brainchip

BrainChip Holdings Ltd

Annual Report
2023

Board of Directors

Antonio J. Viana	Non-Executive Director and Chair
Sean Hehir	Executive Director, Chief Executive Officer
Peter van der Made	Non-Executive Director
Geoffrey Carrick	Non-Executive Director
Pia Turcinov	Non-Executive Director
Duy-Loan Le	Non-Executive Director

Company Secretary

Kim Larkin

Registered Office

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Website

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Auditors

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Share Registry

Boardroom Pty Ltd

Level 8, 210 George Street Sydney NSW 2000

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Online: www.clientonline.com.au

Securities Exchange

Australian Securities Exchange Limited

Exchange Centre, 20 Bridge St, Sydney NSW 2000

Code: BRN

OTCQX Best Market – OTC Markets Groups

Codes: BRCHF, BCHPY

ABN: 64 151 159 812

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Letter from the Chair

Dear Shareholder,

Our journey continues and much has transpired since my last letter to you. Like most companies, we have experienced ups and downs in the current market. I would like to start this letter off by addressing the industry transformation and then follow up with the material progress BrainChip has made in its renewed focus to win in the validated Edge AI explosion. I have the utmost confidence that the work BrainChip has put in, most notably over the past 12 to 24 months, has positioned us to fulfill our mission of becoming a world leader in the Edge AI market.

2023 – A year of transition

In the second half of 2022 and into the first half of 2023, we experienced the challenges of an industry and economy in transition. After the AI "hype cycle" of 2021, there was a clear pullback as the industry tried to fulfill the promise of AI. Given the circumstances and environment, the attention changed to generative AI and temporarily away from the Edge. Numerous elements of the supply chain were still educating themselves on how AI could be used to benefit, and, more importantly, monetize AI technology in their specific businesses. This dynamic caused plenty of uncertainty in the market. This uncertainty led to mixed approaches in addressing the industry's technological requirements.

In 2023, the Edge AI Market experienced a tremendous amount of positive activity. There has been a steady stream of radical innovation in algorithms, models, software, and development environments that have contributed to this transformative step forward for the industry. This is illustrated within BrainChip's extensive ecosystem and partners as well. One of our key partners, Edge Impulse, started integrating Nvidia's TAO toolkit to bring in a vast array of pre-trained models. Companies like Meta have invested heavily in LLAMA2 to bring generative AI to smaller footprint devices. BrainChip's partner and IP giant, Arm, reiterated the demand for specialized computation needed for the constrained environments in Edge AI. These are just some examples of showcasing the industry in transformation. But more importantly, these are examples of the industry transforming while improving itself.

BrainChip itself has gone through a material architectural and product transition. We put forth a significant amount of effort to accelerate the development and delivery of our 2nd generation Akida technology. We expanded our partnership efforts to proliferate both existing and new technology across innovators in Consumer, Industrial, Automotive, and new emerging growth markets like SpaceTech and Healthcare. 2023 also saw the delivery of the AKD1500, our second reference silicon design, which validated Akida and created greater interest for different market segments. Finally, thinking about the bigger picture, BrainChip brought in new energy and skills into the Executive team to transition BrainChip from purely a technology company to a customer and market driven company.

2024 – The year of opportunity

For all who followed this year's CES in Las Vegas (Consumer Electronics Show), there is an undeniable movement to Edge AI. From in-tyre sensors to prevent hydroplaning, to consumer robots, to intelligent appliances with intuitive human-machine interfaces (HMI), the overall industry is transitioning from the "hype cycle" to the "delivery cycle". With the astronomical overhead cost of generative and multi-modal AI, there is a concerted effort in the industry to integrate cost-effective Edge AI acceleration. More importantly, Edge AI has a real demand for optimized, economical and specialized compute. This is a strong driver for silicon and product companies to seek the best-in-class solutions to allow them to gain market share in this rapidly changing and ever-competitive market. This dynamic bodes very well for BrainChip's future as there is clear alignment with where the market is headed and where BrainChip is going.

Getting prepared

All the hard work and investment over the last 2 years has put BrainChip in a position to succeed and we kicked off 2024 on a strong positive note. The robust relationships we have cultivated with product companies and OEMs over the last year have been extremely beneficial in our development. The detailed technology evaluations and the agile engineering and technology response have been critical in building the foundation for our next phase of growth. Most recently, BrainChip's CES product demonstrations illustrate why leading industry technologists and potential customers value the Akida technology and ecosystem.

BrainChip has adopted a multi-pronged approach to attack the market, while staying true to its conviction that the only way to be ubiquitous in every Edge AI device is to be the most compelling and easiest IP solution to integrate:

- Expand leadership for best-in-class Edge AI IP products: We do this by focusing on features that give orders of magnitude better performance and efficiency, like Temporal Event Based Neural Nets (TENNs), and optimizing configurations for different use cases.
- Accelerate Akida technology into the market: The commercial challenge with IP is that the design cycle and "time to market" is longer. However, by partnering with leading solution providers like VVDN, TekSun and with innovators like Circle8 and EdgX, we can get our technology and solutions into the market faster. A great example is The Edge AI Box initiative that has kicked off into high gear which is driving the adoption of BrainChip's offerings.
- Investing in domain expertise: While we are a horizontal technology, Edge AI growth is obtained through penetration into certain domains such as vision, vibration, voice, and audio. We are strategically adding skills, technology, and relationships in specific domains to facilitate our future growth.

We are more active and agile than we have ever been. This is critical for us to build on the opportunities that the market looks to give us. There are many aspects to our immediate strategic acceleration; however, there are two that stand out.

The first is our ability to raise needed capital. We will continue to assess alternative funding sources and timing to minimize the impact on shareholders while maintaining appropriate cash levels. As for the second, we have instilled a culture of rapid innovation and agility, starting with new Executive Team personnel. More broadly, a key element in our agility includes upskilling and restructuring our organization across the board. During much of 2023, BrainChip built out the marketing, product, and ecosystem organizations to enhance our product, message, and value propositions, as well as our partnerships. We expect to make further changes as we continue to grow with this agility in mind.

On the personnel front, we brought in more experience and vision. Nothing highlights this more than the addition of our new CTO, Dr. Anthony Lewis - a neuromorphic technology pioneer who will provide the vision for the next phase of our journey. BrainChip will benefit as Dr. Lewis looks to expand BrainChip's reach while building off the foundation that Peter Van der Made - BrainChip's charismatic founder and CTO, instilled.

The Future: Creating your own luck

One definition of "*luck*" is *Preparation meeting an Opportunity*. This goes hand-in-hand with the age-old adage – "One must learn to create their own luck". There is an incredible opportunity in the current market and BrainChip is wholistically preparing to intercept and take advantage. I remain steadfast in my confidence of the trajectory the company is on. While striving for what we wish to accomplish, BrainChip must remain aggressive while being extremely judicious with its resources. We will, as always, continue to be driven by our focus on increasing shareholder value.

On behalf of the entire BrainChip team, thank you for being on this journey with us. BrainChip finds itself well positioned with respect to what we are bringing to the market and with where the market is going.

Take care,

Antonio J. Viana
Chair

Directors' Report

The directors submit their report of the consolidated entity, being BrainChip Holdings Ltd ("BrainChip Holdings" or "Company" or "BrainChip") and its controlled entities ("Group" or "Consolidated Entity"), for the year ended 31 December 2023.

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:

Antonio J. Viana	Non-Executive Director and Chair
Sean Hehir	Executive Director, Chief Executive Officer
Peter van der Made	Non-Executive Director
Geoffrey Carrick	Non-Executive Director
Pia Turcinov	Non-Executive Director
Duy-Loan Le	Non-Executive Director

The name of the Company's Secretary in office during the financial period and until the date of this report is:

Kim Larkin (Clark)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 14 January 2023, BrainChip submitted a capital call notice to LDA Capital Limited and LDA Capital LLC ("LDA Capital") in accordance with the Put Option Agreement (POA) dated 13 August 2020 to subscribe for up to 30 million shares with an option for LDA Capital to subscribe up to an additional 10,000,000 shares subject to the approval of BrainChip. The purpose of this capital call notice was to support the Akida technology development and working capital commitments, as well as to satisfy the Company's obligation under the Second Minimum Drawdown Amount requiring a minimum of A$15 million to be drawn no later than 31 December 2023. On 30 March 2023, the capital call notice was settled resulting in the Company receiving US$8,210,972 (A$12,232,543) based on the purchase price per capital call share ranging from A$0.5895 to A$0.6842.

On 4 December 2023, the Company issued a new Capital Call Notice with LDA Capital to subscribe for 25 million shares. The additional funding provides an opportunity for BrainChip to build its capital reserves as it anticipates increased commercial engagements and the need to support new customer engagements and fulfil customer support expectations. Refer "Significant Events After the Balance Date" for further comment.

On 29 December 2023, BrainChip executed a Third Amendment to the previously announced POA with LDA Capital for a one-year period. This amendment provides an option to extend the POA for two additional years under the same terms upon mutual consent. Under the terms of the renewal, the Company must fulfil its obligations under the Second Amendment to draw down the remaining A$2.7M in addition to an amount no less than A$12M by 31 December 2024. The Company is required to issue 40 million collateral shares by the earlier of the next Capital Call or 31 March 2024. The formula used to determine LDA Capital's purchase price remains set at 91.5% of the average of the daily Volume Weighted Average Price for each day shares are sold throughout the pricing period.

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

PRINCIPAL ACTIVITIES

The principal activity of the Group is the development of software and hardware accelerated solutions for advanced artificial intelligence ("AI") and machine learning applications with a primary focus on the development of its Akida Neuromorphic Processor to provide a complete ultra-low power and fast AI Edge Network for vision, audio, olfactory and smart transducer applications.

EMPLOYEES

The Group employed 78 employees as of 31 December 2023 (2022: 66).

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

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

Although the pandemic remains an ongoing global challenge, there has been minimal impact on our business other than certain restrictions when meeting and engaging with our customers face-to-face, and the supply of certain core components used in the construction of development kits.

Overview

The Group made a net loss after income tax for the year ended 31 December 2023 of $28,881,041 (2022: $22,087,670). The current year loss included non-cash losses totalling $364,248 resulting from the fair value of the LDA financial liabilities recognised due to the agreed pricing mechanism and the put option premium.

Revenues for the year ended 31 December 2023 of $232,004 decreased 95% from $5,071,252 in 2022. The Company delivered on its performance obligations related to a significant license agreement in the prior year and recognised the sale of multiple development kits and boards in the current year.

