BrainChip Holdings Ltd

Annual Report 2017

Board of Directors

Eric (Mick) Bolto (Non-Executive Chairperson)
Louis DiNardo (Executive Director and CEO)
Julie H. Stein (Non-Executive Director, Audit Committee Chair)
Adam Osseiran (Non-Executive Director)
Emmanuel Hernandez (Non-Executive Director, Remuneration Committee Chair)

Company Secretary

Naomi Dolmatoff

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Auditors

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

Share Registry

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Securities Exchange

Australian Securities Exchange Limited
Exchange Plaza, 2 The Esplanade, Perth WA 6000
Codes: BRN

ABN: 64 151 159 812

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Letter from the CEO

To our Valued Shareholders,

The year ending 31 December 2017 was a year of great progress for BrainChip. Our team has executed well on all strategic and tactical plans. The results of this performance establish a foundation for growth and the building of an enduring brand for BrainChip in the Artificial Intelligence (AI) market.

During the year we assembled a team that has deep experience; Robert Beachler joined the Company as Senior Vice President of Marketing and Business Development and Ryan Benton joined the team as Chief Financial Officer. Peter van der Made has complete focus on research and Anil Mankar has built a very strong engineering team in Toulouse, France and Aliso Viejo, California. We have established a sales and marketing presence in Europe, North America and Australia. We have new engagements with industry leaders in the gaming and the large-scale storage industries. Our License and Development Agreement with Gaming Partners International aligns us with a leader in the gaming industry and establishes a long-term revenue sharing model. Our recent announcement with Quantum Corporation aligns us with a leader in mass storage that has a large presence in the surveillance, media and entertainment markets. Our sales pipeline is robust and continues to grow across multiple large markets. Our sales plan is to leverage these Original Equipment Manufactures (OEMs) while we continue to engage directly with end users. Finally, we have strengthened our board with the addition of Emmanuel Hernandez, who is a seasoned Silicon Valley executive and public company board member.

We are well funded, following the completion of two capital raises during 2017 and the Company is in a position to build a sustainable business in select targets markets for Civil Surveillance and Public Safety as well as Commercial Surveillance. Most importantly we are now poised to further develop and commercialise the Akida™ Neuromorphic System-on-Chip (NSoC) which combines the JAST learning rules and neural architecture with the fundamental intellectual property developed in our spiking neural network design.

During 2017 we introduced BrainChip Studio and BrainChip Accelerator. Our products have received multiple awards and have been highlighted at trade shows and in trade publications. Our strategy is to capitalise on our video analytic solutions in Civil and Commercial Surveillance while we engage with leaders in the automotive, financial technology, cybersecurity and Internet-of-Things (IoT) industries to ensure success in the Akida™ product development and commercialization.

In short, we have a seasoned team, marquee customers and industry recognised products. We now pursue the next phase of our vision, which is to provide a best-in-class AI processor based on our proprietary technology. The Operations Review in our report highlights in detail the accomplishments that occurred in 2017. Our shareholders have been invaluable in supporting our efforts and we look forward to commercial success in 2018.

Sincerely,

Louis DiNardo
President and Chief Executive Officer
BrainChip

Directors' Report

The directors submit their report of the consolidated entity, being BrainChip Holdings Ltd ("BrainChip Holdings" or the "Company" or "BrainChip") and its controlled entities ("Group" or "Consolidated Entity"), for the year ended 31 December 2017.

DIRECTORS

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

Eric (Mick) Bolto	Non-Executive Chairman
Louis DiNardo	Executive Director
Peter van der Made	Executive Director (resigned 1 January 2018)
Julie H. Stein	Non-Executive Director
Adam Osseiran	Non-Executive Director
Emmanuel Hernandez	Non-Executive Director (appointed 9 July 2017)

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:

Naomi Dolmatoff	appointed 6 October 2017
Mark Pitts	appointed 9 January 2017, resigned 6 October 2017
Nerida Schmidt	resigned 9 January 2017

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the reporting period the Group dissolved the following wholly-owned subsidiaries:

- Eternal Resources Pty Ltd on 16 February 2017;
- Indian Ocean Minerals (Corporation) on 31 March 2017; and
- Aziana Exploration Corporation on 29 November 2017.

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

PRINCIPAL ACTIVITIES

The principal activity of the Group is a developer of software and hardware accelerated solutions for advanced artificial intelligence (AI) and machine learning applications with a primary focus on the development of its BrainChip Studio and related software products, BrainChip Accelerator and AKIDA™ Neuromorphic Processor Unit hardware products.

EMPLOYEES

The Consolidated Entity employed 26 employees at 31 December 2017 (2016: 21).

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

Overview

The Group made a net loss after income tax for the year of $13,774,013 (2016: $5,098,102).

The increase in the loss from the prior year was mainly attributable to:

1) Share based payment expense of $6,941,360 (2016: $1,075,382), which represents the portion of the vesting expense of options and performance rights issued to directors, employees and consultants recognised during the reporting period, increased from the previous year due to the hiring of additional senior executives, directors, and staff and the expected achievement of performance milestones.
2) Administrative expenses of $4,996,259 (2016: $2,556,319) increased on a year-over-year basis principally a result of increased personnel expenses, consulting and professional costs and reflective of management's effort to reach BrainChip's operating milestones; and
3) Amortisation of intangibles $1,108,423 (2016: $441,796) increased from the previous year reflecting a full year of amortisation after the acquisition of subsidiary BrainChip SAS in the prior year.

At the end of the financial year the Group had consolidated net assets of $18,066,470 (2016: $5,266,618), including cash reserves of $16,049,330 (2016: $3,593,951).

The Group completed two capital raisings during the year resulting in cash injections totalling $20,888,073 (2016: $7,035,885) before capital raising costs. Management has utilised these funds to further advance the research, development, and commercialisation of BrainChip products and technology and to fund the extinguishment of various loans and advances held by BrainChip SAS.

Operational Highlights

During 2017, the Company achieved a number of key milestones including:

Commercial developments and achievements

- In March 2017, the Company successfully integrated the Spikenet Technologies Neural Network in a Field Programmable Gate Array ("FPGA") hardware platform.
- In March 2017, the Company acquired an exclusive license to learning rules and algorithms developed by CERCO (Brain and Cognition Research Center), a preeminent public research lab based in Toulouse, France. The "JAST" technology significantly enhanced the Company's existing neural network design.
- In May 2017, the Company announced that its Game Statistics and Game Outcome solutions had been placed in a field trial at a leading casino in Las Vegas, Nevada.
- In June 2017, the Company announced a collaboration with Safran, a multi-billion dollar industrial technology original equipment manufacturer ("OEM") for development of a machine vision inspection system.
- In July 2017, the Company launched BrainChip Studio Software, an integrated software solution for pattern matching and facial classification.
- In August 2017, the Company announced the commencement of development of AKIDA™, a system-on-a-chip Neuromorphic Processor Unit.
- In August 2017, the Company's BrainChip Studio product was awarded 'New Product of the Year for Video Analytics' by *Security Today's* panel of independent judges.
- In September 2017, the Company launched BrainChip Accelerator, the first Neuromorphic Hardware solution for facial and pattern recognition.
- In October 2017, the Company was selected to provide video analytics in a new large-scale French municipal deployment.
- In October 2017, the Company shipped its first BrainChip Accelerator card to a major European automobile manufacturer.
- In November 2017, the Company's BrainChip Accelerator product was selected as the winner of the Milipol Innovation Award, which recognises companies with the most outstanding technology solutions related to homeland security.

Key human resource additions

- In March 2017, the Company appointed Robert Beachler, a 30-year technology veteran with prior public and private company experience in marketing, business development and operations, as Senior Vice President of Marketing and Business Development.
- In July 2017, the Company appointed Emmanuel Hernandez, a 40-year technology veteran with public and private company operating and board experience, to the Board of Directors.
- In August 2017, the Company appointed Thomas Stengel, a 25-year technology veteran with experience driving revenue growth at major OEMs, as Vice President of America's Business Development.
- In August 2017, the Company appointed Ryan A. Benton as Chief Financial Officer ("CFO") of BrainChip Inc. and subsequently, in October 2017, Mr. Benton was appointed as CFO of BrainChip Holdings Ltd.
- In November 2017, the Company announced the appointment of Greg Ryan as Director of Sales and Business Development for Australia.

Key financing milestones

- In June 2017, the Company raised A$6.0 million, before fees, through a share placement to institutional and sophisticated investors.
- In November 2017, the Company raised A$21.5 million, before fees, through a share placement which included numerous institutional and sophisticated investors.

Subsequent to the reporting period, in January 2018, the Company and Gaming Partners International Corporation entered into a licensing, development and revenue sharing agreement related to the joint development of video analytic products for worldwide deployment in casino currency security, game table operations and player behaviour applications.

Risk

Factors that may impact sales growth and Company performance include commercial viability and delays of new products and technology, delays in the establishment of an effective sales organisation and the global economy. Some of the risks related to this include:

- As the Company develops products for more advanced technologies, the commercial viability of new products increases. This risk will be mitigated through in-depth market research, as well as continued investment in R&D and a nimble approach to product development to keep pace with market requirements.
- The timing of new product development is a key factor in sales growth. New technology development carries inherent risks of delay and quality. Collaboration with key customers and partners regarding technology requirements for each release and disciplined project management and quality assurance processes mitigate these risks.
- Sales of software and hardware solutions requires lengthy lead times and sophisticated engagement with customers. Failure to recruit, hire and train the proper direct and representative sales force in a timely and effective manner could reduce revenue growth. This risk is mitigated through the due diligence process prior to appointing a new sales representative or reseller and comprehensive training, upon appointment and continuously thereafter.
- New financial risks can arise from expanding the geographic reach of the company, broadening the customer base through acquired product lines or new services, and inheriting new or unique contract terms through partnerships and joint development agreements.

The Company's performance and success is also dependent upon our ability to effectively identify, protect, defend, and in certain instances keep secret, intellectual property. Some of the risks related to this include:

- In the future we may be subject to intellectual property or other claims, which are costly to defend, could result in significant damage awards, and could limit our ability to use certain technologies in the future. Regardless of the merits of the claims, intellectual property claims are often time consuming, expensive to litigate or settle, and cause significant diversion of management attention. To the extent such intellectual property infringement claims are successful, they may have an adverse effect on our business, consolidated financial position, results of operations, or cash flows.

- Our patents, trademarks, trade secrets, copyrights, and other intellectual property rights are important and valuable assets for us. Various events outside of our control pose a threat to our intellectual property rights, as well as to our products and technologies. For example, effective intellectual property protection may not be available or feasible in every country in which our products and services could be distributed. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective.
- Although we seek to obtain patent protection for our innovations, it is possible we may not be able to protect some of these innovations. Moreover, we may not have adequate patent or copyright protection for certain innovations that later turn out to be important. Furthermore, there is always the possibility, despite our efforts, that the scope of the protection gained will be insufficient or that an issued patent may be deemed invalid or unenforceable
- We also may seek to maintain certain intellectual property as trade secrets. The secrecy could be compromised by outside parties, or by our employees, which could cause us to lose the competitive advantage resulting from these trade secrets.

Other key risks the Company has identified include:

- Although we invest significant resources in information technology measures, if breached, we may incur significant legal and financial exposure. Security breaches expose us to a risk of loss of this information, litigation, and potential liability. Our security measures may also be breached due to employee error, malfeasance, system errors or vulnerabilities, or otherwise.
- The international operations expose the Group to additional risks that could harm our business, operating results, and financial condition. Changes in local political, economic, regulatory, tax, social, and labor conditions, may adversely harm our business.
- We rely on highly skilled personnel and, if we are unable to retain or motivate key personnel, hire qualified personnel, or maintain our corporate culture, we may not be able to successfully execute our business plans. Our performance largely depends on the talents and efforts of highly skilled individuals. Our future success depends on our continuing ability to identify, hire, develop, motivate, and retain highly skilled personnel for all areas of our organisation. Competition for qualified employees in our industry is intense. In addition, our compensation arrangements, such as our equity award programs, may not always be successful in attracting new employees and retaining and motivating our existing employees. Our continued ability to execute on our strategies effectively depends on our ability to attract new employees and to retain and motivate our existing employees.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

It is expected that the Group will further develop its BrainChip Studio and related software products and will progress the development of its AKIDA™ Neuromorphic Processor Unit product.

SHARE ISSUES

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

- 40,000,000 shares issued on 5 June 2017 at an issue price of A$0.15 per share pursuant to a private placement to institutional and sophisticated investors raising A$6 million;
- 1,000,000 shares issued on 29 September 2017 and 500,000 shares issued on 7 November 2017 on conversion of Class B and C Performance Rights, milestones of which had been attained and announced previously, and
- 119,380,063 shares issued on 7 November 2017 at an issue price of A$0.18 per share pursuant to a private placement to institutional and sophisticated investors raising A$21.5 million.

