their inclusion reduced the loss per share however may be dilutive in the future.

(2) At 31 December 2016, the Company had on issue 56,000,000 (2015: 122,000,000) performance rights that are excluded from the calculation of diluted loss per share for the current period, because they were anti-dilutive as their inclusion reduced the loss per share however may be dilutive in the future.

10. CASH AND CASH EQUIVALENTS

	2016 US$	2015 US$
Cash at bank and in hand	3,593,951	1,393,869
Total	3,593,951	1,393,869

	2016 US$	2015 US$
Reconciliation of the net loss after tax to net cash flows from operations		
Loss after tax	(4,855,614)	(27,360,115)
Non-cash adjustment to reconcile loss before tax to net cash flows:		
Depreciation	24,979	12,808
Amortisation	199,310	1,347
Share based payments	1,075,382	1,939,902
Listing fee expense	-	23,611,942
Exploration and evaluation expenditure written off	157,990	64,038
Impairment of receivable	120,281	-
Impairment of loan to third party	54,000	-
Gain on deconsolidation of subsidiaries	(26,725)	-
Other income from the sale of minerals licenses classified as investing	(54,517)	-
Foreign exchange loss/(gain)	62,348	(36,980)
Interest expense extinguished by the issue of shares	-	718
Working capital adjustments:		
Increase in trade and other receivables	(119,545)	-
Increase in inventory	(1,284)	-
Increase in prepayments	(35,786)	(31,995)
Decrease in other assets	26,077	-
Increase in financial liabilities	4,610	-
Decrease in defined benefits plan	(1,948)	-
Increase in employee provisions	17,502	13,688
Increase /(Decrease) in trade and other payables	38,914	(101,857)
Net cash used in operating activities	(3,314,026)	(1,886,504)

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11. TRADE AND OTHER RECEIVABLES

	2016 US$	2015 US$
CURRENT		
Trade receivables	111,372	-
Receivable related to the sale of mining licenses [1]	-	559,100
Research tax credit [2]	174,395	-
Other receivables	99,710	12,785
	385,477	571,885

[1] The receivable related to the 2013 sale of mining licenses from two separate purchasers. During the six months ended 30 June 2016, the Company impaired the receivable after receipt of US$24,819. Subsequent to this date a further US$414,000 was received. A net impairment of US$120,281 remains expensed in the profit and loss and reported in discontinued operations (refer Note 31(a)).

[2] Spikenet Technology recognised research credits from the French regulatory authorities as receivable according to the French tax regulations.

12. OTHER ASSETS

	2016 US$	2015 US$
CURRENT		
Grants receivable from third parties [1]	207,642	-
Prepayments	98,477	62,555
	306,119	62,555

[1] Other current assets are grants to be received from various French government agencies.

13. PLANT & EQUIPMENT

	2016 US$	2015 US$
Plant and equipment		
At cost	205,890	106,140
Accumulated depreciation	(65,681)	(40,759)
	140,209	65,381
Movement in plant and equipment		
At 1 January net of accumulated depreciation	65,381	1,649
Additions	88,544	71,703
Plant and equipment from Acquisition of Spikenet	11,875	4,805
Foreign exchange movements – cost	(669)	-
Depreciation charge for the year	(24,979)	(12,808)
Foreign exchange movements – accumulated depreciation	57	32
At 31 December net of accumulated depreciation	140,209	65,381

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14. INTANGIBLE ASSETS

	2016 US$	2015 US$
Patents and licenses (a)	34,931	31,704
Capitalised research & development costs (b)	2,639,874	-
	2,674,805	31,704

		2016 US$	2015 US$
(a)	At cost – patents and licenses with finite useful life	41,787	35,227
	Accumulated amortisation	(6,856)	(3,523)
		34,931	31,704
	Movement in patents		
	At 1 January	31,704	38,961
	Additions	1,688	6,342
	Additions upon Spikenet acquisition	5,175	-
	Adjustment to opening balance – credit from vendor	-	(12,252)
	Foreign exchange movements - cost	(303)	-
	Amortisation	(3,384)	(1,347)
	Foreign exchange movements - accumulated amortisation	51	-
		34,931	31,704
(b)	**Capitalised research & development costs**	2,832,309	-
	Accumulated amortisation	(192,435)	-
		2,639,874	-
	Movement in capitalised research & development costs		
	At 1 January	-	-
	Additions upon Spikenet acquisition	2,800,283	-
	Additions	106,782	
	Foreign exchange movements - cost	(74,756)	
	Amortisation	(195,925)	-
	Foreign exchange movements - accumulated amortisation	3,490	-
	At 31 December	2,639,874	-

As at 31 December 2016, the Group considered indicators of impairment of these assets and determined there was none.

15. TRADE AND OTHER PAYABLES

	2016 US$	2015 US$
CURRENT		
Trade creditors and accruals	524,630	354,290
Vat and other taxes payable to foreign authorities	105,755	-
	630,385	354,290

16. EMPLOYEE BENEFITS LIABILITIES

	2016 US$	2015 US$
CURRENT		
Provision for annual leave	102,770	40,730
	102,770	40,730

The nature of the provision is described in note 2(r).

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17. FINANCIAL LIABILITIES

	2016 US$	2015 US$
Current		
Financial liabilities from third parties	220,562	-
	220,562	-
Non-Current		
Financial liabilities from third parties	277,232	-
	277,232	-

		2016 US$	2015 US$
(a)	**Reconciliation of financial liabilities – current [i]**		
	Opening balance	-	-
	Financial liabilities from third parties upon acquisition of Spikenet	490,933	-
	Repayment of advance to third parties	(248,024)	-
	Interest charged on advances	5,298	-
	Foreign exchange movements	(27,645)	-
		220,562	-
(b)	**Reconciliation of financial liabilities – non-current**		
	Opening balance	-	-
	Financial liabilities from third parties upon acquisition of Spikenet	247,053	-
	Repayment of advances to third parties	(2,978)	-
	Advances received from third parties	45,435	-
	Foreign exchange movements	(12,278)	-
		277,232	-

[i] 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.

18. OTHER LIABILITIES

		2016 US$	2015 US$
	Deferred income in relation to research & development projects	287,507	-
(a)	**Reconciliation of other liabilities**		
	Opening balance	-	-
	Financial liabilities from third parties upon acquisition of Spikenet	343,652	-
	Grant revenue released to the statement of profit and loss	(37,847)	-
	Foreign exchange movement	(18,298)	-
		287,507	-

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.