Total operating expenses for the year ended 31 December 2023 of $28,829,188 increased 7% from $27,015,834 incurred in the prior year. This increase was attributable to:

1) Research & development (R&D) expenses of $7,034,017 for the current period decreased 16%, or $1,332,252 from a year ago. R&D costs comprise employee expense, contractor and other research and development costs, and amortisation of capitalised R&D intangible assets. Movements in R&D costs are summarised as follows:

    a) 9% increase in employee expenses reflecting the expansion of headcount into both the USA (2 additional) and India (7 additional);

    b) Lower third-party pre-development services incurred in the current period of $636,493 versus $2,445,876 in the prior year related to the fabrication of the Akida™ devices;

2) Selling & marketing (S&M) expenses of $4,745,911 for the current period increased 50%, or $1,582,614 from a year ago. The increase reflects management's focus on targeting of potential customers worldwide and the promotion and marketing of the current and future products;

3) General & administrative (G&A) expenses of $5,695,026 for the current period decreased 10% overall, or $643,089 from the same period a year ago as a result of:

    a) A reduction in merit increases and accrued bonuses based on performance criteria approved by the Board;

    b) Lower corporate costs due to lower shareholder activity;

    c) reduced legal and professional costs; and

4) Share-based payment expense of $11,354,234 for the current period increased 24%, or $2,206,081 from the same period a year ago. Share-based payments expense is non-cash in nature, and represents the current period vesting expense for options, Restricted Stock Units ("RSUs") and Performance Rights ("PRs") issued to directors, employees and consultants, offset by the value of options that have been forfeited during the year.

REVIEW OF OPERATIONS (Continued)

Balance Sheet and Cashflows

At the end of the year, the Group had consolidated net assets of $16,834,321 (2022: $23,718,406), including cash and cash equivalents of $14,343,381 (2022: $23,165,288).

Trade and other Receivables increased to $2,422,006 from $2,349,796 in the prior year driven mainly by the fulfillment of performance obligations related to a significant license in the prior year, offset by an increase in Research Tax Credits recognised and the recognition of both a receivable of $921,792 and a derivative asset of $41,215 related to the LDA capital call notice which was open at 31 December 2023.

Cash outflows used in operating activities totalled $17,532,390 (2022: $13,652,254), as noted in the Consolidated Statement of Cash Flows, and reflects the continued growth of the Company, achieving production of the Akida device and continuing to develop the next generations of the device.

Cash inflows from Financing Activities included $8,210,972 from the issue of shares to LDA Capital and $1,029,013 from the exercise of Long-Term Incentive Plan options into issued shares.

Operational Highlights

Throughout 2023, the Company focused on refining and executing its commercial strategy with a focus on expanding its Sales & Marketing and Engineering teams, increasing the pipeline of qualified commercial engagements, accelerating product development and building up customer support capabilities.

While the Company did not secure royalty-bearing IP sales agreements in 2023, it laid the foundations for future commercial success through a more focused, targeted, and qualified customer engagement strategy that prioritized engagements with qualified technology customers that were already at an advanced stage of product development with defined budgets and timelines and where there were competitive opportunities to bring neuromorphic technology into consideration against existing products.

This strategy was rewarded with strong levels of interest from potential customers and an encouraging pipeline of detailed technical assessments which, if BrainChip is successful in managing, would lead to commercialization in 2024.

BrainChip expanded its growing list of technology industry ecosystem partnerships to include some of the world's largest and most innovative technology enablers and innovators. These partnerships are vital to demonstrating to the broader technology sector that BrainChip's products are compatible with a wide range of emergent AI technology platforms and form-factors and that BrainChip is a trusted and valued partner within the industry. These ecosystem partnerships have the potential to convert into future commercial partnerships generating royalties and revenues for BrainChip through IP licensing agreements and product sales.

The Sales & Marketing team expanded to reflect BrainChip's global customer audience with the appointment of sales representatives in Europe, North Asia, the Middle East and North America.

In terms of product development, the Company's primary focus in 2023 was the development of Akida 2.0, the second-generation Akida neuromorphic AI product. This goal was achieved in early October when Akida 2.0 became available as IP.

Akida 2.0 was designed and developed with extensive customer input and feedback to address a broader range of user applications which enhance BrainChip's differentiation in the market and open opportunities to engage with a significantly larger segment of the addressable market for Edge AI applications.

The release of Akida 2.0 was preceded by the release of the silicon-ready reference design for Akida1500, which is based on Global Foundries' advanced 22nm fully depleted silicon-on-insulator (FD-SOI) technology.

With the commercial availability of AKD1000, AKD1500 and Akida 2.0, BrainChip remains at the leading edge of the global AI innovation cycle which is driving global technology transformation.

Strengthening BrainChip's commercial advantage requires protection of intellectual property (IP) and in this regard 2023 was a year where BrainChip made significant strides. BrainChip's portfolio at 31 December 2023 comprised 13 US, 4 Australian, 1 European and 1 Chinese issued patents. In addition, some 29 patent applications are pending in the US, Europe, Australia, Canada, Japan, Korea, India, Brazil, Russia, Mexico, and Israel.

Operational Highlights (continued)

Part of the strategic growth and development of BrainChip in 2023 revolved around the planned retirement of company founder and Chief Technology Officer (CTO) Peter van der Made, and the appointment of Dr Anthony (Tony) Lewis as the new CTO. While Mr van der Made remains a director of the Company and chairs the BrainChip Scientific Advisory Board, he handed over responsibility for the CTO role to Dr Lewis at the end of 2023 as part of a seamless transition.

Risks

Factors that may impact the Company's performance include the commercial viability of, and potential delays in the delivery of, new products and technology, delays in the establishing of an effective sales organisation and disruption in the global economy. Some of the risks related to this include:

- Risks of competitors addressing the Company's markets and customers with advanced products with similar or better performance.
- Delays in customer adoption of new products, caused by disruption to, or our inability to provide adequate training and education, collateral materials, application engineering and customer support.
- Risks of delays in new product development, including delayed internal development, slower than expected development by partners, and delays in the integration of our technology with third party providers of intellectual property.
- Risks of delays in new product introductions, including delays to wafer fabrication, assembly of products and test operations.
- Inability to recruit and retain appropriately skilled and experienced human resources in a timely fashion, or at all.

The Company's performance and success are dependent upon the ability to effectively identify, protect and defend its intellectual property through patents or trade secrets. Some of the risks related to this include:

- Risks of intellectual property or other claims, which are costly to defend, and which could result in significant damage awards, and/or limit the Company's ability to use certain technologies in the future.
- Risks of successful intellectual property infringement claims that may have an adverse effect on our business, consolidated financial position, results of operations, or cash flows.
- Risks that intellectual property infringement protection for the Company's patents, trademarks, trade secrets and copyrights may not be available or feasible in every country in which our products and services could be distributed.
- Risks that all reasonable efforts by the Company to protect proprietary rights may not be sufficient or effective, including risks that intellectual property may not have adequate patent or copyright protection for certain innovations, that the scope of available protections is insufficient, or that an issued patent may be deemed invalid or unenforceable in certain jurisdictions.
- Risks that intellectual property held as trade secrets could be compromised by outside parties, or by our employees.
- Risks that change to government rules governing the export of artificial intelligence-related products and technologies may prohibit the sale of our products or licensing our technology in some areas of the world.

Other key risks the Company has identified include:

- Risks of an information technology breach that may damage our intellectual property, our reputation, or litigation and potential liability.
- Risks of international operations exposure that could harm our business, operating results, and financial condition including: changes in local political, economic, regulatory, tax, social, labour conditions and health and safety issues, which may adversely harm our business.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Subsequent to the end of the year, the following events occurred:

Since 1 January 2023 and to the date of this report, 249,146 Performance Rights (PRs) and 103,732 Restricted Stock Units (RSUs) held by BrainChip LTIP participants converted to shares upon vesting.

On 4 December 2023, BrainChip submitted a capital call notice to LDA Capital in accordance with the POA to subscribe for up to 25 million shares. On 23 January 2024, cash funds of A$3,850,488 were received. The purpose of this capital call notice was to support the Akida technology development and working capital commitments, as well as satisfy the Company's obligation under The Second Minimum Drawdown Amount requiring a minimum of A$15 million to be drawn no later than 31 December 2023.

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 Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

It is expected that the Group will further develop the Akida Neuromorphic System-on-Chip (NSoC).

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

SECURITIES ON ISSUE

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

Ordinary shares	1,805,814,685
Options over ordinary shares	63,451,314
Restricted stock units	38,946,228
Performance rights	3,985,463

SHARE OPTIONS

As at the date of this report there were 63,451,314 unissued ordinary shares under options. Refer to the Remuneration Report for further details of the options outstanding for Key Management Personnel ("KMP").

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.

During the financial year 2,372,200 options were granted, 9,964,167 options were exercised and 450,000 options were forfeited. No options were exercised after the year and to the date of this report.

RESTRICTED STOCK UNITS

38,946,228 RSUs were on issue at the date of this report (39,049,960 RSUs at the reporting date). During the financial year, 36,072,024 RSUs were granted, 14,747,820 RSUs were converted and 3,769,690 were cancelled. A further 103,732 RSUs were converted since the end of the year.

PERFORMANCE RIGHTS

3,985,463 PRs were on issue at the date of this report (4,234,609 PRs at the reporting date). During the financial year, 3,155,185 PRs were granted, 418,270 PRs converted to shares and 1,367,118 PRs were cancelled. A further 249,146 PRs converted to shares since the end of the year.

INFORMATION ON DIRECTORS

Names, qualifications, experience and special responsibilities

Antonio J. Viana, BS - Non-Executive Director (Appointed 28 June 2021); Chair (Appointed 1 March 2022)

Mr. Viana has over 30 years of experience in the global semiconductor space. Since 1999, Mr Viana previously held several leadership positions with ARM Holdings, the global leader in semiconductor IP, most notably as the President of Commercial and Global Development and the Global Director of the ARM Foundry Program. He was appointed to the ARM executive team as Executive VP of worldwide sales in 2008. At the beginning of 2013, his executive duties were expanded to include all commercial and global development. Mr Viana has also worked with Hughes Aircraft, Silicon Graphics, Encore Industries and was Senior VP of worldwide sales at Tensilica Inc. Most recently, Mr Viana served as the Executive Chairman of QuantalRF AG, an emerging Swiss RF semiconductor company developing transformative RF communication solutions. Mr Viana is also on the board of directors for Arteris Inc, a network-on-chip (NOC) IP company which recently became public through its Oct 2021 IPO. Mr Viana holds a Bachelor of Science with Honors from California Polytechnic State University, San Luis Obispo in Industrial and Systems Engineering.