SHARE OPTIONS

As at the date of this report, there were 198,950,000 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:

(a) Unlisted options issued to Employees pursuant to the Company's Long Term Incentive Plan:
- 1,000,000 options exercisable at A$0.33 per share before 16 February 2022, issued on 16 February 2017 (forfeited during 2017);
- 100,000 options exercisable at A$0.32 per share before 16 February 2022, issued on 16 February 2017;
- 20,000,000 options exercisable at A$0.275 per share before 31 March 2022, issued on 31 March 2017. 12,000,000 of these options have specific performance criteria linked to the attainment of the options;
- 27,000,000 options exercisable at A$0.16 per share, issued on 11 August 2017. 25% of the options vest on each anniversary date of the offer date (9 August 2017) so long as continuous service is provided and expire five years from the issue date;
- 500,000 options exercisable at A$0.17 per share before 14 December 2022, issued on 14 December 2017;
- 5,500,000 options exercisable at A$0.185 per share before 14 December 2022, issued on 14 December 2017, and
- 5,100,000 options exercisable at A$0.19 per share before 13 March 2028, issued on 13 March 2018.

(b) Unlisted options issued to Consultants pursuant to the Company's Long Term Incentive Plan:
- 6,000,000 unlisted options exercisable at A$0.32 per share issued on 16 February 2017. 50% of the options vested immediately and expire on 16 February 2022 and 50% vested at 31 December 2017 and expire on 31 December 2022;
- 500,000 options exercisable at A$0.225 per share before 14 December 2022, issued on 14 December 2017;
- 400,000 options exercisable at A$0.195 per share before 14 December 2022, issued on 14 December 2017; and
- 2,000,000 options exercisable at A$0.19 per share before 13 March 2028, issued on 13 March 2018.
- 1,300,000 options exercisable at A$0.22 per share before 13 March 2028, issued on 13 March 2018.

(c) Unlisted options issued to Directors on 8 June 2017 as approved by shareholders on 31 May 2017:
- 8,000,000 options exercisable at A$0.185 per share. 25% of the options vest on each anniversary date of the offer date (31 January 2017) so long as continuous service is provided and expire five years from each vesting date; and
- 7,000,000 unlisted options exercisable at A$0.245 per share. 25% of the options vest on each anniversary date of the offer date (1 February 2017) so long as continuous service is provided and expire five years from each vesting date.

(d) Unlisted options issued to Directors pursuant to Listing Rule 10.11 and exception 10.12(6):
- 8,000,000 options exercisable at A$0.165 per share on 10 July 2017. 25% of the options vest on each anniversary date of the offer date (7 July 2017) so long as continuous service is provided and expire five years from each vesting date.

(e) Unlisted options issued to institutional and sophisticated investors 5 June 2017 per Listing Rule 7.1:
- 20,000,000 unlisted options exercisable at A$0.23 per share before 31 May 2020 issued on 5 June 2017 as free attaching options as part of the Placement to institutional and sophisticated investors.

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:

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

PERFORMANCE RIGHTS

As at the date of this report, there were 56,500,000 Performance Rights on issue.

The following Performance Rights were issued under the Company's Long Term Incentive Plan during the financial year and to the date of this report:

- 500,000 Class B Performance Rights to employees on 31 March 2017;
- 1,000,000 Class D Performance Rights to employees on 31 March 2017; and
- 500,000 Class B Performance Rights to employees on 11 August 2017.

The following Performance Rights, the milestones of which had been attained and announced previously, were converted during the financial year:

- 1,000,000 Class B Performance Rights on 29 September 2017; and
- 500,000 Class C Performance Rights on 7 November 2017.

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SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Subsequent to the reporting period, in January 2018, the Company and Gaming Partners International Corporation ("GPI") entered into a licensing, development and revenue sharing agreement related to the joint development of video analytic products for worldwide deployment in casino currency security, game table operations and player behaviour applications. The terms of the agreement provide for a total of US$500,000 in license fees, a non-recurring engineering fee of US$100,000 for products developed under the agreement, and a long-term revenue sharing for the sale of the developed technology.

On 16 March 2018 the Company requested a waiver of Listing Rule 6.23.3 from the ASX to permit the Company to seek shareholder approval to extend the expiration dates of 45,800,000 unquoted options from between three to five years after the date of grant to ten years after the date of grant. If ASX grants the waiver the Company will seek shareholder approval for the extension of the expiration dates at its Annual General Meeting.

No other 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.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth of State Law.

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 2017 Corporate Governance Statement dated 28 March 2018 released to the ASX and posted on the Company website which outlines the Group's approach to corporate governance and sets out the key charters and polices of the Group.

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 as a member on the Company's Audit Committee and Remuneration 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 Chief Executive Officer

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. 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 in the past three years has held a public company directorship as President and Chief Executive Officer (CEO) of NYSE-listed Exar Corporation and as a non-executive director of NASDAQ-listed Quantum Corporation.

Peter van der Made – Executive Director (Appointed 10 September 2015, resigned 1 January 2018)

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.

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

Julie H. Stein, BA, MA, MBA, NACD Leadership Fellow – Non-Executive Director (Appointed 15 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, holds a Certificate in Cyber Security Management from the Software Engineering Institute of Carnegie Mellon University and she also holds a Certificate from Stanford University Directors' College. Regarding work in the boardroom, Ms Stein sits on the Audit Committee serving the International Board of the not-for-profit JDRF International organisation. Ms Stein also serves as the Chair of the Company's Audit Committee and is a Member of the Company's Remuneration Committee.

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

INFORMATION ON DIRECTORS (Continued)

Names, qualifications, experience and special responsibilities (continued)

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 served as a member on the Company's Audit Committee during the year until 31 August 2017.

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

Emmanuel Hernandez – BSC, CPA, MBA - Non-Executive Director (Appointed 7 July 2017)

Mr. Hernandez is a highly regarded Silicon Valley technology executive with over 40 years of operating and board member experience. His professional resume includes key roles with some of Silicon Valley's largest and most successful technology companies including National Semiconductor (acquired by Texas Instruments in 2012), Cypress Semiconductor and ON Semiconductor (NASDAQ: ON).
Mr. Hernandez began his career with National Semiconductor where he served in various finance capacities between 1976-1993. Subsequently, he joined Cypress Semiconductor where he served as EVP Finance and Administration and Chief Financial Officer ("CFO") between 1993-2004. Following Cypress, Mr. Hernandez joined SunPower Corporation where he served as CFO between 2005-2008. Mr. Hernandez's executive successes have led him to be a highly sought after operating consultant and board member including having been an operating Partner at Khosla Ventures, a prominent Silicon Valley venture capital firm.
Mr. Hernandez is currently a Director of ON Semiconductor having been appointed at the beginning in 2002. Other previous board service includes SunEdison, Aruba Networks, an enterprise networking company acquired by Hewlett Packard Enterprise in 2015, EnStorage, Inc., a private company that develops flow battery/storage technology for the renewable energy industry, Soraa, Inc., a private company that is developing LED and laser technology and Integration Associates Incorporated which was acquired by Silicon Labs in 2008. Mr Hernandez is Chair of the Company's Remuneration Committee and also serves as a member of the Audit Committee.

Mr Hernandez held the following directorships during the past 3 years:

- ON Semiconductor Corp.; Audit Committee Chair, Governance & Nominating Committee member – 20 November 2002 to present
- SunEdison, Inc.; Executive Chairman, Audit Committee member – 12 May 2009 to 29 December 2017
- Aruba Networks, Inc – Audit Committee Chair - 3 July 2006 to 19 May 2015

COMPANY SECRETARIES

Naomi Dolmatoff, BCom (Finance), **AGIA**, **ACIS** - (Appointed 6 October 2017)

Ms Dolmatoff is an experienced Company Secretary employed with Company Matters Pty Ltd, a company that provides company secretarial and corporate governance services to a range of ASX listed, private and not-for-profit clients. Naomi has worked with ASX listed entities in the financial services and mining and resources industries. Naomi holds a Bachelor of Commerce (Finance) with distinction from Curtin University and a Graduate Diploma in Applied Corporate Governance. Ms Dolmatoff is also an Associate of both The Governance Institute of Australia and The Institute of Chartered Secretaries and Administrators (UK).

Mark Pitts, BBus FCA GAICD - (Appointed 9 January 2017, resigned 6 October 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 the corporate advisory firm Endeavour Corporate providing company secretarial support, financial services, governance and compliance advice to a number of public companies.

Nerida Schmidt, BCom, CPA, CSA, FFin (Appointed 14 December 2015, resigned 9 January 2017)

Ms Schmidt holds a Bachelor of Commerce from the University of Western Australia, is a Certified Practicing 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 the Company were:

Director	Fully Paid Ordinary Shares	Options over Ordinary Shares	Performance Rights
E Bolto (3)	-	7,900,000	-
L DiNardo	-	50,000,000	2,000,000
P Van der Made (1)	161,305,508	-	19,500,000
J Stein	-	8,000,000	-
A Osseiran (2)	8,438,500	6,000,000	900,000
E Hernandez	-	8,000,000	-
Total	**169,744,008**	**79,900,000**	**22,400,000**

(1) 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 600,000 Class B 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(d). Mr van der Made resigned as a director on 1 January 2018 but was included above for disclosure purposes.
(2) Held by Adam Osseiran and Rebecca Osseiran-Moisson ATF the Osseiran Family Trust.
(3) 4,000,000 unlisted options are held by Eric Lindsay and Kerry Anne Well ATF Bolto Superannuation Fund.

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 [1]		Remuneration Committee Meetings [1]	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
E Bolto	6	6	5	5	2	2
L DiNardo	6	6	-	-	-	-
P van der Made	6	5	-	-	-	-
J Stein	6	6	5	5	2	2
A Osseiran	6	6	3	3	-	-
E Hernandez	2	2	2	2	2	2

(1) Directors who are not members of the Audit Committee or Remuneration Committee may attend meetings of the Committees.

Committee Membership

The Board maintained an Audit Committee and established a Remuneration Committee during the year. The membership of each of the Audit Committee and Remuneration Committee is set out below:

Audit Committee	Remuneration Committee
J Stein (Chair)	E Hernandez (Chair)
E Bolto	E Bolto
A Osseiran (member until 31 August 2017)	J Stein
E Hernandez (member commencing 31 August 2017)	

REMUNERATION REPORT (Audited)

This remuneration report for the year ended 31 December 2017 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 (“**KMP**”)

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	Executive Director & Chief Technical Officer	10 September 2015	-
J Stein	Non-Executive Director	14 November 2016	-
A Osseiran	Non-Executive Director	10 September 2015	-
E Hernandez	Non-Executive Director	7 July 2017	-
Other Key Management Personnel			
A Mankar	Chief Operating Officer	1 October 2014	-
R Benton (2)	Chief Financial Officer	9 August 2017	-
R Beachler (3)	Senior Vice President of Marketing and Business Development	5 March 2017	-
N Drossler (4)	VP Finance & Administration	9 December 2016	5 May 2017
H DoDuy (5)	President: BrainChip SAS	1 September 2016	22 December 2017

(1) Mr DiNardo was appointed as a director of BrainChip on 9 December 2016.
(2) Mr Benton was appointed Chief Financial Officer of BrainChip Holding on 20 October 2017 which follows Mr Benton's appointment as Chief Financial Officer of BrainChip's subsidiary, BrainChip Inc. on 9 August 2017
(3) Mr Beachler was appointed Senior Vice President of Marketing and Business Development on 5 March 2017.
(4) Ms Drossler resigned as VP Finance & Administration on 5 May 2017.
(5) Mr DoDuy resigned as President of BrainChip SAS on 22 December 2017.

Subsequent to the end of the year, the following changes in KMP occurred:

- Mr Peter van der Made resigned as an executive director effective 1 January 2018. He remains in his role as Chief Technical Officer and pursuant to his role, the Company continues to consider Mr van der Made as a KMP.

REMUNERATION REPORT (Audited) (Continued)

2. Remuneration governance

Remuneration Committee

During the period, the Board established a Remuneration Committee whose purpose is to assist the Board in establishing policies and practices which enable the Group to attract capable directors and employees and reward employees fairly and responsibly. The Remuneration Committee is specifically tasked with reviewing and making recommendations to the Board in respect of the Group's remuneration policies, short-term and long-term incentives and equity remuneration. The Remuneration Committee is also responsible for overseeing the succession planning of the Chief Executive Officer and other executives and assessing the appropriateness of the nature and amount of remuneration of non-executive directors and executives on a periodic basis.

Remuneration approval process

The Board approves, subject to a recommendation from the Remuneration Committee the remuneration arrangements of the non-executive Directors, executive directors and executives and all awards made under the Company's Long Term Incentive Plan (**LTIP**) which was approved by shareholders in the general meeting on 30 July 2015. Aggregate fees paid to non-executive directors is paid within the total remuneration fee pool approved by shareholders.