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19. DEFINED BENEFIT PLAN – NON-CURRENT

	2016 US$	2015 US$
Net employee defined benefit liabilities	108,123	-

Spikenet has a defined benefit pension plan which is governed by the employment laws of France. Pension plans, similar compensation, and other employee benefits that qualify as defined benefit schemes (in which the Company guarantees an amount or defined level of benefits) are recognised on the balance sheet based on an actuarial valuation of the obligations at period-end.

This valuation uses the projected unit credit method, taking into account staff turnover and mortality probability.

The defined benefit plan is administered by the French regulatory authority and is legally separated from the Group. The authority is required by law to act in the best interests of the plan participants and is responsible for setting certain policies (eg investment, contribution and indexation policies) of the fund.
The defined benefit plan exposes the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk, and market (investment) risk.

	2016 US$	2015 US$
Movement in net defined benefit liability		
1 January	-	-
Defined benefit plan upon acquisition of Spikenet	110,433	-
Included in profit or loss		
Current service costs	3,762	-
Finance costs	557	-
Included in OCI		
Actuarial gains	(410)	-
Foreign exchange movement	(6,219)	-
	108,123	-

Defined benefit obligation

	2016	2015
The following were the principal actuarial assumptions at the reporting date:		
Discount rate	1.4%	-
Future salary growth	1.5%	-
Retirement at employee's initiative	45.0%	-
Turnover rate (weighted average)	1.3%	-

Assumptions regarding future mortality have been based on published statistics and morality tables provided by the French government.

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	Increase US$	Decrease US$
Discount rate (+/-0.5% movement)	8,549	(7,538)
Future increase cost (+/-1.0 % movement)	(14,521)	18,265

Although the analysis does not take account of the full distribution of cashflows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

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20. CONTRIBUTED EQUITY

(a) Ordinary Shares

	2016 US$	2015 US$
Issued and fully paid	34,013,023	27,266,878

(b) Movements in ordinary shares on issue

	Number	US$
At 1 January 2015	10,000,000	20,112
Conversion of R Mitro Convertible Loan [1]	749,354	290,000
Conversion of 2014 Convertible Loans other [1]	620,155	246,893
Issue of shares to Nerona Pte. Ltd	1,182,429	118
Elimination of all BrainChip Inc. shares on acquisition of BrainChip Holdings Ltd [1]	(12,551,938)	-
Existing shares of BrainChip Holdings at Acquisition	248,269,752	-
Consideration shares [1]	353,605,500	26,709,755
Conversion of Performance Rights [2]	69,000,000	-
At 31 December 2015	670,875,252	27,266,878
At 1 January 2016	670,875,252	27,266,878
Conversion of Performance Rights April 2016 [3]	35,500,000	-
Issue of shares pursuant to non-renounceable rights issue [4]	4,526,634	487,364
Issue of shares pursuant to underwriting agreements relating to non-renounceable rights issue [4]	11,666,668	1,256,101
Issue of shares pursuant to shortfall agreements relating to non-renounceable rights issue [4]	10,976,284	1,221,216
Issue of shares pursuant to Acquisition of Spikenet Technology SAS [5]	10,405,488	938,442
Issue of shares pursuant to prospectus dated 1 September 2016 [6]	100	11
Issue of shares pursuant to private placement [7]	29,750,000	4,071,192
Conversion of Performance Rights December 2016 [8]	34,500,000	-
Share issue costs incurred	-	(1,228,181)
At 31 December 2016	808,200,426	34,013,023

(1) Pursuant to the Acquisition Agreement, on 9 September 2015 convertible notes held by BrainChip Inc. and payable to Robert Mitro, a former Director of BrainChip Inc., and other parties were converted to shares in BrainChip Inc. Immediately thereafter 100% of the shares of BrainChip Inc. were issued to BrainChip Holdings in exchange for 353,605,500 shares as part consideration for the Acquisition;

(2) Subsequent to the Acquisition, 69,000,000 Performance Rights were converted to shares in BrainChip Holdings upon the achievement of Milestones 1 and 2;

(3) 35,500,000 Performance Rights were converted to shares in BrainChip on 8 April 2016 upon the achievement of Milestone 3.

(4) On 14 April 2016 BrainChip announced a pro-rata non-renounceable rights issue on a 1 for 26 shares held by eligible shareholders on 20 April 2016 at an issue price of A$0.15 per share to raise A$4,075,438. Entitlements not taken up were allocated to underwriters and pursuant to shortfall applications by sophisticated investors, resulting in an issue of a total of 27,169,586 shares.

(5) On 1 September 2016, 10,405,488 shares were issued at an issue price of A$0.12 per Share as part consideration for the purchase of Spikenet Technology SAS.

(6) On 5 September 2016, 100 shares were issued at an issue price of A$0.14 per Share in accordance with the Prospectus dated 1 September 2016.

(7) On 1 November 2016, 29,750,000 shares were issued at an issue price of A$0.18 per Share pursuant to a private placement to institutional and sophisticated investors raising A$5.335m.

(8) 34,500,000 Class A, B and C Performance Rights were converted to shares in BrainChip on 22 December 2016, milestones of which had been attained and announced previously.

20. CONTRIBUTED EQUITY (Continued)

(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 on issue

Performance Rights on issue at 31 December 2016 are as follows:

Class A Performance Rights (all of which are restricted);	-
Class B Performance Rights (all of which are restricted);	1,000,000
Class C Performance Rights (all of which are restricted);	6,500,000
Class D Performance Rights (all of which are restricted).	48,500,000
	56,000,000

(e) Performance Rights movements

	Opening balance 1 January 2016	Converted [2]	Allocated	**Closing balance 31 December 2016**
Class A Perf Rights [1]	13,500,000	(13,500,000)	-	-
Class B Perf Rights [1]	13,500,000	(13,500,000)	1,000,000	1,000,000
Class C Perf Rights [1]	48,500,000	(43,000,000)	1,000,000	6,500,000
Class D Perf Rights [1]	46,500,000	-	2,000,000	48,500,000
	122,000,000	(70,000,000)	4,000,000	56,000,000

(1) 198,000,000 Performance Rights were approved by shareholders on 30 July 2015 to be allocated to the shareholders of BrainChip Inc. as part consideration for the Acquisition of BrainChip Holdings. Of this amount 186,000,000 Performance Rights were issued on 10 September 2015 to BrainChip Inc. shareholders.
The remaining 12,000,000 Performance Rights were set aside to be issued at the Board's discretion. Any Performance Rights not issued by 30 June 2018 would be issued to Peter van der Made (60%) and Robert F. Mitro Trust (40%), subject to obtaining all required regulatory and shareholder approvals.