Mr Viana is a member of the Company's Remuneration & Nomination Committee and was a member of the Audit & Governance Committee until 20 October 2023 when he resigned as a member of the Committee.

Other listed directorships in the past 3 years:

- Arteris Inc. (NASDAQ: AIP) - Non-Executive Director (Nov 2016 - present).

Sean Hehir, BS, MBA - Executive Director and Chief Executive Officer (Appointed 29 November 2021)

Mr Hehir has managed large global teams and been responsible for explosive revenue growth for global enterprise organisations such as Compaq and HP, as well as smaller, fast-growing companies like Fusion-io. Mr Hehir is industry-recognized as a builder of trusted customer relationships and Strategic Alliances across diverse partners such as Systems Integrators, ISVs, and OEMs.

Mr Hehir received his BS from the University of Massachusetts and MBA from Georgia State University.

Other listed directorships in the past 3 years: Nil.

Peter van der Made, M.Sc – Non-Executive Director (Executive director - appointed 29 January 2020 until retirement on 31 December 2023)

Mr van der Made has been at the forefront of computer innovation for over 40 years. He is the inventor of a computer immune system at vCIS Technology where he served as Chief Technology 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 previously held the position of Executive Director of BrainChip Holdings Ltd from 10 September 2015 to 1 January 2018.

Other listed directorships in the past 3 years: Nil.

Geoffrey Carrick, B,Ec, LL.B (USyd), GAICD - Non-Executive Director (Appointed 23 November 2020)

Mr Carrick is an experienced capital markets executive, having held the position of Head of Corporate Finance at Shaw and Partners Limited from March 2016 through July 2019 and Head of Equity Capital Markets at Commonwealth Bank from 2012 – 2015. Prior to joining CBA, Mr Carrick was a senior member of Macquarie Capital's Equity Capital Markets team, from 1999 to 2011.

Mr Carrick currently serves as Executive Chairman of VCF Capital Partners Pty Limited and Non-Executive Director of SmartPay Holdings Limited (ASX:SMP). Mr Carrick is a graduate of the University of Sydney B.Ec, LLB.

Mr Carrick is a member of the Company's Remuneration & Nomination Committee, and a member and Chair of the Audit & Governance Committee.

Other listed directorships in the past 3 years:

- SmartPay Holdings Limited (ASX:SMP) - Non-Executive Director (18 May 2022 - present).

INFORMATION ON DIRECTORS (Continued)

Names, qualifications, experience and special responsibilities (continued)

Pia Turcinov AM LLB BA (UNSW) GAICD – Non-Executive Director (Appointed 4 January 2022)

Ms Turcinov has more than 30 years of commercial and corporate experience across multiple industries, including technology, energy, resources, consumer goods and professional services. Having practised in corporate, commercial and IP law in NSW and Western Australia, Ms Turcinov transitioned into commercial advisory work in the private and public sectors.

Ms Turcinov is currently a General Partner of Fund WA Pty Ltd and serves as a Non-Executive Director of the Centre of Decommissioning Australia, as well as Chair of the East Metropolitan Health Service and Council Member of Edith Cowan University. Ms Turcinov holds a Bachelor of Laws and Bachelor of Arts degrees from the University of NSW and is a Graduate of the Australian Institute of Company Directors. In 2023, Ms Turcinov was appointed as a Member of the Order of Australia in the King's Birthday 2023 Honours List for her significant service to technology, innovation and women in STEM.

Ms Turcinov is a member of the Company's Audit & Governance Committee and Remuneration & Nomination Committee (effective 7 January 2022) and was appointed Chair of the Remuneration & Nomination Committee on 28 February 2022.

Other listed directorships in the past 3 years: Nil

Duy-Loan Le, BSEE, MBA - Non-Executive Director (Appointed 1 November 2022)

Ms. Le has a remarkable professional history, both technologically and in executive management, having retired from Texas Instruments (TI) as a Senior Fellow after 35 years. While at TI, she led global R&D and advanced technology manufacturing from concept to high volume production for TI's multi-billion-dollar memory, DSP, and base station product lines. She has global business experience, including overseeing joint ventures, foundries and OSAT (Outsourced Semiconductor Assembly and Test) partnerships. Ms. Le holds 24 patents and serves on the board of two universities.

In addition to BrainChip, she currently serves on the boards of Cirrus Logic, Wolfspeed and Atomera. She is the President and sole partner of DLE Management Consulting LLC, a management consulting firm. Ms Le was inducted into the Women in Technology Hall of Fame (WITI) in 2001, was the first engineer inducted into the Asian Hall of Fame in 2017 and in 2021 was named to "NACD Directorship 100", a recognition by the National Association of Corporate Directors for her excellence in leadership & corporate governance. She received numerous recognitions for her philanthropic contributions worldwide, including Congressional Special Recognition. She currently serves on the Board of two non-profit organisations which promote education and support social economic development projects in the third world.

Ms Le is a member of the Company's Remuneration & Nomination Committee and Audit & Governance Committee, effective 1 November 2022.

Other listed directorships in the past 3 years:

- National Instruments Corp. (NASDAQ: NATI): Non-executive director – Sep 2002 to October 2023
- Ballard Power Systems: (NASDAQ: BLDP) Non-executive director – February 2017 to February 2023
- Wolfspeed, Inc. (NASDAQ: NATI): Non-executive director – October 2018 to present
- Atomera Inc. (NASDAQ: ATOM) - Non-executive director – October 2019 to present
- Cirrus Logic Inc. (NASDAQ: CRUS) – Non-executive director – July 2023 to present

COMPANY SECRETARY

Kim Larkin (Appointed 1 Dec 2018, previous surname Clark)

Ms. Larkin is an experienced business professional with 22 years' experience in the Banking and Finance industries and 6 years as a Company Secretary (in-house) of an ASX300 company. Her experience includes debt and capital raising, risk management, mergers and acquisitions, compliance and governance. Ms. Clark currently acts as Company Secretary to various ASX listed and unlisted companies in Australia and is the Head of Corporate Services for Boardroom Pty Limited's Queensland office, a position she has held since April 2013.

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 & Governance Committee Meetings** (1)		**Remuneration & Nomination Committee Meetings** (1)	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
A Viana	7	7	6	6	4	4
S Hehir	7	7	n/a	n/a	n/a	n/a
P van der Made	7	6	n/a	n/a	n/a	n/a
G Carrick	7	7	6	6	4	4
P Turcinov	7	7	6	6	4	4
D Le	7	7	6	6	4	4

(1) Directors who are not members of the Audit & Governance Committee or Remuneration & Nomination Committee may be invited to attend meetings of the Committees.

Committee Memberships

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

Audit & Governance Committee	**Remuneration & Nomination Committee**
G Carrick (Chair)	P Turcinov (Chair)
A Viana (resigned 20 October 2023)	A Viana
P Turcinov	G Carrick
D Le	D Le

INTERESTS IN THE SHARES, OPTIONS, RSUs AND PRs 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**	**Restricted Stock Units**	**Performance Rights**
A Viana	1,413,333	-	1,104,011	-
S Hehir	1,989,017	-	5,346,223	-
P van der Made	156,805,823	-	-	1,262,635
G Carrick	-	2,500,000	-	187,344
P Turcinov	478,750	-	-	530,406
D Le	154,321	-	495,986	-
Total	**160,841,244**	**2,500,000**	**6,946,220**	**1,980,385**

REMUNERATION REPORT (Audited)

This remuneration report for the year ended 31 December 2023 outlines the remuneration arrangements of the Group 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")

1. Introduction

The Remuneration Report details the remuneration arrangements for KMP who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, 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 Group.

Details of KMP of the Group are set out below:

Key Management Personnel

Name	Position	Date of appointment	Date of resignation
Directors			
A Viana	Non-Executive Director	28 June 2021	-
S Hehir	Executive Director & Chief Executive Officer	29 November 2021	-
P van der Made [1]	Executive Director & Chief Technology Officer	10 September 2015	31 December 2023
G Carrick	Non-Executive Director	23 November 2020	-
P Turcinov	Non-Executive Director	4 January 2022	-
D Le	Non-Executive Director	1 November 2022	
Other Key Management Personnel			
A Mankar	Chief Development Officer	1 October 2014	-
K Scarince	Chief Financial Officer	11 March 2019	-

(1) Mr van der Made retired from his position as Chief Technology Officer on 31 December 2023 and continues as a Director of the Company in the capacity of Non-Executive Director effective from 1 January 2024.

REMUNERATION REPORT (Audited) (Continued)

2. Remuneration governance

Remuneration & Nomination Committee

The Remuneration & Nomination Committee operated throughout the year with the purpose of assisting the Board in establishing the Group's remuneration philosophy, guiding principles and practices and for monitoring their effectiveness. The principal objective of the Company's remuneration programme is to attract, retain and motivate highly talented individuals who can deliver competitive results and financial returns to our shareholders, while accomplishing both our short and long-term plans and goals. The Remuneration & Nomination Committee is specifically tasked with reviewing and making recommendations to the Board in respect of the Group's remuneration policies, short and long-term incentives, and equity remuneration, including the structure and amount of remuneration of executives and non-executive directors. The Remuneration & Nomination Committee is also responsible for overseeing the succession planning of the Chief Executive Officer and other top executives.

Remuneration approval process

The Board approves, subject to a recommendation from the Remuneration & Nomination Committee the remuneration arrangements of the non-executive Directors, executive directors and executives and all awards made under the Company's 2018 Long Term Incentive Plan ("LTIP"). Aggregate fees paid to non-executive directors are paid within the total remuneration fee pool approved by shareholders.

Remuneration Strategy

The remuneration strategy of the Group is evolving towards the following core principles:

- **Alignment with Shareholder Interests**. The Group's current use of equity as part of its remuneration structure enhances alignment between directors and executives' interests with those of our shareholders. Achievement of the Group's objectives are aimed at creating shareholder value, thus directly benefiting executives and non-executive directors as well.

- **Pay for Performance.** The Group instituted short term and long-term incentive programmes for all executives in 2023. The 2023 short term bonus programme is based on the achievement of company and individual performance targets, with payouts focused on the achievement of target bookings, product development milestones and adherence to budget. The LTIP performance metrics are all three-year company goals and are focused on bookings, the conversion of bookings to revenue and the company share price as of the last day of the year.