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:

- Attract, motivate, and retain quality LTIP participants; and
- Provide incentives which allow LTIP participants to share the rewards of the success of the Company and align their interests with that of shareholders.

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 for non-executive directors 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 was at the Company's 2017 Annual General Meeting, held on 31 May 2017, where shareholders approved an aggregate fee pool of A$400,000 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 and the Remuneration Committee Chair each receive an additional fee of A$15,000 per year.

REMUNERATION REPORT (Audited) (Continued)

4. Executive remuneration arrangements

Remuneration Policy

The Company recognises that if it is to achieve its goals, it must recruit and retain the right people. Although it is not the only factor, remuneration is a key factor in determining the Company's ability to compete for human resources. In doing so, the Company aims to reward executives and staff with a level and mix of remuneration commensurate with their position and responsibilities within the Company and to link remuneration to the creation of shareholder value.

Share based rewards are used in our long-term incentive plans to encourage executives to focus on the creation of enduring value for investors and as a means to retain key contributors for the long term. Fixed pay conditions are designed to attract and retain top talent in a competitive environment, considering the capability and experience of individual executives.

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

Cash Bonuses

Executive contracts of certain employees include cash bonuses on such terms and conditions as determined from time to time by the Board. As at the date of this report, no terms and conditions have been set by the Board and no cash bonuses have been awarded.

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 directors, executives and employees (including consultants) in a manner that aligns remuneration with the creation of shareholder wealth. As such, issues under these plans are made to directors, executives and employees who are able to influence the generation of shareholder wealth and thus have an impact on the Consolidated Entity's performance.

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

The share options and performance rights will vest over periods as determined by the Board and directors, executives and employees 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 will generally automatically lapse and be forfeited. Where a participant ceases employment after the vesting but before the exercise of their share options and/or performance rights, unless the participant has been terminated for cause (when their options or performance rights will immediately lapse), the share options and/or performance rights may generally be exercised by the participant within a period after cessation of employment prescribed either under the applicable Plan or offer documentation or a longer period as determined by the Board and any option and/or performance right not exercised within such period will automatically lapse and be forfeited.

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 has full discretion in approving specified performance criteria linked with options and performance rights granted to KMP with the intention to align the interests of management with that of shareholders and reward the execution of corporate strategies that are expected to increase shareholder wealth.

Options and performance rights with linked performance criteria were issued in 2016 to the CEO, Mr DiNardo, as approved by the Board. 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:

	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	21,000,000	28/09/2016	refer table below	$0.064	1,334,151	$0.172	30/09/2021	-	-
	2017	6,000,000	16/02/2017		$0.175	1,050,104	$0.173	30/09/2021	-	-
R Beachler	2017	12,000,000	05/03/2017	refer table below	$0.166	1,995,992	$0.209	31/03/2022	-	-

^ 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
Mr DiNardo: 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
Mr DiNardo: 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 A$500,000 in accordance with an agreed timetable	25% over 4 year period from achievement of the performance criteria.	30/09/2021
Mr DiNardo: Tranche 3	6,000,000	16/02/2017	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				
Mr Beachler: Tranche 1	6,000,000	5/03/2017	Completion of an approved marketing plan for 2017/2018, as certified by the Board	25% over 4 year period from achievement of the performance criteria.	31/03/2022
Mr Beachler: Tranche 2	6,000,000	5/03/2017	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.	31/03/2022
TOTAL	12,000,000				

REMUNERATION REPORT (Audited) (Continued)

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

(a) Options and performance rights with linked performance criteria (continued)

Details of Performance Rights over ordinary shares in the Company provided as remuneration to each KMP, of which there are performance conditions linked which are still to be attained, are set out in the table below:

		Class D Performance Rights				
	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	$0.080	The announcement to the ASX by BrainChip of an unconditional binding licensing agreement that has an obligation to pay a license fee of A$500,000 in accordance with an agreed timetable (Milestone 4).	-
R Beachler	2017	1,000,000	5/03/2017	$0.209	The announcement to the ASX by BrainChip of an unconditional binding licensing agreement that has an obligation to pay a license fee of A$500,000 in accordance with an agreed timetable (Milestone 4).	-

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

Options were also issued to KMP 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:

	Year	**Options awarded during the year**	**Grant Date**	**End of Vesting Period**	**Fair value per option ^**	**Total Fair Value**	**Exercise price per option**	**Expiry date**	**Options vested during the year**	**Options lapsed during the year**
		Number			**US$**	**US$**	**US$**		**Number**	**Number**
L DiNardo	2016	23,000,000	28/09/2016	30/09/2020	$0.064	1,461,607	$0.172	30/09/2021	5,750,000	-
E Bolto	2017	750,000	31/05/2017	01/02/2018	$0.112	84,349	$0.182	01/02/2023	-	-
		750,000	31/05/2017	01/02/2019	$0.118	88,817	$0.182	01/02/2024	-	-
		750,000	31/05/2017	01/02/2020	$0.123	92,169	$0.182	01/02/2025	-	-
		750,000	31/05/2017	01/02/2021	$0.127	94,962	$0.182	01/02/2026	-	-
A Osseiran	2017	1,000,000	31/05/2017	01/02/2018	$0.112	112,465	$0.182	01/02/2023	-	-
		1,000,000	31/05/2017	01/02/2019	$0.118	118,423	$0.182	01/02/2024	-	-
		1,000,000	31/05/2017	01/02/2020	$0.123	122,892	$0.182	01/02/2025	-	-
		1,000,000	31/05/2017	01/02/2021	$0.127	126,616	$0.182	01/02/2026	-	-
J Stein	2017	2,000,000	31/05/2017	31/01/2018	$0.116	232,278	$0.138	31/01/2023	-	-
		2,000,000	31/05/2017	31/01/2019	$0.121	242,700	$0.138	31/01/2024	-	-
		2,000,000	31/05/2017	31/01/2020	$0.125	250,145	$0.138	31/01/2025	-	-
		2,000,000	31/05/2017	31/01/2021	$0.128	256,101	$0.138	31/01/2026	-	-
E Hernandez	2017	2,000,000	7/07/2017	07/07/2018	$0.101	201,987	$0.125	7/07/2023	-	-
		2,000,000	7/07/2017	07/07/2019	$0.106	209,581	$0.125	7/07/2024	-	-
		2,000,000	7/07/2017	07/07/2020	$0.109	215,655	$0.125	7/07/2025	-	-
		2,000,000	7/07/2017	07/07/2021	$0.111	211,730	$0.125	7/07/2026	-	-
R Benton	2017	27,000,000	10/08/2017	10/08/2021	$0.101	2,715,254	$0.127	10/08/2022	-	-
R Beachler	2017	8,000,000	05/03/2017	21/03/2021	$0.166	1,330,662	$0.209	31/03/2022	-	-

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

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 (continued)

Details of Performance Rights over ordinary shares in the Company provided as remuneration to each KMP, of which there are no performance conditions however included a service condition of 1-year vesting period from the date of issue of the performance rights to encourage the retention of staff, are set out in the tables below:

		Class B Performance Rights				
	Year	Performance rights awarded during the year (Number)	Grant Date	Fair value per performance right at grant date (US$)	Expiry Date	Number vested
R Benton	2017	500,000	9/08/2017	$0.131	9/08/2021	-
R Beachler	2017	500,000	5/03/2017	$0.209	31/03/2021	-

6. Company performance and the link to remuneration

The actual remuneration earned by executives and non-executives during 2017 is set out in section 7 of this report. Shareholders can see the remuneration earned and the value ascribed to share based payments which were vesting 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. In 2017, Mr Beachler also received options in the Company with specific performance criteria as noted in section 5 above.

BrainChip's 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 offered to participants.

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 four years. The movements illustrated in the table reflect the considerable change that the Group has undergone since 2015 particularly.

	2017	Restated (2) 2016	2015	2014 (1)
Closing share price AUD	$0.185	$0.28	$0.26	-
Closing share price USD	$0.144	$0.202	$0.189	-
Loss per share (US cents)	1.59	0.69	8.43	0.14
Net tangible assets US cents per share	1.77	0.38	0.25	(3.77)

(1) Note: BrainChip's subsidiary, BrainChip Inc. commenced operations in 2014 therefore no prior periods have been reported.

(2) 2016 results have been restated after the finalisation of the fair value of the acquisition of BrainChip SAS.

REMUNERATION REPORT (Audited) (Continued)

7. Executive contractual arrangements

Details for executive contractual arrangements for KMP are detailed below:

Name	Louis DiNardo
Title	Chief Executive Officer and Managing Director
Term of agreement	Open agreement with no fixed term
Details	Base fee of US$400,000 plus benefits under health and welfare benefit plans, practices, policies and programs provided by BrainChip Inc.
Termination	Terminated at any time with or without cause or notice by either himself or BrainChip Inc. 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.

Name	Peter van der Made
Title	Chief Technical Officer and Executive Director
Term of agreement	Open agreement with no fixed term
Details	Base fee of US$300,000 plus benefits under health and welfare benefit plans, practices, policies and programs provided by BrainChip Inc. 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. No bonuses have been paid to date.
Termination	Terminated at any time with or without cause or notice by either himself or BrainChip Inc. Mr van der Made 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.

Name	Anil Mankar
Title	Chief Operating Officer
Term of agreement	Open agreement with no fixed term
Details	Base fee of US$300,000 plus benefits under health and welfare benefit plans, practices, policies and programs provided by BrainChip Inc. 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. No bonuses have been paid to date.
Termination	Terminated at any time with or without cause or notice by either himself or BrainChip Inc. 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.

Name	Ryan Benton
Title	Chief Financial Officer
Term of agreement	Open agreement with no fixed term
Details	Base fee of US$300,000 plus benefits under health and welfare benefit plans, practices, policies and programs provided by BrainChip Inc.
Termination	Terminated at any time with or without cause or notice by either himself or BrainChip Inc. Mr Benton 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.

Name	Robert Beachler
Title	Senior Vice President of Marketing and Business Development
Term of agreement	Open agreement with no fixed term
Details	Base fee of US$300,000 plus benefits under health and welfare benefit plans, practices, policies and programs provided by BrainChip Inc.
Termination	Terminated at any time with or without cause or notice by either himself or BrainChip Inc. Mr Beachler 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.

Name	Cossette Drossler (ceased as KMP on 5 May 2017)
Title	VP Finance & Administration
Term of agreement	Open agreement with no fixed term
Details	Base fee of US$200,000 plus benefits under health and welfare benefit plans, practices, policies and programs provided by BrainChip Inc.
Termination	Ms Drossler and BrainChip entered into a Separation Agreement, effective 12 May 2017, being an involuntary termination without cause whereby Ms Drossler received US$100,000 plus health and welfare benefits over 6 months.

Name	Hung DoDuy (ceased as KMP on 22 December 2017)
Title	President, BrainChip SAS
Term of agreement	Open agreement with no fixed term
Details	Base fee of €120,000 plus benefits under health and welfare benefit plans, practices, policies and programs provided by BrainChip SAS.
Termination	On 22 December 2017, Mr DoDuy resigned from the Group and entered into a Separation Agreement with BrainChip, the terms of which included the payment of €50,000 over 8 months to 1 September 2018 and a twelve-month non-compete indemnity in lieu of his original employment terms.

There are no other formalised KMP employment agreements.

REMUNERATION REPORT (Audited) (Continued)

7. Executive contractual arrangements (continued)

Remuneration of KMP

2017	Short Term		Post-Employment	Share-based Payment	Termin-ation	Total	% Perform -ance related
	Salary and Fees [8]	Annual leave	Super-annuation	Options			
	US$	US$	US$	US$	US$	US$	
Non-Executive Directors							
E Bolto [1]	100,002	-	-	167,143	-	267,145	63%
J Stein [2]	111,541	-		458,441	-	569,982	80%
A Osseiran	38,463	-	-	222,857	-	261,320	85%
E Hernandez [3]	22,457	-	-	210,456	-	232,913	90%
Executive Directors							
L DiNardo	429,531	19,999	-	1,810,816	-	2,260,346	80%
P van der Made	312,127	(4,806)	-	-	-	307,321	-
Other Key Management Personnel							
A Mankar	312,127	6,346	-	-	-	318,473	-
R Benton [4]	136,855	2,075	-	579,701	-	718,631	81%
R Beachler [5]	266,160	6,656	-	1,623,250	-	1,896,066	86%
N Drossler [6]	86,863	(703)	-	(13,038)	111,504	184,626	-
H DoDuy [7]	145,407	29,071	78,500	-	69,391	322,369	-
Totals	**1,961,533**	**58,638**	**78,500**	**5,059,626**	**180,895**	**7,339,192**	

(1) Short term remuneration for Mr Bolto includes consulting fees of $38,462 (refer section 9).

(2) Short term remuneration for Ms Stein includes consulting fees of $61,540 (refer section 9).