(2) 35,500,000 Class C Performance Rights were converted to shares in BrainChip on 8 April 2016 on attainment of Milestone 3 as announced 15 March 2016. Included in the converted Class C Performance Rights were 500,000 Performance Rights issued to employees in January 2016 from the unallocated pool held at 31 December 2015. A further 34,500,000 Class A, B and C Performance Rights were converted to shares in BrainChip on 22 December 2016, milestones of which had been attained and announced previously.

The Performance Rights have the following milestones attached to them:

- Class A Performance Rights: upon announcing on the ASX that BrainChip has simulated a race car demonstration in software for "proof of technology" by comparing BrainChip's Spiking Neuron Adaptive Processor (SNAP) to traditional sigmoid technology (Milestone 1) (as announced to ASX on 13 May 2015);
- Class B Performance Rights: upon announcing on the ASX that BrainChip has implemented the race car demonstration in hardware to visually illustrate the capability and scalability of BrainChip's SNAP technology to prospective licensees (Milestone 2) (as announced to ASX on 30 October 2015);
- Class C Performance Rights: upon announcing on the ASX that BrainChip has released a software API specification and RTL design solution for implementing customer Client/Server neural network applications using BrainChip hardware technology (Milestone 3) (as announced to ASX on 15 March 2016); and
- Class D Performance Rights: upon announcing on the ASX that BrainChip has executed an unconditional binding licensing agreement that has an upfront payment of no less than $500,000 (Milestone 4).

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20. CONTRIBUTED EQUITY (continued)

(f) Options on issue

Unissued ordinary shares of the Company under option at 31 December 2016 are as follows:

Type	Expiry Date	Exercise Price (US$)	Number of options
Options issued as part consideration as part of the Acquisition			
Unlisted [(1)]	10/09/2019	0.112	6,250,000
Options issued to Directors and employees (refer Note 23)			
Unlisted [(2)]	30/11/2018	0.161	11,000,000
Unlisted [(3)]	21/12/2020	0.258	250,000
Unlisted [(4)]	21/12/2020	0.172	5,550,000
Unlisted [(5)]	1/2/2021	0.165	1,500,000
Unlisted [(6)]	01/11/2019	0.137	7,000,000
Unlisted [(7)]	30/09/2021	0.161	50,000,000
Unlisted [(8)]	10/10/2021	0.113	4,000,000
Unlisted [(8)]	10/10/2021	0.205	2,000,000
Unlisted [(9)]	22/12/2021	0.180	4,000,000
Total			91,550,000

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

[(1)] 6,250,000 unlisted options exercisable at A0.157 cents per share before 10 September 2019 were issued to a BrainChip Inc. shareholder as part of the consideration for the Acquisition of BrainChip Holdings on 10 September 2015.

[(2)] The unlisted options issued to Directors are exercisable at any time before 30 November 2018.

[(3)] The 250,000 unlisted options issued to consultants are exercisable after 21 December 2016 and before the expiry date of 21 December 2020

[(4)] The 10,550,000 unlisted options were issued to employees and consultants vest equally over a 4-year period and, after vesting, are exercisable before 21 December 2020. 5,000,000 were forfeited on cessation of employment in the half-year.

[(5)] The 1,500,000 unlisted options issued to employees vest equally over a 4-year period and, after vesting, are exercisable before 1 February 2021.

[(6)] The 7,000,000 unlisted options were issued to Foster Stockbroking Pty Ltd as consideration for acting as Sole & Exclusive Lead Manager to the Placement announced on ASX on 26 October 2016. These options will vest when the share price is trading at 150% of the exercise price ie. $0.27 (based on 30 day VWAP) for 30 consecutive trading days, are exercisable before 1 November 2019.

[(7)] Of the 50,000,000 unlisted options issued to the CEO, Lou DiNardo, 23,000,000 options vest equally over a 4-year period and, after vesting, are exercisable before 30 September 2020. 27,000,000 of these options have specific performance criteria linked to the attainment of these options and vest equally over a 4-year period after attainment of the performance criteria, and are exercisable before 30 September 2021.

[(8)] The 6,000,000 unlisted options issued to employees vest equally over a 4-year period and, after vesting, are exercisable before 10 October 2021.

[(9)] The 4,000,000 unlisted options issued to employees vest equally over a 4-year period and, after vesting, are exercisable before 22 December 2021

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21. RESERVES

CONSOLIDATED	Foreign currency reserve US$	Share based payment reserve US$	Other equity reserve US$	Total US$
At 1 January 2015	-	-	-	-
Share based payments	-	1,939,902	-	1,939,902
Shares issued to extinguish Group convertible notes	-	-	247,872	247,872
At 31 December 2015	-	1,939,902	247,872	2,187,774
At 1 January 2016	-	1,939,902	247,872	2,187,774
Forfeit of options		(24,037)	-	(24,037)
Share based payments		1,876,229	-	1,876,229
Foreign translation of foreign operations	5,414	-	-	5,414
At 31 December 2016	5,414	3,792,094	247,872	4,045,380

Nature and purpose of reserves

Share based payment reserve

The share based payment reserve is used to record the value of share based payments provided to Directors, employees and third parties as part of their remuneration.

Other equity reserve

This reserve arises from the issue of shares in BrainChip Holdings to extinguish the liability owing to convertible note holders in BrainChip Inc., on 10 September 2015.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

22. ACCUMULATED LOSSES

	2016 US$	2015 US$
At 1 January	(27,718,082)	(357,967)
Forfeit of options issued to employee in the prior year	24,037	-
Re-measurement gains (losses) on defined benefit plans	362	-
Net loss in current period attributable to members of the Company	(4,855,614)	(27,360,115)
At 31 December	(32,549,297)	(27,718,082)

23. SHARE-BASED PAYMENTS

	2016 US$	2015 US$
(a) Recognised share-based payment expenses		
Performance Rights issued to employees	157,877	681,324
Options issued to directors, employees and contractors	917,505	1,258,578
	1,075,382	1,939,902

A Performance Rights Plan and a Long Term Incentive Plan were adopted by Shareholders on 30 July 2015. A Directors' and Officers' Option Plan was adopted by shareholders on 4 December 2015.