- **Market or Peer Company Comparison.** The Company's remuneration programme must be competitive with those of our peer companies in order to attract and retain our executives and employees. As a general rule, we target the market median (50th percentile) though we may deviate, up or down, from the median from time to time due to a variety of factors.

- **Retention.** The Company's remuneration programme is designed to attract and retain highly talented individuals critical to our success by providing programmes with retentive features. The Group's use of equity, both performance and time based, not only aligns with global compensation practices, but also with the interests of our shareholders. Furthermore, it provides the company with the appropriate remuneration tools to attract, retain, and reward our employees. Achieving our objectives should lead to creation of shareholder value which in turn would benefit executives and non-executive directors as their equity grants vest over time. Vested shares do not have value until exercise prices are exceeded, thereby raising shareholder value over time.

- **Separate Remuneration Structures**. The structure of executive and non-executive directors' remuneration is separate and distinct.

- **Risk Analysis.** The Remuneration & Nomination Committee considers the potential for unacceptable risk-taking in its remuneration design. We believe that the design of our executive remuneration does not unduly incentivise our executives to take actions that may conflict with the long-term best interests of the Company and its shareholders. Specifically, the Company provides executives with an appropriate mix of pay elements between cash and equity, with compensation not overly weighted towards any one remuneration component.

REMUNERATION REPORT (Audited) (Continued)

2. Remuneration governance (continued)

Remuneration Strategy (continued)

Adoption of 2022 Remuneration Report

At the Annual General Meeting of Shareholders on 23 May 2023, greater than 25% of Shareholders voted against the of adoption of the 2022 Remuneration Report. Based on Shareholder feedback received at the 2023 Annual General Meeting, the Remuneration & Nomination Committee and the Board have continued to review the approach taken to the Company's overall remuneration and its appropriateness to the Company's circumstances and overall market conditions.

To address concerns raised by Shareholders, the Remuneration & Nomination Committee recommended to the Board, and the Board approved changes to the Non-Executive Director Remuneration Policy. These included the introduction of:

- a set of Non-Executive Director (NED) performance criteria against which each NED is annually held accountable; and
- a NED Minimum Shareholding Policy requiring each NED to establish and hold a minimum shareholding based on 1 year of the NED base cash remuneration.

The updated remuneration policies and practices, formally adopted by the Board of Directors, reflect current market and stakeholder expectations, being:

- performance-based;
- transparent;
- globally benchmarked; and
- aligned with the interest of shareholders.

The Remuneration Policy and the Non-Executive Director Remuneration Policy are both available on the Company's website.

Outside of that issue, the Company believes that the appropriate balance has been struck in the current remuneration arrangements set out in this Report.

Non-Executive Remuneration Arrangements

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, highest ethical standards and broad experience, whilst incurring a cost which is competitive.

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 2022 Annual General Meeting, held on 24 May 2022, where shareholders approved an aggregate fee pool of A$700,000 per year.

Structure

The remuneration of non-executive directors consists of cash and participation in the Group's LTIP at the Board's discretion and subject to approval by shareholders.

With effect from 11 February 2019, each non-executive member of the Board received a base fee of A$90,000 per year, the Non-Executive Chair received an additional fee of A$60,000 per year; the Audit & Governance Committee Chair and the Remuneration & Nomination Committee Chair each received a fee of A$15,000 per year and each member of those Committees received A$10,000 per year.

In addition, as outlined in the Notice of Meeting for the 2022 AGM, subject to shareholder approval, each non-executive director will, on appointment, receive an initial grant of Restricted Stock Units or Performance Rights valued at A$400,000 using the average closing share price of the 30 trading days preceding the appointment date. This grant would vest annually on the anniversary of the appointment date over a three-year period. Additionally, each year the non-executive directors will also receive an annual grant at each Annual General Meeting valued at A$135,000 based on the share price, being the volume-weighted average price (VWAP) for the 60 trading days (for shares traded on the ASX) up to and including 31 December annually. This package is based on market data, including guidance provided by a third-party consulting firm specialising in executive and director remuneration retained by the Company in 2021.

The total remuneration received by each director during the reporting period is disclosed in Section 7.

3. Executive remuneration arrangements

Remuneration Policy

The Company recognises that if it is to be successful in a relatively nascent industry with its pioneering technology, it must recruit and retain highly talented individuals. Considering the stage of our technology and business development, these individuals also bear the incremental risk of joining an early-stage public Company. Although it is not the only factor, remuneration plays a key part in determining the Company's ability to compete for human resources and retain executives, particularly in the technical fields. In doing so, the Remuneration & Nomination Committee, the Board and management aim to design competitive remuneration programmes commensurate with executives' positions, responsibilities and experience, and incentivize them to drive towards the achievement of the Company's short and long-term objectives.

The granting of equity instruments is a critical element of the Company's remuneration programme for executives as it aligns their interests directly with that of the Company. The realisation of value from these equity grants over time, are highly dependent on the success of the Company. As a result, equity grants incentivise our executives to drive towards achievement of our short and long-term objectives.

Structure

Remuneration consists of the following key elements:

- Fixed remuneration (base salary and superannuation); and
- Variable remuneration (variable commissions, shares, share options, restricted stock units and performance rights).

Fixed Remuneration

The fixed pay element of the Company's remuneration programme for executives is designed to attract and retain top talent in a competitive environment, taking into consideration the role, responsibilities, capabilities and experience of individual executives. In 2023, executives received fixed base salaries and their contracts did not include any guaranteed base pay increases. Fixed remuneration is reviewed annually by the Board. This process consists of a review of the Company's results, individual performance, relevant comparative remuneration internally and externally.

Variable Remuneration

Variable commissions

Contracts for sales and marketing executives includes variable commissions which are contingent upon meeting agreed performance objectives, mainly a percentage of sales revenue and committed bookings.

Cash Bonuses

In 2022, a Short-Term Incentive Program (STIP) was introduced across the Company to provide incentive for all staff as the Company transitions to commercialisation of Akida. The 2022 STIP was based on achieving company and individual performance targets, with payouts focused on achieving target bookings, product development milestones and adherence to budget. In 2023, an additional target was included based on the Company's share price.

2018 and 2015 Long Term Incentive Plan (LTIP).

The 2018 LTIP was put to shareholders at the Annual General Meeting on 26 May 2021 for the purposes of ASX Listing Rule 7.2 exception 13 and approved by shareholders for that purpose. The Company had equity instruments that were issued under the 2015 LTIP. However, all new awards post 10 May 2018 have been issued under the 2018 LTIP.

In 2022, recognising the imperative to incentivize executives as the Company moves towards commercialisation of Akida, a three-year LTIP program was initiated, with equity awards aligned to Company targets for bookings and revenues.

REMUNERATION REPORT (Audited) (Continued)

4. Executive remuneration arrangements (continued)

Variable Remuneration (continued)

LTIP Awards

The objective of the 2018 LTIP is to attract and retain key employees and consultants. It is considered that the LTIP, through the issue of shares, share options, restricted stock units and performance rights ("*LTIP equity instruments*"), will provide eligible participants with the opportunity to participate in the future growth of the Company. Share 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 share options which are issued under the LTIP.

LTIP equity instruments issued to eligible participants are issued in accordance with the 2018 LTIP and, historically, in accordance with the 2015 LTIP. The number of LTIP equity instruments issued is determined by the policy set by the Board upon recommendation by the Remuneration & Nomination Committee and is based on each eligible participant's role and position within the Group.

The LTIP equity instruments will vest over periods as determined by the Board and eligible participants are able to exercise or convert the LTIP equity instruments any time after vesting and before the expiry date. Where an eligible participant ceases employment prior to the vesting of their LTIP equity instrument, the LTIP equity instrument will generally automatically lapse and be forfeited. Where an eligible participant ceases employment after the vesting but before the exercise (if applicable) of their LTIP equity instrument, unless the eligible participant has been terminated for cause (when their LTIP equity instrument will immediately lapse), the LTIP equity instrument may generally be exercised by the eligible 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. Any LTIP equity instruments not exercised within such period will automatically lapse and be forfeited.

REMUNERATION REPORT (Audited) (Continued)

5. Options, restricted stock units and performance rights granted as part of remuneration

(a) Options, restricted stock units and performance rights linked to performance criteria

The Board has full discretion in approving specified performance criteria linked with options 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.

In the current year, RSUs and PRs were provided as remuneration with linked performance conditions to various KMPs as noted in the table below. The performance criteria of the above RSUs and PRs were approved by the Remuneration and Nomination Committee and the Board for grant in the relevant year and requires the Company to achieve financial performance targets based on Revenue, Bookings and Share price (2022: Revenue and Bookings) at the end of each financial year over a period of three consecutive years ("Performance Period"). The number of RSUs or PRs to be awarded to a KMP at the end of the Performance Period will be determined on a linear basis and includes a minimum number that will be awarded if targets are not achieved.

	Year	Maximum RSU awarded	RSU vested in current year	Maximum PR awarded	PR vested in current year	PR's cancelled in current year	Grant Date	End of Vesting Period	Fair value per RSU/PR^	Total Fair Value	Expiry date
		Number	Number	Number	Number				US$	US$	
S Hehir	2022	1,081,730	-	-	-		25/05/2022	28/02/2025	0.814	880,539	1/03/2025
P van der Made (1)	2022	-	-	1,250,000	-		25/05/2022	28/02/2025	0.814	1,017,513	1/03/2025
A Mankar	2022	1,250,000	-	-	-		29/04/2022	28/02/2025	0.702	877,216	1/03/2025
K Scarince	2022	1,000,000	-	-	-		29/04/2022	28/02/2025	0.702	702,773	1/03/2025
S Hehir	2023	2,264,493	-	-	-		25/05/2023	28/02/2026	0.278	629,529	1/03/2026
P van der Made (1)	2023	-	-	1,287,906	-		25/05/2023	28/02/2026	0.278	358,038	1/03/2026
A Mankar	2023	1,572,564	-	-	-		21/04/2023	28/02/2026	0.278	437,173	1/03/2026
K Scarince	2023	1,362,889	-	-	-		21/04/2023	28/02/2026	0.278	378,883	1/03/2026

^ For details on valuation of the options issued in the current year, including models and assumptions used, please refer to Note 25 of the Financial Report.