(3) Mr Hernandez was appointed as non-executive director on 7 July 2017.

(4) Mr Benton was appointed Chief Financial Officer of BrainChip on 20 October 2017 which follows Mr Benton's appointment as Chief Financial Officer of BrainChip's subsidiary, BrainChip Inc. on 9 August 2017.

(5) Mr Beachler was appointed Senior Vice President of Marketing and Business Development on 5 March 2017.

(6) Ms Drossler resigned as VP Finance and Administration 5 May 2017 and ceased as KMP on that date.

(7) Mr DoDuy resigned as President of BrainChip SAS on 22 December 2017 and ceased as KMP on that date.

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

REMUNERATION REPORT (Audited) (Continued)

7. Executive contractual arrangements (continued)

Remuneration of KMP

	Short Term		Post-Employment	Share-based Payment	Termin-ation	Total	% Perform -ance related
2016	**Salary and Fees [7]**	**Annual leave**	**Super-annuation**	**Options**			
	US$	**US$**	**US$**	**US$**	**US$**	**US$**	
Non-Executive Directors							
E Bolto [1]	85,439	-	-	-	-	85,439	-
J Stein [2]	12,255	-	-	-	-	12,255	-
A Osseiran	37,147	-	-	-	-	37,147	-
N Rinaldi [3]	46,433	-	-	-	-	46,433	-
Executive Directors							
L DiNardo [4]	105,893	5,946	-	307,261	-	419,100	73%
P van der Made	216,745	6,731	-	-	-	223,476	-
Other Key Management Personnel							
A Mankar	216,745	10,577	-	-	-	227,322	-
N Drossler [5]	12,241	703	-	13,038	-	25,982	50%
H DoDuy [6]	43,350	792	-	-	-	44,142	-
Totals	776,248	24,749	-	320,299	-	1,121,296	

(1) Fees paid to Mr Bolto include consulting fees of $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 $7,226 (refer section 9).

(3) Mr Rinaldi resigned as a non-executive director on 14 November 2016. Short term remuneration includes consulting fees of $15,475 (refer section 9).

(4) 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.

(5) 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 US$25,000 for the period 11 November to 9 December 2016. Ms Drossler resigned and ceased to be KMP on 5 May 2017.

(6) Mr DoDuy is the President of BrainChip SAS and became a KMP of BrainChip upon the acquisition of BrainChip SAS on 1 September 2016. Mr DoDuy resigned and ceased to be KMP on 22 December 2017.

(7) No bonuses were awarded to any KMP during the year ended 31 December 2016.

REMUNERATION REPORT (Audited) (Continued)

8. Equity Instruments Disclosure

Shareholdings of KMP (including nominees)

Shares held in BrainChip Holdings by KMP are summarised as follows:

	Balance held at 1 January 2017	Acquired	Conversion of Performance Rights	Exercise of options	Net change other	Balance held at 31 December 2017
Directors						
E Bolto	-	-	-	-	-	-
L DiNardo	-	-	-	-	-	-
P van der Made [(1)]	161,305,508	-	-	-	-	161,305,508
J Stein	-	-	-	-	-	-
A Osseiran [(2)]	8,438,500	-	-	-	-	8,438,500
E Hernandez	-	-	-	-	-	-
Other KMPs						
A Mankar [(3)]	109,135,000	-	-	-	-	109,135,000
R Benton	-	-	-	-	-	-
R Beachler	-	-	-	-	-	-
N Drossler	-	-	-	-	-	-
H DoDuy [(4)]	5,030,685	-	-	-	(5,030,685)	-
Total	283,909,693	-	-	-	(5,030,685)	278,879,008

(1) Of these, 145,174,957 fully paid ordinary shares are subject to voluntary escrow until 18 June 2018.
(2) Fully paid ordinary shares are held by Adam Osseiran and Rebecca Osseiran-Moisson ATF the Osseiran Family Trust.
(3) Fully paid ordinary shares are held by Merrill Lynch (Australia) Nominees Pty Ltd. Of these, 98,415,000 fully paid ordinary shares are subject to voluntary escrow until 18 June 2018.
(4) Mr DoDuy ceased to be KMP upon his resignation from BrainChip SAS, effective 22 December 2017.

Options holdings of Key Management Personnel (including nominees)

Options granted to KMP 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 2017	Granted as remuneration	Exercised	Net change other	Balance at end of period 31 December 2017	Vested and not exercisable	Vested and exercisable
Directors							
E Bolto [(2)]	4,900,000	3,000,000	-	-	7,900,000	-	4,900,000
L DiNardo	50,000,000	-	-	-	50,000,000	-	5,750,000
P van der Made	-	-	-	-	-	-	-
J Stein	-	8,000,000	-	-	8,000,000	-	-
A Osseiran	2,000,000	4,000,000	-	-	6,000,000	-	2,000,000
E Hernandez	-	8,000,000	-	-	8,000,000	-	-
Other KMPs							
A Mankar	-	-	-	-	-	-	-
R Benton	-	27,000,000	-	-	27,000,000	-	-
R Beachler	-	20,000,000	-	-	20,000,000	-	-
N Drossler [(1)]	4,000,000	-	-	(4,000,000)	-	-	-
H DoDuy	-	-	-	-	-	-	-
Total	60,900,000	70,000,000	-	(4,000,000)	126,900,000	-	12,650,000

(1) Ms Drossler resigned as VP Finance and Administration and ceased to be KMP on 5 May 2017 and her options that were previously granted in 2016 were forfeited upon resignation.
(2) The opening balance for Mr Bolto has been corrected in the current year to 4,900,000 from 5,000,000.

REMUNERATION REPORT (Audited) (Continued)

8. Equity Instruments Disclosure (continued)

Performance Rights held by KMP (including nominees)

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

	Balance at beginning of period 1 January 2017	Acquired	Exercised	Balance at end of period 31 December 2017	Vested and not exercisable	Vested and exercisable	Value of performance rights exercised US$
Directors							
E Bolto	-	-	-	-	-	-	-
L DiNardo	2,000,000	-	-	2,000,000	-	-	-
P van der Made	19,500,000	-	-	19,500,000	-	6,000,000	-
J Stein	-	-	-	-	-	-	-
A Osseiran	900,000	-	-	900,000	-	-	-
E Hernandez	-	-	-	-	-	-	-
Other KMPs							-
A Mankar	17,250,000	-	-	17,250,000	-	-	-
R Benton	-	500,000	-	500,000	-	-	-
R Beachler	-	1,500,000	-	1,500,000	-	-	-
N Drossler	-	-	-	-	-	-	-
H DoDuy	-	-	-	-	-	-	-
Total	39,650,000	2,000,000	-	41,650,000	-	6,000,000	-

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(d).

9. Other transactions and balances with KMP

Mr. Bolto and Ms. Stein each have a consulting agreement with the Company for ad hoc services as requested by the CEO from time to time, effective from 1 December 2016 at a rate of A$10,000 per month during active assignments, usually payable within 30 days of recognition. 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. Fees paid during the year to Mr. Bolto totaled $38,462 (2016: $25,291) and to Ms. Stein totaled $61,540 (2016: $7,226). As at 31 December 2017 consulting fees were payable to Mr. Bolto of $Nil (2016: $25,291) and to Ms. Stein of $Nil (2016: $7,226).

In the prior year consulting services were provided by Mr Rinaldi up to 31 March 2016 at a rate of A$50,000 per annum. Total fees paid in excess of Mr Rinaldi's Non-Executive fees totalled $15,475.

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

End of Audited Remuneration Report.

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 29, 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:

	2017 US$	**2016 US$**
Tax compliance services	-	25,260

Signed in accordance with a resolution of the Directors.

E L (Mick) Bolto
Chairman
Perth, 28 March 2018

Ernst & Young
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Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

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Fax: +61 8 9429 2436
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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 2017, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the 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
28 March 2018

PT:CT:BRAINCHIP:026

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2017

	Note	31 December 2017 $US	Restated 31 December 2016 $US
Continuing operations			
Revenue		269,496	149,284
Research & development expenses	5(a)	(1,153,697)	(867,359)
Administration and other expenses	5(b)	(4,996,259)	(2,556,319)
Amortisation of intangible assets		(1,108,423)	(441,796)
Share based payment expense	23(a)	(6,941,360)	(1,075,382)
Operating Loss		(13,930,243)	(4,791,572)
Finance income	6(a)	128,480	16,975
Finance expense	6(b)	(622)	(72,950)
Loss from continuing operations before income tax		(13,802,385)	(4,847,547)
Income tax expense	8(c)	-	-
Loss from continuing operations after income tax		(13,802,385)	(4,847,547)
Gain/(loss) from discontinued operations after tax	30	28,372	(250,555)
Net loss for the period		(13,774,013)	(5,098,102)
Other comprehensive loss			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):			
Remeasurement (losses)/gains on defined benefit plans		(1,515)	362
Items that may be reclassified subsequently to profit or loss (net of tax):			
Exchange differences on translation of foreign operations		76,142	5,414
Other comprehensive loss for the period, net of tax		74,627	5,776
Total comprehensive loss for the period, net of tax		(13,699,386)	(5,092,326)
		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		(1.59)	(0.66)
Loss per share from discontinued operations attributable to ordinary equity holders of the Company			
Basic and diluted loss per share		(0.00)	(0.03)
Loss per share attributable to ordinary equity holders of the Company			
Basic and diluted loss per share	9	(1.59)	(0.69)

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

Consolidated Statement of Financial Position
As at 31 December 2017

	Note	31 December 2017 $US	Restated 31 December 2016 $US
CURRENT ASSETS			
Cash and cash equivalents	10	16,049,330	3,593,951
Trade and other receivables	11	358,975	385,477
Inventory		20,563	1,435
Other assets	12	333,600	306,119
Total current assets		16,762,468	4,286,982
NON-CURRENT ASSETS			
Plant and equipment	13	192,307	140,209
Intangible assets and goodwill	14	2,814,027	2,432,319
Other assets		41,512	33,689
Total non-current assets		3,047,846	2,606,217
TOTAL ASSETS		19,810,314	6,893,199
CURRENT LIABILITIES			
Trade and other payables	15	1,160,337	630,387
Financial liabilities	17	-	220,562
Other liabilities	18	-	287,507
Employee benefits liabilities	16	208,129	102,770
Total current liabilities		1,368,466	1,241,226
NON-CURRENT LIABILITIES			
Financial liabilities	17	236,342	277,232
Defined benefit plan	19	139,036	108,123
Total non-current liabilities		375,378	385,355
TOTAL LIABILITIES		1,743,844	1,626,581
NET ASSETS		18,066,470	5,266,618
EQUITY			
Contributed equity	20(a)	53,570,901	34,013,023
Share based payments reserve	21	10,733,454	3,792,094
Foreign currency translation reserve	21	81,556	5,414
Other equity reserve	21	247,872	247,872
Accumulated losses	22	(46,567,313)	(32,791,785)
TOTAL EQUITY		18,066,470	5,266,618

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 2017

	Note	31 December 2017 US$	31 December 2016 US$
CASH FLOWS USED IN OPERATING ACTIVITIES			
Receipts from customers		312,131	48,953
Payments to suppliers and employees		(6,602,048)	(3,449,312)
Interest received		23,846	16,975
Interest paid		-	(10,602)
Grants received from third parties		15,916	68,533
R&D credits received from third parties		170,393	-
Other income		5,220	11,427
Net cash flows used in operating activities	10	(6,074,542)	(3,314,026)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Payments for property, plant and equipment		(125,118)	(88,544)
Payments for exploration and evaluation		-	(254,541)
Payments for purchase of patents		(229,176)	(1,688)
Payments for capitalised research and development		(543,389)	(106,782)
Proceeds from sale of mineral licences		-	493,337
Proceeds from sale of royalty interests		32,289	-
Cash disposed on sale of subsidiaries		-	48,256
Advance to BrainChip SAS prior to Acquisition	29(a)	-	(139,554)
Acquisition of a subsidiary, net of overdraft/cash acquired	29(c)	-	(667,786)
Net cash flows used in investing activities		(865,394)	(717,302)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from the issue of shares		20,888,073	7,035,885
Payment of share issue costs		(1,330,195)	(445,401)
Loans to third parties	30(b)	-	(54,000)
Repayment of loans to third parties		(308,281)	(237,458)
Loans repaid to shareholders		-	(5,268)
Net cash flows from financing activities		19,249,597	6,293,758
Net increase in cash and cash equivalents		12,309,661	2,262,430
Net foreign exchange differences		145,718	(62,348)
Cash at the beginning of the financial period		3,593,951	1,393,869
Cash and cash equivalents at the end of the period	10	16,049,330	3,593,951

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 2017

	Contributed equity US$	Share based payment reserve US$	Other reserves US$	Foreign currency reserve US$	Accumulated losses US$	Total equity US$
At 1 January 2016	27,266,878	1,939,902	247,872	-	(27,718,082)	1,736,570
Loss for the year	-	-	-	-	(5,098,102)	(5,098,102)
Other comprehensive income	-	-	-	5,414	362	5,776
Total comprehensive loss for the period	-	-	-	5,414	(5,097,740)	(5,092,326)
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	(32,791,785)	5,266,618

	Contributed equity US$	Share based payment reserve US$	Other reserves US$	Foreign currency reserve US$	Accumulated losses US$	Total equity US$
At 1 January 2017	34,013,023	3,792,094	247,872	5,414	(32,791,785)	5,266,618
Loss for the year	-	-	-	-	(13,774,013)	(13,774,013)
Other comprehensive loss	-	-	-	76,142	(1,515)	74,627
Total comprehensive loss for the period	-	-	-	76,142	(13,775,528)	(13,699,386)
Issue of share capital	20,888,073	-	-	-	-	20,888,073
Share issue costs	(1,330,195)	-	-	-	-	(1,330,195)
Share-based payment	-	6,941,360	-	-	-	6,941,360
At 31 December 2017	53,570,901	10,733,454	247,872	81,556	(46,567,313)	18,066,470

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 2017 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 12, 680 George Street, Sydney NSW 2000, 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 all new and amended Accounting Standards and Interpretations, which are effective for annual periods beginning 1 January 2017. Although these new and amended standards and Interpretations applied for the first time in 2017, they did not have a material impact on the annual consolidated financial statements of the Group.