Performance Rights Plan

The Company established the 'BrainChip Holdings Limited Performance Rights Plan" (PRP) in July 2015, awards are made in order to retain key Directors, employees and contractors and to provide selected participants with the opportunity to participate in the growth of the Company. Rights are granted under the PRP for no consideration. Each right, upon vesting, entitles the holder to one fully paid ordinary share in the capital of the Company if certain time and/or performance measures are met in the measurement period. The Rights issued to date are subject to a combination of conditions including time-based conditions which prescribe a period of time that the employee must stay employed by the Company prior to automatic vesting and specific operational based milestones.

The application of conditions on issue and at vesting are at the absolute discretion of the Board. If at any time prior to the Vesting Date a participant ceases to be eligible through resignation or termination the Rights automatically lapse and are forfeited, subject to the discretion of the Board.

Long Term Incentive Plan

The Company established a "Long Term Incentive Plan" (LTIP) in July 2015, the objective of the plan is to attract and maintain key employees and consultants. It is considered that the LTIP, through the issue of Options, will provide selected employees and consultants with opportunity to participate in the future growth of the Company. Options offered under the LTIP must be offered at no more than a nominal value and under terms to be determined by the Board from time to time. It is not the intention of the Company to apply for quotation of any of the Options which are issued under the LTIP.

Directors and Officers Option Plan

The Company established the "BrainChip Directors' and Officers' Option Plan" (DOOP) in December 2015, to enable eligible Directors and officers (including executive and non-executive directors) of the Company or its subsidiaries to receive options to acquire shares in the Company. Issues under the DOOP provide Directors and Officers with an additional incentive to work to improve the performance of the Company and to attract and/or retain eligible Directors and Officers.

Options offered under the DOOP will be offered on terms at the absolute discretion of the Board, but unless otherwise determined will have an exercise price of not less than the average closing price of at least five days trading prior to the invitation being issued, will have an expiry date of not later than five years and will vest at such times as the Board with the advice of the remuneration committee may specify.

(b) Performance Rights issued to employees

198,000,000 Performance Rights were approved by shareholders on 30 July 2015 to be allocated to the shareholders of BrainChip Inc. as part consideration for the Acquisition of BrainChip Holdings.

Of this amount 12,000,000 Performance Rights were set aside to be issued to current and future employees at the Board's discretion.

Any of these Performance Rights not issued by 30 June 2018 will be issued to Peter van der Made (60%) and Robert F. Mitro Trust (40%), subject to obtaining all required regulatory and shareholder approvals.

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

- 500,000 Class C Perf Rights issued on 1 February 2016, at a grant date fair value of US$0.16 per right and include a 12 month escrow period from the date of grant; and
- 2,000,000 Class D Perf Rights issued on 28 September 2016, at a grant date fair value of US$0.08 per right and include a 12 month escrow period from the date of issue; and
- 1,000,000 Class B Perf Rights issued on 10 October 2016, at a grant date fair value of US$0.11 per right and include a 12 month escrow period from the date of grant; and
- 500,000 Class C Perf Rights issued on 10 October 2016, at a grant date fair value of US$0.20 per right and include a 12 month escrow period from the date of grant.

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23. SHARE-BASED PAYMENTS (continued)

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

	Opening balance 1 January 2016	Issued during the year	Converted during the year	Closing balance 31 December 2016
Class A Perf Rights	-	-	-	-
Class B Perf Rights	-	1,000,000	-	1,000,000
Class C Perf Rights	2,000,000	1,000,000	(2,500,000)	500,000
Class D Perf Rights	-	2,000,000	-	2,000,000
	2,000,000	4,000,000	(2,500,000)	3,500,000

(c) Summary of options granted under the Long Term Incentive Plan and Directors & Officers Option Plan

Unissued ordinary shares of the Company under option at 31 December 2016 are as follows:

Type	Grant Date	Expiry Date	Exercise Price (US$)	Number of options	Vested at year end
Unlisted [(1)]	4/12/2015	30/11/2018	0.161	11,000,000	11,000,000
Unlisted [(2)]	4/12/2015	21/12/2020	0.258	250,000	-
Unlisted [(3)]	4/12/2015	21/12/2020	0.172	5,550,000	-
Unlisted [(4)]	22/01/2016	01/02/2021	0.165	1,500,000	-
Unlisted [(5)]	01/11/2016	01/11/2019	0.137	7,000,000	7,000,000
Unlisted [(6)]	28/09/2016	30/09/2021	0.161	50,000,000	-
Unlisted [(7)]	8/07/2016	10/10/2021	0.113	4,000,000	-
Unlisted [(7)]	7/10/2016	10/10/2021	0.205	2,000,000	-
Unlisted [(8)]	14/12/2016	22/12/2021	0.180	4,000,000	-
Total				85,300,000	18,000,000

[(1)] 11,000,000 unlisted options exercisable at A$0.225 per share on or before 30 November 2018 were issued on 11 December 2015 pursuant to the Company's Directors' and Officers' Option Plan as approved by shareholders on 4 December 2015 to Directors;

[(2)] 250,000 unlisted options exercisable at A$0.36 per share before 21 December 2020 issued on 21 December 2015 pursuant to the Company's Long Term Incentive Plan as approved by shareholders on 30 July 2015 to consultants; and

[(3)] 10,550,000 unlisted options exercisable at A$0.24 per share before 21 December 2020 issued on 21 December 2015 pursuant to the Company's Long Term Incentive Plan as approved by shareholders on 30 July 2015 to employees and consultants. 5,000,000 were forfeited on cessation of employment in the half-year.

[(4)] 1,500,000 unlisted options exercisable at A$0.23 per share before 1 February 2021 issued on 1 February 2016 pursuant to the Company's Long Term Incentive Plan as approved by shareholders on 30 July 2015 to employees.

[(5)] 7,000,000 unlisted options were issued on 1 November 2016 pursuant to the Company's Long Term Incentive Plan as approved by shareholders on 30 July 2015 to Foster Stockbroking Pty Ltd as consideration for acting as Sole & Exclusive Lead Manager to the Placement announced on ASX on 26 October 2016. These options will vest when the share price is trading at 150% of the exercise price ie. $0.27 (based on 30 day VWAP) for 30 consecutive trading days, are exercisable before 1 November 2019.