(1) The Board of Directors and Mr van der Made agreed a portion of the PRs issued to Mr van der Made would remain vesting at the date of his retirement based on the period of service that had been completed. The remaining PRs were cancelled – refer Section 8 of the Remuneration Report.

No options over ordinary shares with performance criteria attached were issued during 2023.

REMUNERATION REPORT (Audited) (Continued)

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

(b) Options, restricted stock units and performance rights with no linked performance criteria

RSUs and PRs over ordinary shares in the Company were provided as remuneration to KMPs during the financial year with no performance conditions other than a service condition of between 1 to 10 years and vesting period in tranches of varying time periods to encourage the retention of staff, as detailed in the table below:

	Year	RSU awarded during 2023	RSU vested in current year	RSU lapsed in current year	PR awarded during 2023	PR vested in current year	Grant Date	End of Vesting Period	Fair value per RSU/PR ^	Total Fair Value	Expiry date
		Number	Number	Number	Number	Number			US$	US$	
A J. Viana	2022	-	666,666	-	-	-	25/05/2022	28/06/2024	0.814	1,628,000	29/06/2024
A J. Viana	2022	-	250,000	250,000	-	-	25/05/2022	1/11/2025	0.814	814,000	1/11/2025
S Hehir	2022	-	2,000,000	-	-	-	25/05/2022	29/11/2025	0.814	4,884,000	30/11/2024
P Turcinov	2022	-	-	-	-	69,124	25/05/2022	25/05/2025	0.814	168,802	26/05/2025
P Turcinov	2022	-	-	-	-	204,813	25/05/2022	4/01/2025	0.814	500,153	5/01/2025
A J. Viana	2023	187,344		-			26/05/2023	26/05/2024	0.278	52,082	27/05/2024
G Carrick	2023	-	-	-	187,344	-	26/05/2023	26/05/2024	0.278	52,082	27/05/2024
P Turcinov	2023	-	-	-	187,344	-	26/05/2023	26/05/2024	0.278	52,082	27/05/2024
D-L Le	2023	187,344	-	-	-	-	26/05/2023	26/05/2024	0.278	52,082	27/05/2024
D-L Le	2023	462,963	154,321	-	-	-	26/05/2023	1/11/2025	0.278	128,704	2/11/2025

In the prior years, options over ordinary shares have been issued to KMPs with no performance criteria other than a service condition of between 1 to 10 years vesting period in tranches of varying time periods. These are listed in the table below:

	Year	Options awarded during the year	Options vested during 2023	Options exercised during 2023	Options forfeited during 2023	Options lapsed during 2023	Grant Date	End of Vesting Period	Fair value per option ^	Total Fair Value	Exercise price per option	Expiry date
		Number	Number	Number	Number	Number			US$	US$	US$	
K Scarince	2019	-	625,000	-	-	-	11/03/2019	11/03/2023	0.038	381,370	0.047	11/03/2029
K Scarince	2019	-	-	1,600,000	-	-	11/03/2019	11/03/2023	0.038	381,370	0.047	11/03/2029
G Carrick	2021	-	625,000	-	-	-	27/05/2021	23/11/2024	0.395	987,736	0.279	27/05/2031

^ For details on valuation of the options issued in the current year, including models and assumptions used, please refer to Note 25.

REMUNERATION REPORT (Audited) (Continued)

6. Company performance and the link to remuneration

The actual remuneration earned by executives and non-executive directors during 2023 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. These share-based payment values are recognised over the vesting period and calculated at the date of grant using the Black Scholes model or the share price on the date of grant.

Remuneration in the form of share-based payments awarded to executives included performance criteria linked to certain financial KPIs, and service conditions which are in recognition of the service provided.

The adoption of BrainChip's 2018 LTIP gave the Board 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 undertaken in order to secure services and encourage retention and, is a performance incentive which allows executives to share the rewards of the success of the Company.

The table below shows information on the Group's earnings and movements in shareholder value for the past five years up to and including the current financial year.

	2023	**2022**	**2021**	**2020**	**2019**
Net loss after tax US$ million	28.88	22.09	20.98	26.82	11.31
Closing share price AUD	$0.170	$0.745	$0.680	$0.430	$0.047
Closing share price USD	$0.113	$0.507	$0.494	$0.331	$0.033
Loss per share (US cents)	1.57	1.24	1.22	1.76	0.95
Net tangible assets US cents per share	0.83	1.24	1.10	0.90	0.49

No dividends were issued in the past five years including the current financial year.

7. Executive contractual arrangements

Details for executive contractual arrangements for KMP are detailed below:

Name	Sean Hehir
Title	Chief Executive Officer and Executive Director
Term of agreement	Open agreement with no fixed term
Details	Salary package of $450,000 including any salary sacrifice and superannuation, health and welfare benefit plans, practices, policies and programmes provided by BrainChip Inc. Mr Hehir will be eligible for discretionary annual incentive plans, the terms of which are at the absolute discretion of the Board. Mr Hehir will be eligible to receive a Short-Term Incentive ("STI") of up to 100% of base salary in respect of each financial year in which he is employed by the Company, subject to performance metrics determined by the Board. No cash bonus was awarded in 2023.
Termination	Terminated by 12 months' notice by the Company or Mr Hehir, except that the Company may terminate employment without notice in certain circumstances. On termination of employment by either Mr Hehir or the Company, the Company will pay all fixed remuneration and any statutory entitlements owing to Mr Hehir, and any STI or LTI not vested may be paid or granted at the discretion of the Board.

REMUNERATION REPORT (Audited) (Continued)

7. Executive contractual arrangements (continued)

Name	Peter van der Made
Title	Chief Technology Officer and Executive Director
Term of agreement	Open agreement with no fixed term however Mr van der Made retired effective 31 December 2023.
Details	Salary package of A$470,392 ($325,000 equivalent) inclusive of superannuation and employee benefits, practices, policies and programmes provided by BrainChip Research Institute Pty Ltd ("BRIPL"). 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). No cash bonus was awarded in 2023.
Termination	Terminated without cause or notice by either himself or BRIPL by giving 4 weeks' notice. Termination without notice is applicable if there is serious misconduct or other specific clauses of the contract have been breached. Mr van der Made is entitled to 12 months' severance pay upon termination by BRIPL. at any time without cause. The amount is payable over 12 months from the date of termination.

Name	Anil Mankar
Title	Chief Development Officer
Term of agreement	Open agreement with no fixed term
Details	Base fee of $375,000 plus benefits under health and welfare benefit plans, practices, policies and programmes 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 cash bonus was awarded in 2023.
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	Ken Scarince
Title	Chief Financial Officer
Term of agreement	Open agreement with no fixed term
Details	Base fee of $325,000 plus benefits under health and welfare benefit plans, practices, policies and programmes provided by BrainChip Inc. Mr Scarince 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 cash bonus was awarded in 2023.
Termination	Terminated at any time with or without cause or notice by either himself or BrainChip Inc. Mr Scarince 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.

There are no other formalised KMP employment agreements.

REMUNERATION REPORT (Audited) (Continued)

7. Executive contractual arrangements (continued)

The table below shows the realised remuneration of the Group's KMPs received during 2023:

Remuneration of Key Management Personnel

2023		Short Term		Post-Employment	Share-based Payment [3]	Total	Performance related
	Salary and Fees	Bonus [2]	Annual leave	Super-annuation	Equity Instruments		
	US$	US$	US$	US$	US$	US$	%
Non-Executive Directors							
A Viana	111,255	-	-	-	698,146	809,401	-
G Carrick	82,782	-	-	-	166,541	249,323	-
P Turcinov	82,782	-	-	-	270,050	352,832	-
D Le	72,848	-	-	-	102,661	175,509	-
Executive Directors							
S Hehir	456,781	-	34,614	9,900	2,079,506	2,580,801	5%
P van der Made [1]	294,073	-	22,476	17,483	196,757	530,789	37%
Other Key Management Personnel							
A Mankar	389,343	-	13,224	9,900	415,255	827,722	50%
K Scarince	331,781	-	24,998	9,750	344,547	711,076	48%
Totals	**1,821,645**	**-**	**95,312**	**47,033**	**4,273,463**	**6,237,453**	

(1) Mr van der Made retired as Chief Technology Officer on 31 December 2023 and was appointed non-executive director effective 1 January 2024

(2) No cash bonuses were awarded to KMPs during the year.

(3) Share-based payment remuneration represents the current period expense in respect of options and performance rights issued, offset by the value of options and performance rights that have been forfeited during the year.

REMUNERATION REPORT (Audited) (Continued)

7. Executive contractual arrangements (continued)

The table below shows the realised remuneration of the Group's KMPs received during the prior year:

Remuneration of Key Management Personnel

2022		Short Term		Post-Employment	Share-based Payment [6]	Total	Performance related
	Salary and Fees	Bonus [5]	Annual leave	Super-annuation	Equity Instruments		
	US$	US$	US$	US$	US$	US$	%
Non-Executive Directors							
A Viana	112,983	-	-	-	1,374,271	1,487,254	-
G Carrick	86,600	-	-	-	254,342	340,942	-
P Turcinov [1]	84,187	-	-	-	327,046	411,233	-
D Le [2]	12,281	-	-	-	-	12,281	-
E Hernandez [3]	17,973	-	-	-	-	17,973	-
Executive Directors							
S Hehir	456,658	301,500	34,632	9,150	2,861,025	3,662,965	13%
P van der Made	308,700	103,215	23,555	16,869	222,423	674,762	48%
Other Key Management Personnel							
A Mankar	388,471	125,625	11,538	9,150	208,942	743,726	45%
K Scarince	331,658	108,249	25,011	9,150	295,763	769,831	36%
R Telson [4]	-	-	-	-	-	-	-
Totals	**1,799,511**	**638,589**	**94,736**	**44,319**	**5,543,812**	**8,120,967**	

(1) Ms Turcinov was appointed Non-Executive Director on 4 January 2022

(2) Ms Le was appointed Non-Executive Director on 1 November 2022

(3) Mr Hernandez resigned as Non-Executive Director on 28 February 2022.

(4) Mr Telson ceased being a KMP on 1 January 2022.

(5) Cash bonuses awarded to KMPs during the year were paid in January 2023.

(6) Share-based payment remuneration represents the current period expense in respect of options and performance rights issued, offset by the value of options and performance rights that have been forfeited during the year.