Reference	Title	Summary
AASB 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).
AASB 2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses.	This Standard makes amendments to AASB 112 *Income Taxes* to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.
AASB 2017-2	Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle.	This Standard clarifies the scope of AASB 12 *Disclosure of Interests in Other Entities* by specifying that the disclosure requirements apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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 2017. Unless otherwise stated, the Group has yet to fully assess the impact of these Standards and Interpretations when applied in future periods.

Reference	Title	Summary	Application date of standard*	Application date for Group	Impact on Group
AASB 9	*Financial Instruments*	AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement*. Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs. Debt instruments are subsequently measured at FVTPL, amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss. For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO. The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9. The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139.	1 January 2018	1 January 2018	The Group does not foresee any significant impact to the net profit and net asset as a result of applying this new accounting standard.

Reference	Title	Summary	Application date of standard*	Application date for Group	Impact on Group
AASB 15	Revenue from Contracts with Customers	AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 *Construction Contracts*, AASB 118 *Revenue*, AASB Interpretation 13 *Customer Loyalty Programmes*, AASB Interpretation 15 *Agreements for the Construction of Real Estate*, AASB Interpretation 18 *Transfers of Assets from Customers* and AASB Interpretation 131 *Revenue – Barter Transactions Involving Advertising Services*) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 *Leases* (or AASB 16 *Leases*, once applied). 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 an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the 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	1 January 2018	1 January 2018	The Group has performed an assessment which indicates that the application of this standard will not have a material impact on transition for the Group.
AASB 16	Leases	AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.	1 January 2019	1 January 2019	The Group does not foresee any significant impact to the net profit nor net assets as a result of applying this new accounting standard. The Group has not yet elected an adoption methodology.

Reference	Title	Summary	Application date of standard*	Application date for Group	Impact on Group
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	The Group does not foresee any significant impact to the net profit nor net assets as a result of applying this new accounting standard.
AASB Interpretation 22	*Foreign Currency Transactions and Advance Consideration*	The Interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transaction for each payment or receipt of advance consideration.	1 January 2018	1 January 2018	The Group does not foresee any significant impact to the net profit nor net assets as a result of applying this new accounting standard.
Not yet issued by the AASB	*Annual Improvements to IFRS Standards 2015-2017 Cycle‡*	The amendments clarify certain requirements in: • IFRS 3 Business Combinations and IFRS 11 Joint Arrangements - previously held interest in a joint operation • IAS 12 Income Taxes - income tax consequences of payments on financial instruments classified as equity • IAS 23 Borrowing Costs - borrowing costs eligible for capitalisation.	1 January 2019	1 January 2019	The Group has not yet accessed the impact of applying this new accounting standard.
AASB Interpretation 23, and relevant amending standards	*Uncertainty over Income Tax Treatments*	The Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 *Income Taxes* when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following: • Whether an entity considers uncertain tax treatments separately • The assumptions an entity makes about the examination of tax treatments by taxation authorities • How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates • How an entity considers changes in facts and circumstances.	1 January 2019	1 January 2019	The Group has not yet accessed the impact of applying this new accounting standard.

* Designates the beginning of the applicable annual reporting period unless otherwise stated.

‡ The IASB issued the amending Standard on 12 December 2017.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 BrainChip SAS 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.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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) 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.

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.

(k) 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; and
- 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Research and development costs (continued)

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; and
- 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

(l) Trade and other payables

Trade payables and other payables are carried at amortised cost and are not discounted due to their short-term nature. 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.

(m) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) 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.

(o) 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.

(p) 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. A copy of the DOOP terms was also provided in the Notice of Meeting lodged with the ASX on 3 November 2015 and approved by shareholders on 4 December 2015.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) 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.

(q) 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 on the defined benefit liability for the period by applying the discount rate used to measure the net defined benefit obligation. 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.

(r) Revenue

Revenue is recognised to the extent that it is probable that 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.

(s) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided for using the full liability, balance sheet method.
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 deferred income tax assets 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.

(u) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) 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.

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.

- **Goodwill**

  Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

- **Impairment of goodwill**

  The Group is organised into one operating segment, being the technological development of designs that can be licensed to Original equipment manufacturer 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. As such, BrainChip has only one cash generating unit and, therefore goodwill has been allocated to, and the impairment testing is performed at, the consolidated level. The recoverable amount of goodwill has been assessed utilising fair value less cost of disposal, using a market comparison approach based on the market capitalisation of the Group at balance sheet date. This approach was supported by external sources of information, being recent transactions within the semiconductor industry that have provided evidence that fair value exceeds market capitalisation (i.e. purchase consideration exceeds market capitalisation), as well as internal information including the high liquidity of the Group's shares.

- **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 2017, the carrying amount of capitalised development costs was $1,135,132 (2016: $1,491,930).

- **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 acquisition of a new entity is a business combination or an asset acquisition. 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.

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.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Trade and other receivables

The Group operates primarily in technology development and has trade receivables. 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	
		2017	2016
	Note	US$	US$
Cash and cash equivalents	10	16,049,330	3,593,951
Trade and other receivables	11	81,138	111,372

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.

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

	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-5 years
	US$	US$	US$	US$	US$
31 December 2017					
Trade and other payables	1,160,337	1,160,337	1,132,617	27,720	-
Financial liabilities	236,342	243,603	-	-	243,603
	1,396,679	1,403,940	1,132,617	27,720	243,603
31 December 2016					
Trade and other payables	630,387	630,387	630,387	-	-
Financial liabilities	497,794	501,279	124,477	96,085	280,717
	1,128,181	1,131,666	754,864	96,085	280,717

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, 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 legal parent, BrainChip Holdings, holds cash balances in AUD and in the prior year the Madagascan subsidiaries (divested November 2016) operated cash balances denominated in Madagascan Ariary (MGA). As a result of this, the Consolidated Entity's statement of financial position can be affected by movements in the USD/AUD exchange rate (and for 2016, the USD/MGA exchange rate) when translating to the USD functional currency.

In respect of other monetary assets and liabilities denominated in foreign currencies (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 balance sheet date was negligible.

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.

The Consolidated Entity's exposure to interest rate risk at the balance sheet date was negligible.

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 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 $53,570,901 and other equity reserves of $247,872 at 31 December 2017 (2016: $34,013,023 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 2017, 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.

5. EXPENSES

	2017 US$	Restated 2016 US$
(a) Research & development expenses		
Executive salaries	95,836	-
Wages and salaries	1,277,694	885,147
Grants received	(326,137)	(42,903)
Other expenses	106,304	25,115
Total research & development expenses	1,153,697	867,359
(b) Administration and other expenses		
Non-executive director fees	272,463	183,338
Executive director and other KMP salaries	1,844,530	617,659
Wages and salaries	359,589	90,917
Acquisition related transaction costs	-	113,030
Legal and professional fees	1,380,086	1,004,057
Travel and accommodation expenses	391,721	109,871
Depreciation of plant & equipment	75,792	24,979
Office rent	218,136	108,558
Administration expenses	453,942	303,910
Total administration expenses	4,996,259	2,556,319

6. FINANCE INCOME AND EXPENSES

	2017 US$	Restated 2016 US$
(a) Finance income		
Interest received	29,784	16,975
Foreign exchange gain	98,696	-
Total finance income	128,480	16,975
(b) Finance expense		
Interest expense	622	10,602
Foreign exchange loss	-	62,348
Total finance expense	622	72,950

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.

8. INCOME TAX

	Consolidated 2017 US$	Consolidated 2016 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:

	2017	2016
Accounting loss before tax	13,774,013	5,098,102
At statutory income tax rate of 27.5% (2016: 28.5%)	(3,787,854)	(1,452,959)
Non-deductible (income) / expenses	1,883,943	526,313
Effect of lower/(higher) taxation rates of foreign subsidiaries	(862,944)	(123, 948)
Other	(272,245)	-
Unrecognised tax losses and deferred income tax assets	3,039,100	1,050,594
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 2017	Consolidated Statement of financial position 2016
Accrued expenses	46,734	40,726
Tax losses	4,381,352	2,193,951
Business related expenditure, Borrowing costs	-	128,220
Share based compensation	1,688,584	1,114,947
Intangible assets - USA	26,926	(396,209)
Deferred State Tax deduction	(254,391)	(130,691)
Other	403,612	34,923
Not recognised	(6,292,817)	(2,985,867)
Net deferred tax liability	-	-
Deferred tax income/ (expense)	-	-

(e) Unrecognised losses

At 31 December 2017, there are unrecognised losses of $4,381,352 (tax effected), for the Consolidated Entity (2016: $2,193,951 (tax effected)).

9. LOSS PER SHARE

	2017 US$	2016 US$
Net loss attributable to ordinary equity holders	(13,774,013)	(5,098,102)
Net loss attributable to ordinary shareholders for diluted earnings per share	(13,774,013)	(5,098,102)
Basic and diluted loss per share (US cents per share)	(1.59)	(0.69)
Weighted average number of ordinary shares for basic loss per share [3]	863,653,555	736,635,076
Effect of the dilution of share options and performance rights [1] [2]	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	863,653,555	736,635,076

[1] At 31 December 2017, the Company had on issue 190,550,000 (2016: 91,550,000) share options that are excluded from the calculation of diluted loss per share for the current period. The options are either contingency issuable potential ordinary shares or considered anti-dilutive as their inclusion reduced the loss per share however these options may be dilutive in the future.

[2] At 31 December 2017, the Company had on issue 56,500,000 (2016: 56,000,000) performance rights that are excluded from the calculation of diluted loss per share for the current period. The performance rights are contingently issuable at the balance sheet date and have therefore been excluded from diluted earnings per share.

[3] Weighted average number of ordinary shares has been adjusted for all periods presented by a factor of approximately 1.02 as a result of a rights issue to institutional and sophisticated investors in November 2017.