[(6)] 50,000,000 unlisted options were issued to the CEO, Lou DiNardo, on 30 September 2016 pursuant to the Company's Long Term Incentive Plan as approved by shareholders on 30 July 2015. 23,000,000 options vest equally over a 4-year period and, after vesting, are exercisable before 30 November 2021. 27,000,000 of these options have specific performance criteria linked to the attainment of these options and vest equally over a 4-year period and attainment of the performance criteria, and are exercisable before 30 November 2021.

[(7)] 6,000,000 unlisted options were issued to employees on 10 October 2016 pursuant to the Company's Long Term Incentive Plan as approved by shareholders on 30 July 2015. These options vest equally over a 4-year period and, after vesting, are exercisable before 10 October 2021.

[(8)] 4,000,000 unlisted options were issued to employees on 22 December 2016 pursuant to the Company's Long Term Incentive Plan as approved by shareholders on 30 July 2015. These options vest equally over a 4-year period and, after vesting, are exercisable before 22 December 2021

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

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23. SHARE-BASED PAYMENTS (continued)

(d) Movements during the year

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	2016 Number	2016 WAEP (US$)	2015 Number	2015 WAEP (US$)
Outstanding at 1 January	21,800,000	0.168	-	-
Granted during the year	68,500,000	0.158	21,800,000	0.168
Forfeited during the year	(5,000,000)	(0.172)	-	-
Lapsed during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at 31 December	85,300,000	0.160	21,800,000	0.168
Exercisable (vested and unrestricted) at 31 December	11,000,000		11,000,000	

The weighted average remaining contractual life for the share options outstanding at 31 December 2016 is 4.18 years (2015: 3.94 years).

The weighted average fair value of options granted during the year was US$0.09 (2015: US$0.12)

The range of exercise prices for options outstanding at the end of the year was US$0.11 to US$0.26

(e) Options pricing model

The fair value of the equity-settled share options granted under the LTIP and DOOP 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 as at 31 December 2016:

	Executive Director Options	Employee Options	Employee Options	Employee Options	Employee Options	Consultant Options
Number of options issued	50,000,000	4,000,000	2,000,000	4,000,000	1,500,000	7,000,000
Fair values at measurement date US$	0.06	0.14	0.16	0.09	0.12	0.11
Share price at Grant Date US$	0.08	0.17	0.20	0.11	0.17	0.21
Exercise price US$	0.16	0.18	0.20	0.11	0.17	0.14
Expected volatility	110%	110%	110%	110%	138%	110%
Dividend yield	-	-	-		-	-
Risk-free interest rate (%)	1.73%	2.15%	1.78%	1.61%	2.00%	1.72%
Expected life of options in years	5.0	5.0	5.0	5.0	5.0	3.0

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.

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24. COMMITMENTS

(a) Operating lease commitments - Company as lessee

	2016 US$	2015 US$
Office lease		
Up to one year	120,311	45,650
Two to five years	116,376	-
	236,687	45,650

(b) Exploration commitments

In order to maintain current rights of tenure to exploration permits and licences, the entity has certain obligations including the payment of annual fees. The following exploration permit and licence annual fees have not been provided for in the financial report and are payable:

	2016 US$	2015 US$
Within one year	-	28,605
	-	28,605

(c) Commitments

Certain employees within the Group are entitled to severance payments in the event that they are terminated without cause. As at 31 December 2016, the total of all possible severance payments due to employees in the Group was US$2,221,544 (31 December 2015: US$600,000).

25. CONTINGENT ASSETS AND LIABILITIES

The Consolidated Entity had no contingent assets or liabilities at 31 December 2016 (31 December 2015: $Nil).

26. EVENTS AFTER THE BALANCE SHEET DATE

No matters or circumstances have arisen since the end of the financial 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 years.

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27. AUDITOR'S REMUNERATION

	2016 US$	2015 US$
Amounts received or due to be receivable by Ernst & Young (Australia) for:		
An audit or review of the financial reports of the entity	64,242	35,105
Non-audit services – tax compliance	25,260	9,314
	89,502	44,419
Amounts received or due and receivable by non-Ernst & Young audit firms for:		
An audit or review of the financial report of the entity	16,073	15,500
	16,073	15,500

28. 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 Customers and semiconductor manufacturers of Chips 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, 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.

	2016 US$	2015 US$
Revenue from external customers		
North America	4,912	-
Europe	144,372	-
Revenue from continuing operations	149,284	-

Customers representing more than 10% of revenues in the current year amounted to $102,682 comprised license revenue of $75,860 (2015:$Nil) and engineering services of $26,822 (2015: $Nil), both of which are located in Europe.

	2016 US$	2015 US$
Non-current assets		
USA	174,153	101,255
Australia	-	2,026
France	2,674,550	-
	2,848,703	103,281

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29. ACQUISTION OF SPIKENET

On 1 September 2016, BrainChip Holdings Ltd completed the acquisition of Spikenet Technology SAS, a France based Artificial Intelligence company pursuant to a Share Sale Agreement dated 25 August 2016.

The purchase consideration comprised the issue of 10,405,488 shares in BrainChip Holdings Ltd and €529,598 cash to the vendors of Spikenet, in exchange for 100% of the issued capital of Spikenet, as noted below:

(a) Purchase Consideration

	US$
BrainChip Holdings Ltd shares issued	10,405,488
Share price of A$0.12 being the share price of BrainChip Holdings on 1 September 2016	0.09
Fair value of shares issued	938,442
Cash paid - €529,598	590,226
Loan from BrainChip Holdings Ltd	139,554
Purchase consideration	1,668,222

(b) Provisional fair value of assets and liabilities acquired

Trade and other receivables	255,116
Inventories	151
Grants receivable (Note 12)	221,837
Other current assets (Note 12)	34,403
Property plant and equipment (Note 13)	11,875
Intangible assets (Note 14)	2,805,458
Non-current other assets	21,924
Overdraft facility acquired	(77,560)
Trade and other payables (Note 15)	(365,754)
Financial liabilities - current (Note 17)	(490,933)
Financial liabilities - non-current (Note 17)	(247,053)
Employee benefits liabilities (Note 16)	(47,157)
Other liabilities (Note 18)	(343,652)
Defined benefit plan (Note 19)	(110,433)
Net assets acquired	1,668,222

From the date of acquisition, Spikenet contributed $150,910 of revenue and $199,115 loss before tax from continuing operations to the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been $386,423 and loss before tax from continuing operations for the Group would have been $4,812,818.
The fair value of trade and other receivables is $255,116. None of the trade and other receivables have been impaired and it is expected that the full contractual amounts can be collected.