REMUNERATION REPORT (Audited) (Continued)

8. Equity Instruments Disclosure

Shareholdings of Key Management Personnel (including nominees)

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

	Balance held at 1 January 2023	Acquired / Disposed	Shares issued as remuneration	Net change other [4]	Balance held at 31 December 2023
Non-Executive Directors					
A Viana	561,666	(65,000)	-	916,667	1,413,333
G Carrick	-	-	-	-	-
P Turcinov	-	-	-	273,937	273,937
D Le	-	-	-	154,321	154,321
Executive Directors					
S Hehir	1,082,975	(1,093,958)	-	2,000,000	1,989,017
P van der Made [3]	156,805,508	-	-	315	156,805,823
Other KMPs					
A Mankar [1]	84,999,833	-	-	-	84,999,833
K Scarince [2]	22,100	(1,400,000)	-	1,600,000	222,100
Total	243,472,082	(2,558,958)	-	4,945,240	245,858,364

(1) 84,999,833 fully paid ordinary shares are held by Merrill Lynch (Australia) Nominees Pty Ltd on behalf of Mr Mankar.
(2) Mr Scarince holds 100 BRCHF shares and 300 BCHPY (ADR) shares (which represent 40 BRN shares) on the US stock markets.
(3) Correction of 315 shares to align with share register.
(4) Comprises shares issued on conversion of Restricted Stock Units or Performance Rights.

Options holdings of Key Management Personnel (including nominees)

The table below summarises the options granted to KMPs and exercised during the current year. Refer to section 5 for the terms of the options granted to KMP in the current and prior years. There were no alterations to the terms and conditions of options awarded as remuneration since their award date. No options were lapsed during the current year.

	Balance at beginning of period 1 January 2023	Granted as remuner-ation	Exercised	Net change other	Balance at end of period 31 December 2023	Vested and not exercise-able	Vested and exercisable
Non-Executive Directors							
A Viana	-	-	-	-	-	-	-
G Carrick	2,500,000	-	-	-	2,500,000	-	1,875,000
P Turcinov	-	-	-	-	-	-	-
D Le	-	-	-	-	-	-	-
Executive Directors							
S Hehir	-	-	-	-	-	-	-
P van der Made	-	-	-	-	-	-	-
Other KMPs							
A Mankar	-	-	-	-	-	-	-
K Scarince	23,300,000	-	(1,600,000)	-	21,700,000	-	21,700,000
Total	25,800,000	-	(1,600,000)	-	24,200,000	-	23,575,000

REMUNERATION REPORT (Audited) (Continued)

8. Equity Instruments Disclosure (Continued)

Restricted Stock Unit (RSU) holdings of Key Management Personnel (including nominees)

The table below summarises the RSUs granted to KMP and converted to shares during the current year. Refer to section 5 for the terms of the RSUs granted to KMP in the current and prior years. There were no alterations to the terms and conditions of RSUs awarded as remuneration since their award date. There is no value attributable to the RSUs which lapsed during the current year.

	Balance at beginning of period 1 January 2023	Granted as remuner-ation	Converted	Lapsed	Net change other	Balance at end of period 31 December 2023
Non-Executive Directors						
A Viana [(1)]	2,083,334	187,344	(916,667)	(250,000)	-	1,104,011
G Carrick	-	-	-	-	-	-
P Turcinov	-	-	-	-	-	-
D Le	-	650,307	(154,321)	-	-	495,986
Executive Directors						
S Hehir	5,081,730	2,264,493	(2,000,000)	-	-	5,346,223
P van der Made	-	-	-	-	-	-
Other KMPs						
A Mankar	1,250,000	1,572,564	-	-	-	2,822,564
K Scarince	1,000,000	1,362,889	-	-	-	2,362,889
Total	9,415,064	6,037,597	(3,070,988)	(250,000)	-	12,131,673

(1) 250,000 RSUs lapsed as noted in Section 9 "Other transactions and balances with KMP".

Performance Right (PR) holdings of Key Management Personnel (including nominees)

The table below summarises the PRs granted to KMPs and converted during the current year. Refer to section 5 for the terms of the PRs granted to KMP in the current and prior years. There were no alterations to the terms and conditions of the PRs awarded as remuneration since their award date. There is no value attributable to the PRs which lapsed during the current year.

	Balance at beginning of period 1 January 2023	Granted as remuneration	Converted	Lapsed [(1)]	Net change other	Balance at end of period 31 December 2023
Non-Executive Directors						
A Viana	-	-	-	-	-	-
G Carrick	-	187,344	-	-	-	187,344
P Turcinov	821,812	187,344	(273,937)	-	-	735,219
D Le	-	-	-	-	-	-
Executive Directors						
S Hehir	-	-	-	-	-	-
P van der Made	1,250,000	1,287,906	-	(1,275,271)	-	1,262,635
Other KMPs						
A Mankar	-	-	-	-	-	-
K Scarince	-	-	-	-	-	-
Total	2,071,812	1,662,594	(273,937)	(1,275,271)	-	2,185,198

(1) Mr van der Made retired as Chief Technology Officer on 31 December 2023 and continues to serve as a non-executive director. Performance rights issued to Mr van der Made in 2022 and 2023 lapsed based on the remaining service period. The performance criteria of the remaining performance rights will still apply upon vesting.

REMUNERATION REPORT (Audited) (Continued)

9. Other transactions and balances with KMP

Mr Antonio J. Viana entered into an agreement with BrainChip Inc on 1 November 2021 to provide business development consultancy services on a rolling 6-month period, renewed up to four years. The consideration, as approved by shareholders at the 2022 AGM was valued at $6,000 per month and was satisfied by the issue of 1 million RSUs, vesting 25% annually upon the anniversary of the original agreement (1 Nov 2021).

In light of key executive appointments made by the Company in 2023, Mr Hehir as CEO of the Company, determined that the business development consultancy services that Mr Viana had provided were no longer required. The consultancy agreement with Mr Viana was terminated by the Company effective 31 December 2023. Consistent with the terms of the agreement Mr Viana will receive 250,000 RSUs on 1 November 2024.

There were no other transactions with other Key management personnel have been incurred, other than reported above.

End of Audited Remuneration Report.

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 2023 Corporate Governance Statement dated 22 February 2024 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 policies of the Group.

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, HLB Mann Judd (WA) Partnership, 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 HLB Mann Judd (WA) Partnership during or since the financial year.

AUDITOR INDEPENDENCE

The Directors received the Independence Declaration, as set out on page 26, from HLB Mann Judd (WA) Partnership.

NON-AUDIT SERVICES

No non-audit services were provided by the entity's auditor, HLB Mann Judd (WA) Partnership during the current and the prior year.

Signed in accordance with a resolution of the Directors.

Antonio J. Viana
Chair
California, U.S.A., 26 February 2024

HLB MANN JUDD
ADVISORY AND ACCOUNTING

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of BrainChip Holdings Limited for the year ended 31 December 2023, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

Perth, Western Australia	**B G McVeigh**
26 February 2024	**Partner**

hlb.com.au

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Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2023

	Note	31 December 2023 US$	31 December 2022 US$
Continuing operations			
Revenue from contracts with customers	5	232,004	5,071,252
Cost of goods sold		(140,564)	(480,327)
Gross profit		91,440	4,590,925
Research & development expenses	6(a)	(7,034,017)	(8,366,269)
Selling & marketing expenses	6(b)	(4,745,911)	(3,163,297)
General & administrative expenses	6(c)	(5,695,026)	(6,338,115)
Share-based payment expense	25(a)	(11,354,234)	(9,148,153)
Operating loss		(28,737,748)	(22,424,909)
Finance income	7(a)	491,508	257,809
Finance expense	7(b)	(154,121)	(88,165)
Net fair value (loss)/gain through profit and loss	7(c)	(364,248)	204,289
Loss from continuing operations before income tax		(28,764,609)	(22,050,976)
Income tax expense	9(c)	(116,432)	(36,694)
Net loss for the year		(28,881,041)	(22,087,670)
Other comprehensive income/(loss)			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):			
Remeasurement (loss)/gain on defined benefit plans		(6,453)	99,455
Items that may be reclassified subsequently to profit or loss (net of tax):			
Exchange differences on translation of foreign operations		138,210	(14,237)
Other comprehensive income for the year, net of tax		131,757	85,218
Total comprehensive loss for the year, net of tax		(28,749,284)	(22,002,452)
		US cents per share	**US cents per share**
Loss per share attributable to ordinary equity holders of the Company			
Basic loss per share	10	(1.57)	(1.24)
Diluted loss per share	10	(1.57)	(1.24)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position
As at 31 December 2023

	Note	31 December 2023 US$	31 December 2022 US$
CURRENT ASSETS			
Cash and cash equivalents	11	14,343,381	23,165,288
Trade and other receivables	12	2,422,006	2,349,796
Inventory		482,960	397,436
Other assets		309,638	203,623
Total current assets		17,557,985	26,116,143
NON-CURRENT ASSETS			
Right-of-use assets	13	1,334,641	1,750,405
Plant and equipment	14	427,737	434,934
Intangible assets	15	608,772	674,242
Other assets		253,088	202,054
Total non-current assets		2,624,238	3,061,635
TOTAL ASSETS		20,182,223	29,177,778
CURRENT LIABILITIES			
Trade and other payables	16	853,642	2,668,824
Deferred revenue		58,185	49,592
Financial liabilities	19	34,701	44,922
Lease liabilities	18	446,751	344,938
Employee benefits liabilities	17	553,173	542,140
Total current liabilities		1,946,452	3,650,416
NON-CURRENT LIABILITIES			
Financial liabilities	19	68,213	66,250
Lease liabilities	18	1,147,470	1,591,155
Defined benefit plan	20	185,767	151,551
Total non-current liabilities		1,401,450	1,808,956
TOTAL LIABILITIES		3,347,902	5,459,372
NET ASSETS		16,834,321	23,718,406
EQUITY			
Contributed equity	22(a)	145,626,256	135,115,291
Share-based payments reserve	23	44,719,097	33,364,863
Foreign currency translation reserve	23	256,801	118,591
Other equity reserve	23	247,872	247,872
Accumulated losses	24	(174,015,705)	(145,128,211)
TOTAL EQUITY		16,834,321	23,718,406