10. CASH AND CASH EQUIVALENTS

	2017 US$	2016 US$
Cash at bank and in hand	16,049,330	3,593,951
Total	16,049,330	3,593,951

Reconciliation of the net loss after tax to net cash flows from operations		
Loss after tax	(13,774,013)	(5,098,102)
Non-cash adjustment to reconcile loss before tax to net cash flows:		
Depreciation	75,792	24,979
Amortisation	1,108,423	441,796
Share based payments	6,941,360	1,075,382
Exploration and evaluation expenditure written off	-	157,990
Impairment of receivable	-	120,281
Impairment of loan to third party	-	54,000
Gain on deconsolidation of subsidiaries	-	(26,725)
Other income classified as investing	(32,289)	(54,517)
Foreign exchange (gain)/loss	(98,696)	62,348
Working capital adjustments:		
Decrease/(increase) in trade and other receivables	121,645	(119,545)
Increase in inventory	(19,128)	(1,284)
Decrease/(increase) in prepayments	6,898	(35,786)
(Increase)/decrease in other assets	(135,952)	26,077
(Decrease)/increase in financial liabilities	(287,507)	4,610
Increase/(decrease) in defined benefits plan	29,398	(1,948)
Increase in employee provisions	105,360	17,502
(Decrease)/increase in trade and other payables	(115,833)	38,916
Net cash used in operating activities	(6,074,542)	(3,314,026)

11. TRADE AND OTHER RECEIVABLES

	2017 US$	2016 US$
CURRENT		
Trade receivables	81,138	111,372
Research tax credit (1)	269,537	174,395
Other receivables	8,300	99,710
	358,975	385,477

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

12. OTHER ASSETS

	2017 US$	2016 US$
Current		
Grants receivable from third parties	236,081	207,642
Prepayments	91,580	98,477
Interest receivable	5,939	-
	333,600	306,119

13. PLANT & EQUIPMENT

	2017 US$	2016 US$
Plant and equipment		
Plant and equipment – Gross carrying value at cost	301,846	205,890
Accumulated depreciation	(109,539)	(65,681)
Net carrying amount	192,307	140,209
Movement in plant and equipment		
At 1 January net of accumulated depreciation	140,209	65,381
Additions	125,119	88,544
Plant and equipment from Acquisition of BrainChip SAS	-	11,875
Depreciation charge for the year	(75,792)	(24,979)
Net foreign exchange movements	2,771	(612)
At 31 December net of accumulated depreciation	192,307	140,209

14. INTANGIBLE ASSETS AND GOODWILL

		2017 US$	Restated 2016 US$
	Patents and licenses (a)	773,437	34,931
	Capitalised research & development costs (b)	1,135,132	1,491,930
	Goodwill (c)	905,458	905,458
		2,814,027	2,432,319
(a)	Patents and licenses with finite useful life – at cost	841,869	41,787
	Accumulated amortisation	(68,432)	(6,856)
		773,437	34,931
	Movement in patents		
	At 1 January	34,931	31,704
	Additions	795,747	1,688
	Fair value of additions upon BrainChip SAS acquisition	-	5,175
	Amortisation	(60,538)	(3,384)
	Net foreign exchange movements	3,297	(252)
	At 31 December	773,437	34,931
(b)	**Capitalised research & development costs**	2,738,355	1,827,745
	Accumulated amortisation	(1,603,223)	(335,815)
		1,135,132	1,491,930
	Movement in capitalised research & development costs		
	At 1 January	1,491,930	-
	Fair value of additions upon BrainChip SAS acquisition	-	1,894,825
	Additions	543,389	106,782
	Amortisation	(1,047,885)	(438,411)
	Net foreign exchange movements	147,698	(71,266)
	At 31 December	1,135,132	1,491,930

(c) **Goodwill**

Goodwill was recognised in the prior year after finalisation of the fair value of the purchase of BrainChip SAS. There were no other transactions to 31 December 2017.

As at 31 December 2017, the Group performed an impairment assessment based on the fair value less cost of disposal (Level 2 in the fair value hierarchy) to confirm the recoverability of the Group's net assets. Based on the Group's assessment, the estimated recoverable amount was sufficient to recover the consolidated net assets at 31 December 2017. Assumptions used within the Group's fair value less cost of disposal determination included the Group's share price of A$0.185 at 31 December 2017 and the foreign exchange rate of $0.78 AUD/USD at 31 December 2017.

15. TRADE AND OTHER PAYABLES

	2017 US$	2016 US$
CURRENT		
Trade creditors and accruals	1,119,627	524,630
VAT and other taxes payable to foreign authorities	40,710	105,757
	1,160,337	630,387

16. EMPLOYEE BENEFITS LIABILITIES

	2017 US$	2016 US$
Provision for annual leave	208,129	102,770
	208,129	102,770

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

17. FINANCIAL LIABILITIES

	2017 US$	2016 US$
Current		
Advances from third parties (a)	-	220,562
	-	220,562
Non-Current		
Advances from third parties (b)	236,342	277,232
	236,342	277,232

(a) **Reconciliation of financial liabilities – current [1]**

	2017 US$	2016 US$
Opening balance	220,562	-
Advances from third parties upon acquisition of BrainChip SAS	-	490,933
Repayment of advance from third parties	(239,016)	(248,024)
Interest charged on advances	2,779	5,298
Foreign exchange movements	15,675	(27,645)
	-	220,562

(b) **Reconciliation of financial liabilities – non-current**

	2017 US$	2016 US$
Opening balance	277,232	-
Advances from third parties upon acquisition of BrainChip SAS	-	247,053
Repayment of advances from third parties	(72,600)	(2,978)
Advances received from third parties		45,435
Interest charged on advances	1,284	-
Foreign exchange movements	30,426	(12,278)
	236,342	277,232

[i] Current and non-current advances include loans from various French government agencies which are granted without any interest and are to be repaid under certain conditions. The benefit of the government loan at a below-market rate of interest is treated as a government grant.

18. OTHER LIABILITIES

	2017 US$	2016 US$
Deferred income in relation to research & development projects [1]	-	287,507

(a) Reconciliation of other liabilities

	2017 US$	2016 US$
Opening balance	287,507	-
Deferred income from third parties upon acquisition of BrainChip SAS	-	343,652
Grant revenue released to the statement of profit and loss	(309,943)	(37,847)
Foreign exchange movement	22,436	(18,298)
	-	287,507

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

19. DEFINED BENEFIT PLAN

	2017 US$	2016 US$
Net employee defined benefit liabilities	139,036	108,123

BrainChip SAS has a defined benefit pension plan which is governed by the employment laws of France. Pension plans that are 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.

	2017 US$	2016 US$
Movement in net defined benefit liability		
At 1 January	108,123	-
Defined benefit plan upon acquisition of BrainChip SAS	-	110,433
Included in profit or loss		
Current service costs	12,833	3,762
Finance costs	1,901	557
Included in OCI		
Actuarial losses/(gains)	1,370	(410)
Foreign exchange movement	14,809	(6,219)
At 31 December	139,036	108,123

Defined benefit obligation

The following were the principal actuarial assumptions at the reporting date:

	2017	2016
Discount rate	1.3%	1.4%
Future salary growth	1.5%	1.5%
Retirement at employee's initiative	45.0%	45.0%
Turnover rate (weighted average)	1.0%	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 (+/-1% movement)	21,233	(16,772)
Future salary growth (+/-1.0 % movement)	(17,174)	21,269

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.

20. CONTRIBUTED EQUITY

	2017 US$	2016 US$
(a) Ordinary Shares		
Issued and fully paid	53,570,901	34,013,023

(b) Movements in ordinary shares on issue

	Number	US$
At 1 January 2016	670,875,252	27,266,878
Conversion of Performance Rights April 2016 [(1)]	35,500,000	-
Issue of shares, April 2016 [(2)]	27,169,586	2,964,681
Issue of shares pursuant to Acquisition of BrainChip SAS [(3)]	10,405,488	938,442
Issue of shares pursuant to prospectus dated 1 September 2016 [(4)]	100	11
Issue of shares pursuant to private placement [(5)]	29,750,000	4,071,192
Conversion of Performance Rights December 2016 [(1)]	34,500,000	-
Share issue costs incurred	-	(1,228,181)
At 31 December 2016	808,200,426	34,013,023
At 1 January 2017	808,200,426	34,013,023
Issue of shares pursuant to private placement [(6)]	40,000,000	4,597,620
Conversion of Performance Rights – refer Note 20(d)	1,000,000	-
Issue of shares pursuant to private placement [(7)]	119,380,063	16,290,453
Conversion of Performance Rights – refer Note 20(d)	500,000	-
Share issue costs incurred	-	(1,330,195)
At 31 December 2017	969,080,489	53,570,901

[(1)] 35,500,000 and 34,500,000 Performance Rights were converted to shares in BrainChip on 8 April 2016 and 22 December 2016 respectively, the milestones of which had been attained.
[(2)] 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.
[(3)] 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 BrainChip SAS.
[(4)] 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.
[(5)] 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$5,335,000.
[(6)] On 5 June 2017, 40,000,000 shares were issued at an issue price of A$0.15 per share pursuant to a private placement to institutional and sophisticated investors raising A$6,000,000.
[(7)] On 7 November 2017, 119,380,063 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$21,488,411.

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 movements

	Opening balance 1 January 2017	Converted [2]	Allocated	**Closing balance 31 December 2017**
Class B Performance Rights [1]	1,000,000	(1,000,000)	1,000,000	1,000,000
Class C Performance Rights [1]	6,500,000	(500,000)	-	6,000,000
Class D Performance Rights [1]	48,500,000	-	1,000,000	49,500,000
	56,000,000	(1,500,000)	2,000,000	56,500,000

[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] 1,000,000 Class B Performance Rights and 500,000 Class C Performance Rights were converted to shares in BrainChip Holdings on 29 September 2017 and 7 November 2017 respectively, the milestones of which had been previously attained. Both parcels of performance rights had been issued to employees from the unallocated pool held at 31 December 2015.

The performance rights have the following milestones attached to them:

- 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 A$500,000 (Milestone 4).

20. CONTRIBUTED EQUITY (continued)

(e) Options on issue

Unissued ordinary shares of the Company under option at 31 December 2017 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 shareholders			
Unlisted [(2)]	31/05/2020	0.171	20,000,000
Options issued as share based payments			
Unlisted – refer Note 23(c)	Various	Various	164,300,000
Total			190,550,000

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) 20,000,000 options were issued as free attaching options to shares issued to sophisticated investors under a Placement on 5 June 2017.

21. RESERVES

	Foreign currency reserve	Share based payment reserve	Other equity reserve	Total
CONSOLIDATED	**US$**	**US$**	**US$**	**US$**
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
At 1 January 2017	5,414	3,792,094	247,872	4,045,380
Share based payments	-	6,941,360	-	6,941,360
Foreign translation of foreign operations	76,142	-	-	76,142
At 31 December 2017	81,556	10,733,454	247,872	11,062,882

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 Ltd 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

	2017 US$	Restated 2016 US$
At 1 January	(32,791,785)	(27,718,082)
Forfeit of options issued to employee in the prior year	-	24,037
Re-measurement (losses)/gains on defined benefit plans	(1,515)	362
Net loss in current period attributable to members of the Company	(13,774,013)	(5,098,102)
At 31 December	(46,567,313)	(32,791,785)

23. SHARE-BASED PAYMENTS

	2017 US$	2016 US$
(a) Recognised share-based payment expenses		
Performance Rights issued to employees	559,516	157,877
Options issued to directors, employees and contractors	6,381,844	917,505
Recognised in statement of profit or loss	6,941,360	1,075,382
Options issued to consultants as share issue costs	-	800,847
Recognised in statement of financial position	6,941,360	1,876,229

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

Performance Rights Plan

Awards under the PRP are made in order to retain key Directors, employees (including officers) 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 objective of the LTIP is to attract and retain 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 DOOP was established 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 closing trading price of the Company's ordinary listed shares on the Friday following the invitation being issued, will have an expiry date of not later than five years after the date of issue or vesting, and will vest at such times as the Board with the advice of the Remuneration Committee may specify in the applicable invitation.

23. SHARE-BASED PAYMENTS (continued)

(b) Performance Rights issued to employees

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

	Opening balance 1 January 2017	Issued during the year (1)	Converted during the year	Closing balance 31 December 2017
Class B Performance Rights	1,000,000	1,000,000	(1,000,000)	1,000,000
Class C Performance Rights	500,000	-	(500,000)	-
Class D Performance Rights	2,000,000	1,000,000	-	3,000,000
	3,500,000	2,000,000	(1,500,000)	4,000,000

(1) Refer Note 20(d)

(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 2017 are as follows:

Type	Grant Date	Expiry Date	Exercise Price (US$)	Number of options	Vested at year end
Unlisted (2)	4/12/2015	30/11/2018	0.161	11,000,000	11,000,000
Unlisted (3)	4/12/2015	21/12/2020	0.258	250,000	250,000
Unlisted (4)	4/12/2015	21/12/2020	0.172	5,550,000	2,775,000
Unlisted (1)	22/01/2016	01/02/2021	0.165	1,500,000	375,000
Unlisted (5)	28/09/2016	30/09/2021	0.172	50,000,000	5,750,000
Unlisted (6)	8/07/2016	10/10/2021	0.113	4,000,000	1,000,000
Unlisted (6)	7/10/2016	10/10/2021	0.205	2,000,000	500,000
Unlisted (7)	01/11/2016	01/11/2019	0.137	7,000,000	7,000,000
Unlisted (1)	27/01/2017	16/02/2022	0.242	100,000	-
Unlisted (8)	30/01/2017	16/02/2022	0.241	3,000,000	3,000,000
Unlisted (8)	30/01/2017	31/12/2022	0.241	3,000,000	3,000,000
Unlisted (9)	05/03/2017	31/03/2022	0.209	8,000,000	-
Unlisted (9)	05/03/2017	31/03/2022	0.209	6,000,000	-
Unlisted (9)	05/03/2017	31/03/2022	0.209	6,000,000	-
Unlisted (10)	31/05/2017	31/01/2023	0.138	2,000,000	-
Unlisted (10)	31/05/2017	31/01/2024	0.138	2,000,000	-
Unlisted (10)	31/05/2017	31/01/2025	0.138	2,000,000	-
Unlisted (10)	31/05/2017	31/01/2026	0.138	2,000,000	-
Unlisted (11)	31/05/2017	01/02/2023	0.182	1,750,000	-
Unlisted (11)	31/05/2017	01/02/2024	0.182	1,750,000	-
Unlisted (11)	31/05/2017	01/02/2025	0.182	1,750,000	-
Unlisted (11)	31/05/2017	01/02/2026	0.182	1,750,000	-
Unlisted (12)	7/07/2017	7/07/2023	0.125	2,000,000	-
Unlisted (12)	7/07/2017	7/07/2024	0.125	2,000,000	-
Unlisted (12)	7/07/2017	7/07/2025	0.125	2,000,000	-
Unlisted (12)	7/07/2017	7/07/2026	0.125	2,000,000	-
Unlisted (1)	10/08/2017	10/08/2022	0.127	27,000,000	-
Unlisted (1)	28/11/2017	14/12/2022	0.136	500,000	-
Unlisted (1)	28/11/2017	14/12/2022	0.141	5,300,000	-
Unlisted (1)	28/11/2017	14/12/2022	0.171	500,000	-
Unlisted (1)	28/11/2017	14/12/2022	0.148	400,000	-
Unlisted (1)	1/12/2017	14/12/2022	0.140	200,000	-
Total				164,300,000	34,650,000

23. SHARE-BASED PAYMENTS (continued)

(1) Options issued to employees which vest equally over a 4-year period on each anniversary of the grant date.