(c) Analysis of cash flow on acquisition

Transaction costs of the acquisition (included in cash flows from operating activities)	(80,566)
Acquisition of subsidiary, net of overdraft acquired (included in cash flows from investing activities)	(667,786)
Transaction costs attributable to issuance of shares (included in cash flows from financing activities, net of tax)	(4,644)
Net cash flow on acquisition	(752,996)

The fair value of assets and liabilities acquired has been measured provisionally due to the acquisition having occurred close to the year end.

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30. ACQUISITION OF BRAINCHIP

Acquisition of BrainChip

On 10 September 2015 BrainChip Holdings (formerly Aziana Limited) completed the legal acquisition of BrainChip Inc. via a newly wholly owned Delaware based subsidiary of BrainChip Holdings named AZK Merger Subsidiary Inc. and by way of merger in accordance with Delaware General Corporation Law.

Under the Australian Accounting Standards, BrainChip Inc. was deemed to be the accounting acquirer in this transaction. The acquisition was accounted for as a share based payment by which BrainChip Inc. acquires the net assets and listing status of BrainChip Holdings resulting in the BrainChip Group.

The purchase consideration is summarised as follows:

- the issue of 353 605,500 shares in BrainChip Holdings (legal parent) to the shareholders of BrainChip Inc. in exchange for 100% ownership of the 12,551,938 shares of BrainChip Inc. (exchange ratio of 28.17),
- 46,500,000 Class A Performance Rights upon the achievement of Milestone 1,
- 46,500,000 Class B Performance Rights upon the achievement of Milestone 2,
- 46,500,000 Class C Performance Rights upon the achievement of Milestone 3,
- 46,500,000 Class D Performance Rights upon the achievement of Milestone 4, and
- 6,250,000 options granted 10 September, exercisable at AUD$0.157 on or before 10 September 2019.

A further 3,000,000 of each of Classes A, B, C, and D Performance Rights were set aside for issue at the Board's discretion. Any of these Performance Rights not issued by 30 June 2018 will be issued to Peter van der Made (60%) and Robert F. Mitro Trust (40%), subject to obtaining all required regulatory and shareholder approvals.

The purchase consideration is deemed to have a value of US$26,709,755 determined as follows:

(a) Purchase consideration

Purchase consideration	US$
Shares on issue	229,694,094
Shares issued for the conversion of notes	18,575,658
Total number of equity instruments	248,269,752
Share price of BrainChip Holdings on the date of Acquisition (AUD$0.15)	0.108
Purchase consideration	26,709,755

(b) Fair value of assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of BrainChip Holdings as at the date of Acquisition are:

	US$
Assets	
Cash and cash equivalents [(1)]	2,627,240
Trade receivables	652,451
Receivables from BrainChip Inc.	190,210
Prepayments	10,283
Property plant and equipment	4,805
	3,484,989
Liabilities	
Trade and other payables	330,879
Provisions	20,436
Payables to third parties	35,861
	387,176
Total identifiable assets at fair value	3,097,813

[(1)] Cash and cash equivalents comprises cash of US$2,327,055 and cash previously received upon the issuance of an Option fee of US$300,185 in accordance with the original Heads of Agreement.

(c) Excess of deemed purchase consideration over net assets acquired

Deemed consideration	26,709,755
Net assets of BrainChip Holdings acquired	(3,097,813)
Listing expense	23,611,942

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31. 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 resulted in the disposal of Blue Sky Corporation and its wholly owned subsidiaries and released BrainChip from 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$	2015 US$
Revenue from the sale of exploration tenements	54,517	-
Impairment of exploration expenses	(157,990)	(64,038)
Impairment of receivable from third parties (note 11)	(120,281)	-
Impairment of advance to third parties	(54,000)	-
Operating loss from discontinued operations	(277,754)	(64,038)
Income tax expense	-	-
Operating loss attributable to discontinued operations after tax	(277,754)	(64,038)
Gain on sale and dissolution of subsidiaries	26,725	-
Income tax expense	-	-
Gain on sale and dissolution of subsidiaries after tax	26,725	-
Loss attributable to discontinued operations	(251,029)	(64,038)

(b) Cash flow information for the period 1 January 2016 to 21 December 2016, and the comparative year (10 September 2015 to 31 December 2015)

	2016 US$	2015 US$
Net cash outflow from operating activities	-	-
Net cash inflow from investing activities	287,052	70,326
Net cash outflow from financing activities	-	-
Net cash flow	287,052	70,326

Consideration received (A$1)	1
Carrying amount of net liabilities sold	26,724
Gain on disposal	26,725
Income tax expense	-
Gain on disposal after income tax	26,725

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32. RELATED PARTY DISCLOSURES

(a) Subsidiaries

The consolidated financial statements include the financial statements of BrainChip Holdings and the subsidiaries listed in the following table:

Name	Country of incorporation	Beneficial interest 2016	2015
BrainChip Inc. [(1)]	USA	100%	100%
AZK Merger Subsidiary Inc. [(2)]	USA	-	-
Spikenet Technology SAS [(3)]	France	100%	-
Aziana Exploration Corporation	British Virgin Islands	100%	100%
Eternal Resources Pty Ltd	Australia	100%	100%
Subsidiary companies of Aziana Exploration Corporation			
Indian Ocean Minerals Investment Corporation	Mauritius	100%	100%
Blue Sky Corporation [(5)]	Mauritius	-	100%
Subsidiary companies of Blue Sky Corporation			
Laka Minerals SARL [(5)]	Madagascar	-	100%
Tanety Lava SARL [(5)]	Madagascar	-	100%
Tanety Zina SARL [(5)]	Madagascar	-	100%
Esama Minerals SARL [(5)]	Madagascar	-	-
Subsidiary companies of Indian Ocean Minerals Investment Corporation			
Esama Minerals SARL [(4),(5)]	Madagascar	-	100%
Subsidiary companies of Eternal Resources Pty Ltd			
Eternal Resources (USA) Inc. [(6)]	USA	-	100%
Subsidiary companies of Eternal Resources (USA) Incorporated			
Eternal Resources (USA) LLC [(6)]	USA	-	100%