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

Consolidated Statement of Cash Flows
For the year ended 31 December 2023

	Note	31 December 2023 US$	31 December 2022 US$
CASH FLOWS USED IN OPERATING ACTIVITIES			
Receipts from customers		1,672,784	2,716,686
Payments to suppliers and employees		(19,866,071)	(17,157,082)
Interest received		491,508	180,783
Interest paid		(100,030)	(87,100)
Grants and R&D credits received from third parties		411,619	735,685
Income taxes paid		(142,200)	(41,226)
Net cash flows used in operating activities	11	(17,532,390)	(13,652,254)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Payments for property, plant and equipment		(132,602)	(127,224)
Net cash flows used in investing activities		(132,602)	(127,224)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from the issue of shares		8,210,972	16,153,491
Payment of share issue costs		(56,791)	(46,812)
Receipts from the exercise of unlisted options		1,029,013	1,737,397
Payment to reduce lease liabilities	18	(342,305)	(249,663)
Net cash flows generated from financing activities		8,840,889	17,594,413
Net (decrease)/increase in cash and cash equivalents		(8,824,103)	3,814,935
Net foreign exchange differences		2,196	(16,716)
Cash at the beginning of the financial period		23,165,288	19,367,069
Cash and cash equivalents at the end of the period	11	14,343,381	23,165,288

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

Consolidated Statement of Changes in Equity
For the year ended 31 December 2023

	Contributed equity US$	Share-based payment reserve US$	Other reserves US$	Foreign currency reserve US$	Accumulated losses US$	Total equity US$
At 1 January 2022	117,483,072	24,216,710	247,872	132,828	(123,139,996)	18,940,486
Loss for the year	-	-	-	-	(22,087,670)	(22,087,670)
Other comprehensive loss	-	-	-	(14,237)	99,455	85,218
Total comprehensive loss for the period	-	-	-	(14,237)	(21,988,215)	(22,002,452)
Issue of share capital	15,949,202	-	-	-	-	15,949,202
Converted treasury shares	1,737,397	-	-	-	-	1,737,397
Share issue costs	(54,380)	-	-	-	-	(54,380)
Share-based payment – Note 25(a)	-	9,148,153	-	-	-	9,148,153
At 31 December 2022	135,115,291	33,364,863	247,872	118,591	(145,128,211)	23,718,406

	Contributed equity US$	Share-based payment reserve US$	Other reserves US$	Foreign currency reserve US$	Accumulated losses US$	Total equity US$
At 1 January 2023	135,115,291	33,364,863	247,872	118,591	(145,128,211)	23,718,406
Loss for the year	-	-	-	-	(28,881,041)	(28,881,041)
Other comprehensive loss	-	-	-	138,210	(6,453)	131,757
Total comprehensive loss for the period	-	-	-	138,210	(28,887,494)	(28,749,284)
Issue of share capital	9,507,156	-	-	-	-	9,507,156
Converted treasury shares	1,056,803	-	-	-	-	1,056,803
Share issue costs	(52,994)	-	-	-	-	(52,994)
Share-based payment – Note 25(a)	-	11,354,234	-	-	-	11,354,234
At 31 December 2023	145,626,256	44,719,097	247,872	256,801	(174,015,705)	16,834,321

The above consolidated statement of changes of equity should be read in conjunction with the accompanying notes.

1. CORPORATE INFORMATION

The annual financial report of BrainChip Holdings Ltd ("BrainChip Holdings" or "Company") and its controlled entities ("Consolidated Entity" or "Group") for the year ended 31 December 2023 was authorised for issue in accordance with a resolution of the Directors on 26 February 2024, California, U.S.A.

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

The address of the registered office is Level 8, 210 George Street, Sydney NSW 2000, Australia.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(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 except for certain financial assets and liabilities that have been measured at fair value.

Notwithstanding the operating loss and the net operating cash outflows recognised in the current year, the Directors are confident that the Company will continue operating as a going concern based on the current available cash resources.

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

New standards, interpretation and amendments adopted by the Group

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 31 December 2023. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

(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.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent entity and its subsidiaries (the 'Group') as at 31 December each year. Control is achieved when the Group 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 Group controls an investee if and only if the Group 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 Group has less than a majority of the voting or similar rights of an investee, the Group 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 Group's voting rights and potential voting rights.

The Group 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 Group obtains control over the subsidiary and ceases when the Group 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 Group gains control until the date the Group 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 Group 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 Group's accounting policies. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation

(i) Functional and presentation currency

The functional currency of each entity within the Group 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, BrainChip Research Institute Pty Ltd with a functional currency of AUD and BrainChip Systems India Private Limited which has a functional currency of Indian Rupee.

(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 average exchange rates for the month. 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.

(e) 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.

(f) 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.

(g) Trade and other receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i,e. only the passage of time is required before payment of the consideration is due).

Trade receivables are initially measured at transaction value and other receivables are initially recognised at fair value plus transaction costs. Trade and other receivables are subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables generally have 30-60 day payment terms.

Refer Note 2(h)(i) below for the accounting policy related to financial assets at fair value through profit or loss reported in other receivables.

Collectability of trade and other receivables is reviewed on an ongoing basis in accordance with the expected credit loss ("ECL") model.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group 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, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under AASB 15. Refer to the accounting policies in section (q) Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Gains and losses on initial recognition.

When the transaction price of a financial asset differs from the fair value on initial recognition and the fair value is evidenced by a quoted price in an active market for an identical asset or based on a valuation technique that uses only data from observable markets, the difference between the transaction price and fair value is recognised immediately in profit or loss. If fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and recognised in profit or loss when the inputs become observable or when realised through settlement.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost includes trade receivables and other receivables.

Financial assets at fair value through OCI (debt instruments)

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group's debt instruments at fair value through OCI includes investments in quoted debt instruments included under other current financial assets.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument -by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments – initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Disclosures for significant assumptions Note 3.
- Trade receivables Note 12.

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, Convertible Securities recognised as financial liabilities, and derivative financial instruments.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (loans and borrowings)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial instruments – initial recognition and subsequent measurement (continued)

ii) Financial liabilities (continued)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include embedded derivatives designated upon initial recognition as at fair value through profit or loss.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in AASB 9 are satisfied.

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(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 7 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Intangible assets (continued)

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 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.

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

(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 Group prior to the end of the financial year that are unpaid and arise when the Group 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) Provisions

Provisions are recognised when the Group 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) 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.

(o) Share-based payment transactions

The Group provides benefits to employees, consultants and service providers (including Directors) ("eligible participants") in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The 2018 LTIP was adopted by shareholders on 10 May 2018. The Company had share options and performance rights that were issued under the plans current at the time of offer (Performance Rights Plan, 2015 Long Term Incentive Plan and Directors and Officers Option Plan) however all new awards post 10 May 2018 have been issued under the 2018 LTIP.

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 25.

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 Group, Company or the eligible participant, the failure to satisfy the condition is treated as a cancellation. If a non-vesting condition within the control of neither the Group, Company nor eligible participant 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Employee benefits

(i) Wages, salaries and annual leave

A liability is recognised for benefits accruing to employees in respect of wages and salaries in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

(ii) Superannuation

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

(iii) 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.

(q) Revenue from contracts with customers

The Group accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of the consideration is probable.

Revenues from license and product sales are recognised when an identified performance obligation is satisfied, and the customer obtains and accepts control of the Company's product. This means that the customer can direct the use, and obtain substantially all of the remaining benefits, from the use of the license and product. Sales of product and licenses generally occur at a point in time, typically upon delivery to the customer. In instances where the Group has significant obligations to maintain or update licences, the revenue is recognised over time.

Revenue from development service is generally recognised as the Company creates or enhances an asset that the customer controls.

The Group determined that the input method is the best method in measuring progress of the development services revenue because there is a direct relationship between the Group's effort (i.e., labour hours incurred) and the transfer of service to the customer. The Group recognises revenue on the basis of the time lapsed as a percentage compared to total expected service.

Taxes collected from customers relating to product and service sales and remitted to governmental authorities are excluded from revenues. The Company expenses incremental costs of obtaining a contract as and when incurred because the expected amortisation period of the asset that the Company would have recognised is one year or less.

(r) 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 a credit 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)

(s) 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.

(t) 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)

(u) 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.

(v) Right-of-use asset

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and , except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is shorter. Where the consolidated entity expects to obtain ownership of the leased asset a the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

(w) Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, dismounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index, or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

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.

- **Revenue from contracts with customers**

  Judgement was applied in determining whether applicable contracts were considered a contract with a customer, where goods and/or services are delivered in exchange for consideration, or a co-development agreement where the risks and benefits that result from the activity are shared. In all instances, management concluded that a contract with a customer had been negotiated and AASB 15 was applicable.

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

Revenue from contracts with customers (continued)

The revenue recognition standard states that if a contract has more than one performance obligation, judgement is required in determining the allocation of the transaction price to each performance obligation (or distinct good and service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

Determining the performance obligation in a contract comprising license revenue and development service revenue
The Group determined that both license and development service revenue is capable of being distinct and identifiable in a specific contract, comprising the delivery of the perpetual license and the engineering services provided to specifically enhance the license to the specifications of the customer.

Determining the timing of satisfaction of the development service revenue
The Group concluded that development service revenue is to be recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group; BrainChip is enhancing an asset that the customer controls, and the work completed does not create an alternative use to the Group.

The Group determined that the input method is the best method in measuring progress of the development services revenue because there is a direct relationship between the Group's effort (i.e., labour hours incurred) and the transfer of service to the customer. The Group recognises revenue on the basis of the labour hours expended relative to the total expected labour hours to complete the service.

- **Share-based payment transactions**

The Group 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 25. 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 all non-financial assets other than goodwill for impairment at each reporting date by evaluating the carrying value of the asset against 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 Group and to the particular asset which may lead to an impairment being recognised.

- **Development costs**

The Group capitalises development costs for a project in accordance with the accounting policy. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. At 31 December 2023, the carrying amount of capitalised development costs was $Nil (2022: $Nil).

- **Defined benefit plan**

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 20.

- **Fair value measurement of financial instruments**

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the monte carlo model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. See Note 21 for further disclosure.

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 Group's exposure to credit, liquidity and market risks, its objectives, policies and processes for measuring and managing risk, and the management of capital.

Other than derivatives associated with the Put Option Premium in the prior year, the Group 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 Group 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, Australia, India and France and is exposed to credit risk from its operating activities (primarily trade and other receivables).

Cash and cash equivalents and investment securities

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

Trade and other receivables

The Group operates primarily in technology development and has trade receivables. There is risk that these receivables may not be recovered however the Group does not consider this to be likely. The Group reviews the collectability of trade and other receivables on an ongoing basis and measures the expected credit loss at each reporting date (see Note 12).

Credit risk associated with the financial asset is considered low due to its short-term nature and the ability to offset the financial asset against any outstanding liability recognised in relation to the Put Option Premium.