(2) 11,000,000 unlisted options exercisable at A$0.225 per share on or before 30 November 2018 were issued to Directors on 11 December 2015 pursuant to the Company's DOOP as approved by shareholders on 4 December 2015.

(3) 250,000 unlisted options were issued to consultants on 21 December 2015. The options are exercisable at A$0.36 per share before 21 December 2020.

(4) 5,550,000 unlisted options were issued to employees and consultants on 21 December 2015. The options are exercisable at A$0.24 per share before 21 December 2020.

(5) 50,000,000 unlisted options were issued to the CEO, Lou DiNardo, on 30 September 2016. 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. The options vest equally over a 4-year period after attainment of the performance criteria and are exercisable before 30 November 2021.

(6) 6,000,000 unlisted options were issued to employees on 10 October 2016. These options vest equally over a 4-year period and, after vesting, are exercisable before 10 October 2021.

(7) 7,000,000 unlisted options were issued on 1 November 2016 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 i.e. $0.27 (based on 30 day VWAP) for 30 consecutive trading days, are exercisable before 1 November 2019.

(8) 6,000,000 unlisted options issued to consultants on 16 February 2017. 50% of these options vested immediately and expire on 16 February 2022. 50% will vest on 31 December 2017 as long as continuous service is provided and expire 31 December 2022.

(9) 20,000,000 unlisted options were issued to employees on 31 March 2017. 8,000,000 of these options vest equally over a 4-year period as long as continuous service is provided. 12,000,000 of these options vest equally over a 4-year period subject to the employee achieving various operational KPIs as determined by the Board, and continuous services. After vesting, all options expire 31 March 2022.

(10) 8,000,000 unlisted options were issued to Directors of which 25% of the options vest on each anniversary date of the offer date (31 January 2017) so long as continuous service is provided and expire five years from each vesting date.

(11) 7,000,000 unlisted options were issued to Directors of which 25% of the options vest on each anniversary date of the offer date (1 February 2017) so long as continuous service is provided and expire five years from each vesting date.

(12) 8,000,000 unlisted options were issued to Directors of which 25% of the options vest on each anniversary date of the offer date (7 July 2017) so long as continuous service is provided and expire five years from each vesting date.

(d) Options forfeited

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

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

23. SHARE-BASED PAYMENTS (continued)

(e) 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:

	2017 Number	2017 WAEP (US$)	2016 Number	2016 WAEP (US$)
Outstanding at 1 January	85,300,000	0.160	21,800,000	0.168
Granted during the year	84,000,000	0.163	68,500,000	0.158
Forfeited during the year	(5,000,000)	(0.194)	(5,000,000)	(0.172)
Outstanding at 31 December	164,300,000	0.161	85,300,000	0.160
Exercisable (vested and unrestricted) at 31 December	34,650,000		11,000,000	

The weighted average remaining contractual life for the share options outstanding at 31 December 2017 is 4.40 years (2016: 4.18 years).

The weighted average fair value of options granted during the year was US$0.11 (2016: US$0.09)

The range of exercise prices for options outstanding at the end of the year was US$0.11 to US$0.26 (2016: US$0.11 to US$0.26)

(f) 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 during the year ended 31 December 2017:

	Number of options	Fair value at measurement date $US	Share price at Grant Date US$	Exercise price US$	Expected volatility (%)	Risk-free interest rate (%)	Expected life of options in years
Employee	100,000	0.193	0.242	0.242	110	2.28	5.1
	1,000,000	0.198	0.249	0.249	110	2.32	5.1
	20,000,000	0.166	0.209	0.209	110	2.32	5.1
	27,000,000	0.131	0.127	0.127	110	2.23	5.1
	500,000	0.100	0.136	0.136	92.4	2.26	5.4
	5,300,000	0.101	0.141	0.141	92.4	2.26	5.1
Consultants	3,000,000	0.192	0.241	0.241	110	2.24	5.1
	3,000,000	0.201	0.241	0.241	110	2.35	5.9
	500,000	0.097	0.141	0.171	92.4	2.26	5.1
	400,000	0.100	0.141	0.148	92.4	2.26	5.1
	200,000	0.101	0.140	0.140	92.4	2.26	5.1
Director	2,000,000	0.116	0.142	0.138	110	2.06	5.7
	2,000,000	0.121	0.142	0.138	110	2.16	6.7
	2,000,000	0.125	0.142	0.138	110	2.26	7.7
	2,000,000	0.128	0.142	0.138	110	2.35	8.7
Director	1,750,000	0.112	0.142	0.182	110	2.06	5.7
	1,750,000	0.118	0.142	0.182	110	2.16	6.7
	1,750,000	0.123	0.142	0.182	110	2.26	7.7
	1,750,000	0.127	0.142	0.182	110	2.35	8.7
Director	2,000,000	0.101	0.121	0.125	110	2.33	6.0
	2,000,000	0.106	0.121	0.125	110	2.41	7.0
	2,000,000	0.109	0.121	0.125	110	2.49	8.0
	2,000,000	0.111	0.121	0.125	110	2.57	9.0

The expected dividend yield for all options granted during the period was nil. 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.

23. SHARE-BASED PAYMENTS (continued)

(g) Performance rights pricing model

The fair value of the performance rights granted under the LTIP is estimated as at the date of grant using the share price at the date of grant. The following table lists the inputs to the models used for the valuation of performance rights during the year ended 31 December 2017:

	Number of performance rights	Grant date $US	Fair value at grant date $US	Expiry Date
	500,000	9/08/2017	0.131	9/08/2021
Employee	1,000,000	5/03/2017	0.209	31/03/2021
	500,000	5/03/2017	0.209	31/03/2021

24. COMMITMENTS

Operating lease commitments - Company as lessee

	2017 US$	2016 US$
Office lease		
Up to one year	147,756	120,311
Two to five years	321,994	116,376
	469,750	236,687

25. CONTINGENT ASSETS AND LIABILITIES

The Consolidated Entity had no contingent assets or liabilities at 31 December 2017 (31 December 2016: $Nil).

26. EVENTS AFTER THE BALANCE SHEET DATE

In January 2018, the Company and Gaming Partners International Corporation (“GPI”) entered into a licensing, development and revenue sharing agreement related to the joint development of video analytic products for worldwide deployment in casino currency security, game table operations and player behaviour applications. The terms of the agreement provide for a total of US$500,000 in license fees, a non-recurring engineering fee of US$100,000 for products developed under the agreement, and long-term revenue sharing for the sale of the developed technology.

On 16 March 2018 the Company requested a waiver of Listing Rule 6.23.3 from the ASX to permit the Company to seek shareholder approval to extend the expiration dates of 45,800,000 unquoted options from between three to five years after the date of grant to ten years after the date of grant. If ASX grants the waiver the Company will seek shareholder approval for the extension of the expiration dates at its Annual General Meeting.

No other 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.

27. AUDITOR'S REMUNERATION

	2017 US$	2016 US$
Amounts received or due to be receivable by Ernst & Young (Australia) for:		
An audit or review of the financial reports of the entity	102,560	64,242
Non-audit services – tax compliance	-	25,260
	102,560	89,502
Amounts received or due and receivable by non-Ernst & Young audit firms for:		
An audit or review of the financial report of the entity	17,455	16,073
	17,455	16,073

28. OPERATING SEGMENTS

For management purposes, the Group is organised into one main operating segment, focused on the technological development of designs that can be licensed to Original Equipment Manufacturer ("OEM") Customers, End Users and System Integrators based on Artificial Neural Networks.

All the activities of the Group are interrelated, and each activity is dependent on the others. Accordingly, all significant operating disclosures are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole.

The Group currently derives revenue from its subsidiaries: France based subsidiary BrainChip SAS and USA based subsidiary, BrainChip Inc. Effective 29 December 2017, the Group was reorganised such that BrainChip SAS became a wholly-owned subsidiary of BrainChip Inc.

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.

	2017 US$	Restated 2016 US$
Revenue from external customers		
North America	24,565	4,912
Europe	244,931	144,372
Revenue from continuing operations	269,496	149,284
The following customers accounted for more than 10% of revenues:		
Customer A	89,807	75,860
Customer B	76,529	-
Customer C	28,392	26,822
Total	194,728	102,682
Non-current assets		
USA	1,117,018	174,153
Europe	1,930,828	2,432,064
	3,047,846	2,606,217

29. ACQUISTION OF BRAINCHIP SAS

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

Finalisation of the acquisition accounting was completed in 2017, and comparative information has been restated as if the accounting for the business combination had been finalised at the acquisition date. As a result, intangible assets have decreased by $905,458 and Goodwill has increased by a corresponding amount. In addition, following the assessment of the useful lives of the intangible assets, additional amortisation of $242,486 was recognised for the year ended 31 December 2016. This increased the Group loss for the year ended 31 December 2016 by an equivalent amount.

(a) Purchase Consideration	Fair value at acquisition date restated during 2017 US$	Provisional fair value at acquisition date reported at 31 December 2016 US$
BrainChip Holdings Ltd shares issued	10,405,488	10,405,488
Share price of A$0.12 being the share price of BrainChip Holdings on 1 September 2016	0.09	0.09
Fair value of shares issued	938,442	938,442
Cash paid - €529,598	590,226	590,226
Loan from BrainChip Holdings Ltd	139,554	139,554
Purchase consideration	1,668,222	1,668,222

(b) Fair value of assets and liabilities acquired		
Trade and other receivables	255,116	255,116
Inventories	151	151
Grants receivable	221,837	221,837
Other current assets	34,403	34,403
Property plant and equipment	11,875	11,875
Intangible assets	1,900,000	2,805,458
Goodwill	905,458	-
Non-current other assets	21,924	21,924
Overdraft facility acquired	(77,560)	(77,560)
Trade and other payables	(365,754)	(365,754)
Financial liabilities - current	(490,933)	(490,933)
Financial liabilities - non-current	(247,053)	(247,053)
Employee benefits liabilities	(47,157)	(47,157)
Other liabilities	(343,652)	(343,652)
Defined benefit plan	(110,433)	(110,433)
Net assets acquired	1,668,222	1,668,222

From the date of acquisition, BrainChip SAS contributed $149,284 of revenue and $512,118 loss before tax from continuing operations to the Group in the prior year. If the combination had taken place at the beginning of 2016, revenue from continuing operations would have been $358,007 and loss before tax from continuing operations for the Group would have been $6,293,181.

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.

Goodwill represents the difference between the aggregate of the fair values of the net identifiable assets and the cost of the acquisition. Goodwill accounts for intangible assets of the business not separately recognised on the balance sheet including the assembled workforce of highly technical, experienced personnel; established geographic presence in France, an important market for the Group's products; and favourable government relations in France. Goodwill also accounts for the fair value of expected synergies specific to the combination of BrainChip and BrainChip SAS including the synergies derived from combining two technical teams with extremely scarce expertise in Spiking Neural Networks technology.

29. ACQUISTION OF BRAINCHIP SAS (continued)

(c) Analysis of cash flow on acquisition	**31 December 2016 US$**	**31 December 2016 US$**
Transaction costs of the acquisition (included in cash flows from operating activities)	(80,566)	(80,566)
Acquisition of subsidiary, net of overdraft acquired (included in cash flows from investing activities)	(667,786)	(667,786)
Transaction costs attributable to issuance of shares (included in cash flows from financing activities, net of tax)	(4,644)	(4,644)
Net cash flow on acquisition	(752,996)	(752,996)

30. DISCONTINUED OPERATION

	2017 US$	**2016 US$**
Sale of ORRI and dissolution of subsidiaries 2017 (a)	28,372	474
Sale and dissolution of subsidiaries 2016 (b)	-	(251,029)
Net gain/(loss) from discontinued operations after tax	28,372	(250,555)

(a) Sale of ORRI and dissolution of subsidiaries 2017:
During 2017, BrainChip dissolved three wholly owned subsidiaries (refer Note 31(a)) and sold an interest in an overriding royalty interest agreement ("ORRI") to a third party.