(1) *BrainChip Holdings Limited holds 100% of the shares of BrainChip Inc. effective from 10 September 2015.*

(2) *AZK Merger Subsidiary Inc. was incorporated as a wholly owned subsidiary of BrainChip Holdings and merged with BrainChip Inc. in accordance with the Delaware Merger Law at the time of the Acquisition.*

(3) *Spikenet Technology SAS was acquired on 1 September 2016.*

(4) *Esama Minerals SARL shares were transferred to Blue Sky Corporation on 28 October 2016.*

(5) *Blue Sky Corporation, and its wholly owned subsidiaries were sold to a third party on 21 December 2016.*

(6) *Eternal Resources (USA) Inc. and Eternal Resources (USA) LLC were dissolved on 30 November 2016.*

(b) Ultimate legal parent

BrainChip Holdings Ltd is the ultimate parent entity.

32. RELATED PARTY DISCLOSURES (continued)

(c) Key Management Personnel compensation

Refer to the Remuneration Report contained in the Directors' Report for detailed remunerations disclosures of payments to each member of the Group's Key Management Personnel for the year ended 31 December 2016.

Total remuneration paid to KMP of the Group during the year are as follows:	Consolidated Entity	
	2016	2015
	US$	US$
Short-term employee benefits [(1)]	800,997	780,963
Termination benefit [(2)]	-	216,330
Share-based payment	320,299	1,205,750
	1,121,296	2,203,043

(1) Consulting fees payable to Mr Bolto and Ms Stein as at 31 December 2016 totalled US$25,291 and US$7,226 respectively (31 December 2015: US$Nil). Director fees payable to Dr Osseiran as at 31 December 2016 totalled US$Nil (31 December 2015: US$11,492). The comparative has been amended to include all applicable annual leave benefits.

(2) Accrued termination salary payable to Mr Mitro as at 31 December 2015 totalled US$163,611.

Related party transactions with KMPs of the Group are as follows:

The Group accrued unclaimed travel expenses related to business travel incurred by Mr Lou DiNardo of US$56,000 (31 December 2015: US$Nil).

During the reporting year ended 31 December 2015, the following related party transactions occurred between Mr Robert Mitro and BrainChip Inc.:

- On 3 January 2014 Mr Mitro advanced US$100 to BrainChip Inc. This amount was repaid on 2 December 2015;
- Convertible notes were issued to Mr Mitro in exchange for cash in the amounts of US$50,000 on 3 January 2014, US$50,000 on 13 June 2014, and US$190,000 on 2 January 2015. Interest was payable on the convertible notes at 4% pa. These notes and accrued interest were extinguished through the issue of BrainChip Inc. shares on 10 September 2015.
- Accrued unclaimed travel expenses in BrainChip Inc. of US$24,723 as at 31 December 2015.

(d) Transactions with other related parties

Mr Peter Cook is a director of Metals X Limited, which was a director-related entity up to the date of Mr Cook's resignation as a Director of BrainChip Holdings (10 September 2015). The following related party transactions occurred between Metals X Limited and the BrainChip Holdings during the prior reporting period:

- Accounting, secretarial and administrative services were provided to BrainChip Holdings totalling A$127,747 up to 10 September 2015.
- BrainChip Holdings entered into a secured convertible loan agreement with Metals X Limited for A$250,000, interest bearing at 12% and maturing in October 2015, as announced on the ASX 1 April 2015. The loan, plus interest of A$13,233, was extinguished via the conversion of 13,161,644 shares on 24 August 2015.

(e) Loans to/from related parties

At the time of the acquisition of Spikenet had a loan payable to a shareholder of Spikenet of €5,000 (US$5,268). This loan was repaid in December 2016.

There were no outstanding loans arising to or from related parties (31December 2015: $Nil).

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33. PARENT ENTITY INFORMATION

	2016 US$	2015 US$
Information relating to BrainChip Holdings		
Current assets	3,178,824	111,132
Non-current assets	2,599,230	1,727,306
Total assets	5,778,054	1,838,438
Current liabilities	(268,948)	(101,868)
Non-current liabilities	-	-
Total liabilities	(268,948)	(101,868)
Net assets	5,509,106	1,736,570
Issued capital	59,252,449	52,506,305
Other contributed equity	2,025,617	2,025,617
Accumulated losses	(80,494,371)	(75,668,571)
Share based payment reserve	23,636,726	21,784,534
Option premium reserve	480,731	480,731
Foreign currency translation reserve	858,982	858,982
Other reserves	(251,028)	(251,028)
Total shareholders' equity	5,509,106	1,736,570
Net loss of the parent entity [1]	4,849,836	72,838,245
Total comprehensive loss of the parent entity	4,849,836	72,838,245

[1] At the reporting date investments and loans receivable from controlled entities at cost totalled US$6,493,357 and US$805,488 respectively. An impairment of US$4,698,615 (2015: US$47,924,683) was recognised for the year ended 31 December 2016 of which US$804,488 (2015: US$6,577,764) was recognised against the loans receivable, and US$3,894,127 (2015: US$41,346,919) was recognised against the investments.

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
Nil

Contingent liabilities of the parent entity
Nil

Contractual commitments by the parent entity for the acquisition of property, plant or equipment
Nil

Director's Declaration

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

In the opinion of the Directors:

(a) the financial statements and notes of the Company and of the Consolidated Entity are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 31 December 2016 and of their performance for the year ended on that date; and

(ii) complying with the Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001; and

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(b) and;

(c) 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

(d) 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 financial year ended 31 December 2016.

On behalf of the Board.

E L (Mick) Bolto
Chairman

Perth, 30 March 2017

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Building a better working world

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

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

Report on the audit of the financial report

Opinion

We have audited the financial report of BrainChip Holdings Limited ("the Company"), including its subsidiaries ("the Group"), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

In our opinion the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's consolidated financial position as at 31 December 2016 and of its consolidated financial performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act* 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 *Code of Ethics for Professional* Accountants ("the Code") that are relevant to our audit of the financial report in Australia; and we have fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note 2 to 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.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matter described below to be the key audit matters to be communicated in our report.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial report.