(i) Financial performance

Other revenues – oil & gas royalties	5,220	9,801
Other revenues – sale of interest in overriding royalty interest	32,289	-
General & administrative expenses	(9,137)	(9,327)
Operating gain from discontinued operations	28,372	474
Income tax expense	-	-
Operating gain attributable to discontinued operations after tax	28,372	474
Gain on dissolution of subsidiaries	-	-
Income tax expense	-	-
Gain on dissolution of subsidiaries after tax	28,372	474
Net gain attributable to discontinued operations	28,372	474

(ii) Cash flow information.

Net cash outflow from operating activities	(3,917)	472
Net cash inflow from investing activities	32,289	-
Net increase in cash generated by the disposal	28,372	472

(b) Sale and dissolution of subsidiaries 2016:

On 21 December 2016, Blue Sky Corporation, a wholly owned subsidiary in the 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 assigning an overriding royalty interest agreement from Eternal Resources (USA) LLC to BrainChip Inc., which subsequently sold the agreement to a third party in 2017 (refer Note 30(a) above).

30. DISCONTINUED OPERATION (continued)

(i) Financial performance	2017 US$	2016 US$
Revenue from the sale of exploration tenements	-	54,517
Impairment of exploration expenses	-	(157,990)
Impairment of receivable from third parties	-	(120,281)
Impairment of advance to third parties	-	(54,000)
Operating loss from discontinued operations	-	(277,754)
Income tax expense	-	-
Operating loss attributable to discontinued operations after tax	-	(277,754)
Gain on sale and dissolution of subsidiaries	-	26,725
Income tax expense	-	-
Gain on sale and dissolution of subsidiaries after tax	-	26,725
Net loss attributable to discontinued operations	-	(251,029)

(ii) Cash flow information for the period 1 January 2016 to 21 December 2016	2017 US$	2016 US$
Net cash inflow from investing activities	-	287,052
Net cash flow	-	287,052
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

31. 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 2017	2016
Subsidiary companies of BrainChip Holdings Ltd			
BrainChip Inc. (1)	USA	100%	100%
BrainChip SAS (formerly Spikenet Technology SAS) (2)	France	-	100%
Aziana Exploration Corporation (3)	British Virgin Islands	-	100%
Eternal Resources Pty Ltd (4)	Australia	-	100%
Subsidiary companies of BrainChip Inc.			
BrainChip SAS (formerly Spikenet Technology SAS) (2)	France	100%	-
Subsidiary companies of Aziana Exploration Corporation			
Indian Ocean Minerals Investment Corporation (5)	Mauritius	-	100%

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

(2) BrainChip SAS (formerly Spikenet Technology SAS) was acquired on 1 September 2016. Effective 29 December 2017, the Group was re-organised such that BrainChip SAS became a wholly-owned subsidiary of BrainChip Inc.

(3) Aziana Exploration Corporation was dissolved on 29 November 2017.

(4) Eternal Resources Pty Ltd was dissolved on 16 February 2017.

(5) Indian Ocean Minerals Investment Corporation was dissolved on 31 March 2017.

31. RELATED PARTY DISCLOSURES (continued)

(b) Ultimate legal parent

BrainChip Holdings Ltd is the ultimate parent entity.

(c) Key Management Personnel compensation

Total remuneration paid to KMP of the Group during the year are as follows:	Consolidated Entity	
	2017	2016
	US$	US$
Short-term employee benefits (1) (2)	1,936,098	800,997
Short-term employee benefits capitalised to Intangible assets	162,573	-
Termination benefit (3)	180,895	-
Share-based payment	5,059,626	320,299
	7,339,192	1,121,296

(1) Mr. Bolto and Ms. Stein each have a consulting agreement with the Company for ad hoc services as requested by the CEO from time to time effective from 1 December 2016 at a rate of A$10,000 per month during active assignments, usually payable within 30 days of recognition. 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. Fees paid during the year to Mr. Bolto totalled $38,462 (2016: $25,291) and to Ms. Stein totalled $61,540 (2016: $7,226). As at 31 December 2017 consulting fees were payable to Mr. Bolto of $Nil (2016: $25,291) and to Ms. Stein of $Nil (2016: $7,226).

(2) In the prior year consulting services were provided by Mr Rinaldi up to 31 March 2016 at a rate of A$50,000 per annum. Total fees paid in excess of Mr Rinaldi's Non-Executive fees totalled $15,475.

(3) Accrued termination salary payable to Mr DoDuy as at 31 December 2017 totalled $51,800 (2016: $Nil).

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

At 31 December 2017, the Group accrued unclaimed travel expenses related to business travel incurred by Mr Lou DiNardo of $56,000 (31 December 2016: $56,000), in accordance with normal payment terms.

(d) Transactions with other related parties

There were no transactions with other related parties.

(e) Loans to/from related parties

There were no outstanding loans arising to or from related parties (31December 2016: $Nil).

32. PARENT ENTITY INFORMATION

	2017 US$	2016 US$
Information relating to BrainChip Holdings Ltd		
Current assets	859,502	3,178,824
Non-current assets	17,350,532	2,599,230
Total assets	18,210,034	5,778,054
Current liabilities	(143,564)	(268,948)
Non-current liabilities	-	-
Total liabilities	(143,564)	(268,948)
Net assets	18,066,470	5,509,106
Issued capital	78,810,327	59,252,449
Other contributed equity	2,025,617	2,025,617
Accumulated losses	(94,596,627)	(80,494,371)
Share based payment reserve	30,578,086	23,636,726
Option premium reserve	480,731	480,731
Foreign currency translation reserve	1,019,364	858,982
Other reserves	(251,028)	(251,028)
Total shareholders' equity	18,066,470	5,509,106
Net loss of the parent entity [(1)]	14,102,256	4,849,836
Total comprehensive loss of the parent entity	14,102,256	4,849,836

[(1)] At the reporting date investments and loans receivable from controlled entities net of provision for impairment totalled $17,350,532. Impairment expense of $6,411,651 (2016: $4,698,615) was recognised for the year ended 31 December 2017.

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

Directors’ 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 2017 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) 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 2017.

On behalf of the Board.

E L (Mick) Bolto
Chairman
Perth, 28 March 2018

Independent auditor's report to the members 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) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance for the year ended on that date; and

b) 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 auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also 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.

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 each matter below, our description of how our audit addressed the matter is provided in that context.

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 matters below, provide the basis for our audit opinion on the accompanying financial report.

Building a better working world

Share-based payments

Why significant	How our audit addressed the key audit matter
As disclosed in Note 23 to the financial statements, the Group has awarded significant share-based payments to employees, directors and consultants during the year, contributing to a total share-based payment expense of approximately US$6.9 million. The valuation of share-based payments is complex and involves the use of subjective assumptions that have a material effect on the financial statements. As such this matter has been determined to be a key audit matter.	As part of our audit procedures, we assessed the Group's share based payment expense calculations to ensure the balances were calculated in accordance with the applicable Australian Accounting Standards. We involved our valuation specialists to assess the Group's calculation of fair value of share-based payments issued during the year, including the key assumptions used. We also assessed the adequacy of the disclosures included in Note 23 to the financial statements, including whether the classifications and disclosures were presented in accordance with the applicable Australian Accounting Standards.

Purchase price accounting

Why significant	How our audit addressed the key audit matter
As disclosed in Note 29 to the financial statements, the Group finalised its purchase price accounting for the acquisition of Spikenet Technology (Spikenet) for $1.7 million. As a business acquisition, Australian Accounting Standards require the purchase price to be allocated between the acquired assets and liabilities, including in the recognition of tangible, intangible assets and goodwill as applicable. The principal areas of judgment in the Group's purchase price allocation related to the valuation of the intellectual property acquired. This matter was determined to be a key audit matter as the valuation of intangible assets is inherently complex and judgmental.	We evaluated the Directors' conclusion that identifiable intangible assets were limited to intellectual property. In addition, we considered the tax effect accounting for the purchase price accounting. Using our valuation specialists, we inspected the Group's valuation analysis prepared by the Directors, and used the work performed by the third party valuation experts who assisted the Group. We assessed the appropriateness of key assumptions within management's analysis including replacement costs against executed employment contracts and useful lives against industry peers. We assessed whether the Group's disclosures regarding the acquisition and the estimation required are appropriate and comply with relevant accounting standards.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2017 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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 on 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.

Responsibilities of the directors 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 relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to 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 the 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 the 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 Group'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 and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group 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 financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- 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 audit of the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2017.

In our opinion, the Remuneration Report of BrainChip Holdings Limited for the year ended 31 December 2017, 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

P Teale
Partner
Perth
28 March 2018

Additional Shareholder Information as at 13 March 2018

(a) Top 20 Quoted Shareholders

	%	Number of shares
MR PETER AJ VAN DER MADE	16.65	161,305,508
MR ROBERT F MITRO <ROBERT F MITRO LIVING A/C>	11.48	111,202,500
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	10.27	99,523,611
PERSHING AUSTRALIA NOMINEES PTY LTD <BLUE OCEAN EQUITIES A/C>	4.96	48,078,387
NERONA PTE LTD	3.63	35,167,167
CITICORP NOMINEES PTY LIMITED	1.48	14,362,394
METALS X LIMITED	1.19	11,569,144
MR PAUL GLENDON HUNTER	1.03	10,000,000
MR ANIL SHAMRAO MANKAR & MRS MEENA ANIL MANKAR <MANKAR FAMILY A/C>	1.03	10,000,000
MS CRISTINA M MITRO	1.03	10,000,000
MS VELIA MITRO	1.03	10,000,000
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	0.95	9,237,403
CROSSFIELD INTECH NOMINEES PTY LTD <LIEBESKIND FAMILY S/FUND A/C>	0.87	8,438,500
MR ADAM OSSEIRAN + MRS REBECCA OSSEIRAN-MOISSON <OSSEIRAN FAMILY A/C>	0.87	8,438,500
J P MORGAN NOMINEES AUSTRALIA LIMITED	0.75	7,237,476
NERONA PTE LTD	0.72	6,942,333
ZERO NOMINEES PTY LTD	0.63	6,121,611
HUNG {DO-DUY}	0.52	5,030,685
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	0.50	4,806,770
PETROLEUM MANAGEMENT INTERNATIONAL PTY LTD	0.41	4,000,000
Total	**60.00%**	**581,461,989**

(b) Distribution of quoted fully paid ordinary shares

Size of parcel	Number of share holders	Number of shares
1 to 1,000	134	28,920
1,001 to 5,000	3,220	11,065,094
5,001 to 10,000	1,812	14,847,765
10,001 to 100,000	3,778	134,368,279
100,001 and over	667	808,770,431
Total	**9,611**	**969,080,489**

There are 1,262 holders with less than a marketable parcel of ordinary shares based on the Company's closing market price of $0.18 on 13 March 2018.

Distribution of unquoted options

There is 1 holder of Options who holds 100,000 Options and 83 holders who hold greater than 100,001 Options.

Distribution of unquoted performance rights

There are 10 holders who hold greater than 100,001 Performance Rights.

Additional Shareholder Information as at 13 March 2018

(c) Substantial Shareholders

Substantial Shareholders	%	Number of shares
BRAINCHIP HOLDINGS LIMITED [(1)]	41.6%	403,241,351
APAC RESOURCES LIMITED AND RELATED BODIES CORPORATE [(2)]	8.08%	59,276,889
METALS X LIMITED AND ITS RELATED BODIES CORPORATE	7.10%	52,088,889
MR PETER AJ VAN DER MADE	19.88%	126,805,508
MR ROBERT F MITRO <ROBERT F MITRO LIVING A/C>	14.61%	93,202,500
ANIL SHAMRAO MANKAR AND MEENA ANIL MANKAR AS TRUSTEE OF THE MANKAR FAMILY TRUST	15.10%	109,135,000
NERONA PTE LTD	5.73%	36,555,500

(1) represents the number of votes subject to Voluntary Escrow Agreements

(2) APAC has indirect holdings through its interest in BNP Paribas Nominees Pty Ltd and Metals X Ltd.

(d) 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.

(e) Unquoted Equity Securities

There are currently 198,950,000 unquoted Options on issue held by 84 option holders.

There are currently 56,500,000 unquoted Performance Rights on issue held by 11 performance right holders.

Holders of more than 20% of the total unquoted Performance Rights are as follows:

Holder	Number	% Held
PETER VAN DER MADE	19,500,000	35%
ANIL MANKAR	17,250,000	31%

(f) Restricted Securities

There are currently 403,241,351 fully paid ordinary shares that are held under voluntary escrow until 18 June 2018.

(g) Buy-back

There is currently no on-market buy-back activity.