Share-based payments

Why significant	How our audit addressed the key audit matter
As disclosed in note 23 *share-based payments* to the financial statements, the Group has awarded share options and performance rights to management and other staff during the year. The Group calculated the related expense, using an external expert to determine the fair value of the options and performance rights. This matter was significant to our audit because the calculations are complex and the determination of fair value involves estimates.	We involved our valuation specialists to assess the Group's calculation of the expense associated with the options and performance rights issued during the year, in particular the assumptions used in determining the fair value of the options on the grant date. We assessed the work of the Group's external expert and the Group's assumptions used in the share based payment expense calculations. In addition, we assessed the independence and the competence of the external expert. We assessed the adequacy of the disclosures included in note 23 to the financial statements and whether the classifications and disclosures were in accordance with the applicable Australian Accounting Standards.

Information Other than the Financial Statements and Auditor's Report

The directors are responsible for the other information. The other information comprises the information in the Company's Annual Report for the year ended 31 December 2016, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial report

The directors of the company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors

- conclude on the appropriateness of the directors' use of the going concern basis of accounting in the preparation of the financial report. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the disclosures in the financial report about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial report. However, future events or conditions may cause an entity to cease to continue as a going concern

- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation

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- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the remuneration report

Opinion on the remuneration report

We have audited the remuneration report included in pages 15 to 26 of the directors' report for the year ended 31 December 2016.

In our opinion, the remuneration report of BrainChip Holdings Limited for the year ended 31 December 2016, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Teale

Philip Teale
Engagement Partner
Perth
30 March 2017

Security Holder Information as at 24 March 2017

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(a) Top 20 Quoted Shareholders

Top 20 Quoted Shareholders	%	Number of shares
MR PETER AJ VAN DER MADE	19.96	161,305,508
MR ROBERT F MITRO <ROBERT F MITRO LIVING A/C>	13.76	111,202,500
MR ANIL SHAMRAO MANKAR & MRS MEENA ANIL MANKAR	13.50	109,135,000
METALS X LIMITED	6.45	52,088,889
NERONA PTE LTD	5.64	45,555,500
MR PAUL GLENDON HUNTER	1.24	10,000,000
MS CRISTINA M MITRO	1.24	10,000,000
MS VELIA MITRO	1.24	10,000,000
CITICORP NOMINEES PTY LIMITED	1.16	9,345,997
D'YQUEM INVESTMENTS LIMITED	1.14	9,198,000
CROSSFIELD INTECH NOMINEES PTY LTD	1.04	8,438,500
MR ADAM OSSEIRAN + MRS REBECCA OSSEIRAN-MOISSON	1.04	8,438,500
J P MORGAN NOMINEES AUSTRALIA LIMITED	0.65	5,285,636
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	0.62	5,046,944
HUNG {DO-DUY}	0.62	5,030,685
MR NEIL ROBERT RINALDI	0.57	4,582,500
PETROLEUM MANAGEMENT INTERNATIONAL PTY LTD	0.49	4,000,000
ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	0.44	3,538,602
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	0.38	3,043,250
MR DAMIEN TERENCE MICHAEL RHODES	0.35	2,800,000
Total	**71.52%**	**578,036,011**

(b) Distribution of quoted ordinary shares

Size of parcel	Number of share holders	Number of shares
1 to 1,000	112	18,955
1,001 to 5,000	897	2,969,588
5,001 to 10,000	708	5,735,836
10,001 to 100,000	1,819	67,433,007
100,001 to 1,000,000,000	456	732,043,040
Total	**3,992**	**808,200,426**

(c) Number of holders with less than a marketable parcel of ordinary shares	204	160,166

(d) Substantial Shareholders

Substantial Shareholders	%	Number of shares
MR PETER AJ VAN DER MADE	19.96	161,305,508
MR ROBERT F MITRO <ROBERT F MITRO LIVING A/C>	13.76	111,202,500
MR ANIL SHAMRAO MANKAR & MRS MEENA ANIL MANKAR	13.50	109,135,000
APAC RESOURCES LIMITED AND RELATED BODIES CORPORATE	6.74	54,445,177
NERONA PTE LTD	5.64	45,555,500

(1) APAC has indirect holdings through its interest in BNP Paribas Nominees Pty Ltd, 384,066 shares and Metals X Ltd, 54,061,111 shares.

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(e) Voting Rights

The voting rights for each class of security on issue are:

Ordinary fully paid shares

Each ordinary shareholder is entitled to one vote for each share held.

Options

The holders of options have no rights to vote at a general meeting of the Company.

Performance Rights

The holders of performance rights have no rights to vote at a general meeting of the Company.

(f) Unquoted Equity Securities

Number of Options	Exercise Price A$	Expiry Date	Number holders
6,250,000	15.7 cents	10/09/2019	1
11,000,000	22.5 cents	30/11/2018	3
5,550,000	24.0 cents	21/12/2020	7
250,000	36.0 cents	21/12/2020	1
1,500,000	23.0 cents	01/02/2021	1
50,000,000	22.5 cents	30/09/2021	1
7,000,000	18.0 cents	1/11/2019	1
4,000,000	15.0 cents	10/10/2021	1
2,000,000	27.0 cents	10/10/2021	1
4,000,000	24.0 cents	22/12/2021	1
3,000,000	24.5 cents	16/02/2022	1
3,000,000	24.5 cents	31/12/2022	1
1,000,000	33.0 cents	16/02/2022	1
100,000	32.0 cents	16/02/2022	1

Number of Performance Rights	Class	Milestone	Number holders
1,000,000	Class B	Refer note 20(e)	1
6,500,000	Class C	Refer note 20(e)	2
48,500,000	Class D	Refer note 20(e)	8

(g) Restricted Securities

Securities	Number	Exercise Price A$	Expiry Date	Restricted until	Number holders
Shares	2,500,000	-	-	1/04/2017	2
Performance Rights	1,000,000	-	10/09/2020	8/07/2017	1
Shares	361,881,894	-	-	10/09/2017	10
Performance Rights	2,000,000	-	21/12/2020		1

(h) Statement pursuant to ASX Listing Rule 4.10.19

Pursuant to the requirements of ASX Listing Rule 4.10.19, during the year ended 31 December 2016, the Company has used the cash and assets in a form readily convertible to cash that it had at the time of re-admission to ASX in a way consistent with its business objectives.