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	
		2023	**2022**
	Note	**US$**	**US$**
Cash and cash equivalents	11	14,343,381	23,165,288
Trade and other receivables	12	2,422,006	2,349,796

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group'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 Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual cash flows. The Group entered into a Put Option Agreement in 2020, with amendments agreed in 2021, 2022 and 2023 resulting in cash inflows to the Group in those years (see also Note 27 - Events After the Balance Sheet Date).

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (continued)

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

31 December 2023	Carrying amount US$	Contractual cash flows US$	6 mths or less US$	6-12 mths US$	1-5 years US$
Financial Assets					
Trade and other receivables	2,422,006	2,422,006	2,422,006	-	-
	2,422,006	2,422,006	2,422,006	-	-
Financial Liabilities					
Trade and other payables	853,642	853,642	853,642	-	-
Financial liabilities	102,914	102,914	-	-	102,914
Lease liabilities	1,594,221	1,755,124	260,983	263,363	1,230,778
	2,550,777	2,711,680	1,114,625	263,363	1,333,692
31 December 2022					
Financial Assets					
Trade and other receivables	2,349,796	2,349,796	2,349,796	-	-
	2,349,796	2,349,796	2,349,796	-	-
Financial Liabilities					
Trade and other payables	2,668,824	2,668,824	2,668,824	-	-
Financial liabilities	111,172	111,172	-	-	111,172
Lease liabilities	1,936,093	1,924,252	181,524	237,119	1,505,609
	4,716,089	4,704,248	2,850,348	237,119	1,616,781

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. The Group is not exposed to material market risk at period end.

Foreign currency risk

The Group 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. As a result of this, the Group's statement of financial position can be affected by movements in the USD/AUD 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 Group is exposed to foreign currency risk on the derivative liability recognised in the balance sheet.

Equity price risk

The Group is exposed to equity price risk associated with unlisted options.

Interest rate risk

The Group 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 Group does not use derivatives to mitigate these exposures.

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

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

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair values

Fair values versus carrying amounts

Set out below is a comparison of the carrying amount and fair values of the Group's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values.

(i) Cash and short-term deposits, 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.

Capital Management

Capital managed by the Board includes contributed equity totalling $145,626,256 and other equity reserves of $247,872 at 31 December 2023 (2022: $135,115,291 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 fund the continued development of the Company's pioneering AI technology and keep the Company operational. 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 2023, management did not pay a dividend and does not expect to pay a dividend in the foreseeable future (31 December 2022: Nil).

The Group encourages employees to be shareholders through the Long-Term Incentive Plan.

There were no changes in the Group'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. REVENUE FROM CONTRACTS WITH CUSTOMERS

	2023 US$	2022 US$
(a) Types of good and services		
Product revenue	174,000	446,246
License revenue	-	4,049,889
Development service revenue	58,004	575,117
Total revenue from contracts with customers	232,004	5,071,252
(b) Timing of revenue recognition		
Services transferred over time	48,004	175,117
Sale of product and license transferred at a point in time	184,000	4,896,135
Total revenue from contracts with customers	232,004	5,071,252

Note: refer to Note 29 for the disaggregation of revenue from contracts with customers by geographical region.

6. EXPENSES

		2023 US$	2022 US$
(a)	**Research & development expenses**		
	Employee expenses	6,406,084	5,883,176
	Government grants received [1]	(1,001,013)	(776,548)
	Third party development services	636,493	2,445,876
	Patent application fees	145,815	241,771
	Software/hardware IT expenses	430,281	190,781
	Amortisation of intangible assets	65,470	65,471
	Depreciation of plant & equipment	14,170	7,179
	Depreciation of right of use assets	69,527	29,035
	Other expenses	267,190	279,528
	Total research & development expenses	7,034,017	8,366,269
(b)	**Selling & marketing expenses**		
	Employee expenses	3,526,836	2,069,804
	Promotional advertising	698,269	554,975
	Other expenses	520,806	538,518
	Total selling & marketing expenses	4,745,911	3,163,297
(c)	**General and administration expenses**		
	Employee expenses	2,863,041	3,387,838
	Legal and professional fees	687,342	712,644
	Corporate and listing fees	349,242	569,600
	Recruiting fees	288,829	298,725
	Travel and accommodation expenses	144,518	107,288
	Depreciation of plant & equipment	126,991	115,221
	Depreciation of right of use assets	348,753	333,899
	Office rent	7,751	7,898
	Software lease and hardware expense	356,246	331,881
	Other	522,313	473,121
	Total general & administrative expenses	5,695,026	6,338,115

[1] The Group recognised research credits from the French and Australian regulatory authorities in accordance with local tax regulations. There are no unfulfilled conditions attached to amounts recognised.

7. FINANCE INCOME AND FINANCE EXPENSE

		2023 US$	2022 US$
(a)	**Finance income**		
	Interest received	491,508	180,783
	Foreign exchange gain	-	77,026
	Total finance income	491,508	257,809
(b)	**Finance expense**		
	Other interest expense	104,111	88,165
	Foreign exchange loss	50,010	-
	Total finance expense	154,121	88,165
(c)	**Fair value gain/(loss) through profit and loss**		
	Net gain/(loss) from financial assets and liabilities measured at fair value through profit and loss (i) (ii)	(364,248)	204,289
		(364,248)	204,289

(i) On 14 January 2023, BrainChip submitted a capital call notice to LDA Capital Limited and LDA Capital LLC ("LDA Capital") in accordance with the Put Option Agreement (POA) dated 13 August 2020 to subscribe for up to 30 million shares with an option for LDA Capital to subscribe up to an additional 10,000,000 shares subject to the approval of BrainChip. The purpose of this capital call notice was to support the Akida technology development and working capital commitments, as well as to satisfy the Company's obligation under The Second Minimum Drawdown Amount requiring a minimum of A$15 million to be drawn no later than 31 December 2023. On 30 March 2023, the capital call notice was settled resulting in the Company receiving US$8,210,972 (A$12,232,543) based on the purchase price per capital call share ranging from A$0.5895 to A$0.6842. A net loss from financial assets and liabilities measured at fair value through profit and loss of $380,523 was recognised.

(ii) On 4 December 2023, BrainChip submitted a second capital call notice to LDA Capital in accordance with the POA to subscribe for up to 25 million shares. The purpose of this capital call notice was also to support the Akida technology development and working capital commitments, as well as to satisfy the Company's remaining obligation under The Second Minimum Drawdown Amount note above. As the capital call notice was not closed until after 31 December 2023, BrainChip has reported a receivable of US$921,792 (refer Note 12), a derivative asset of US$41,215 (refer Note 12) and a net gain from financial assets and liabilities measured at fair value through profit and loss of $16,275 based on the estimated daily sales and purchase price per capital call share ranging from A$0.19 to A$0.175.

Refer to Note 27 for further comment on the close out of the second capital call notice subsequent to the end of the year.

8. DIVIDENDS PAID AND PROPOSED

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

9. INCOME TAX

	2023 US$	2022 US$
(a) Major components of income tax expense		
Consolidated income statement		
Current income tax:		
Current income tax expense/(benefit)	116,432	36,694
Tax losses previously not recognised	-	-
Deferred tax asset not recognised	-	-
Income tax (benefit)/expense reported in the statement of comprehensive income	116,432	36,694
(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 Group's applicable income tax rate is as follows:

	2023 US$	2022 US$
Accounting loss before tax	28,764,609	22,050,976
At statutory income tax rate of 30% (2022: 30%)	(8,629,383)	(6,615,293)
Foreign provision	116,432	36,694
Non-deductible expenses	(1,380,325)	(1,586,305)
Effect of lower/(higher) taxation rates of foreign subsidiaries	(255,981)	22,933
Other	4,006,052	2,473,821
Unrecognised tax losses and deferred income tax assets	6,259,637	5,704,844
Income tax expense/(benefit) reported in statement of profit or loss and other comprehensive income	116,432	36,694
Effective income tax rate	0.17%	0.17%

(d) Deferred tax relates to the following:

	Consolidated Statement of financial position	
	2023	**2022**
Accrued expenses	145,901	194,959
Tax losses	26,965,468	22,523,844
Share-based compensation	7,297,683	5,776,475
Intangible assets	1,216,940	1,109,447
Other	228,764	(9,607)
Not recognised	(35,854,756)	(29,595,118)
Net deferred tax liability	-	-
Deferred tax income/(expense)	-	-

(e) Unrecognised losses

At 31 December 2023, there are unrecognised deferred taxes on losses of $26,965,468 (tax effected) (2022: $22,523,844 (tax effected)), and other temporary differences of $8,889,288 (2022: $7,071,274) for the Group.

10. LOSS PER SHARE

	2023 US$	2022 US$
Net loss attributable to ordinary shareholders for basic and diluted earnings per share	(28,881,041)	(22,087,670)
	US cents per share	**US cents per share**
Basic and diluted loss per share	(1.57)	(1.24)
	Number	**Number**
Weighted average number of ordinary shares for basic loss per share [(2)]	1,844,752,633	1,786,841,984
Effect of the dilution of share options and performance rights [(1)]	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	1,844,752,633	1,786,841,984

[(1)] At 31 December 2023, the Company had on issue 63,451,314 share options (2022: 71,493,281), 39,049,960 restricted stock units (2022: 21,495,446) and 4,234,609 performance rights (2022: 2,864,812) that are excluded from the calculation of diluted loss per share for the current period as they are considered anti-dilutive.

[(2)] Weighted average number of ordinary shares has been adjusted by a factor of approximately 1.02 as a result of rights issued to institutional and sophisticated investors since 2017.

11. CASH AND CASH EQUIVALENTS

	2023 US$	2022 US$
Cash at bank and in hand	14,301,026	23,123,805
Term deposits	42,355	41,483
Total	14,343,381	23,165,288
Reconciliation of the net loss after tax to net cash flows from operations		
Loss after tax	(28,881,041)	(22,087,670)
Non-cash adjustment to reconcile loss after tax to net cash flows:		
Depreciation	559,440	485,334
Amortisation	65,470	65,471
Grant revenue recognised	(12,027)	(14,520)
Debt forgiven on financial liabilities	-	(71,434)
Share-based payments	11,354,234	9,148,153
(Gain)/loss from financial liabilities measured at fair value through the profit or loss	364,248	(204,289)
Interest expense	4,033	1,896
Foreign exchange loss/(gain) - unrealised	132,003	65,049
Working capital adjustments:		
Decrease in trade and other receivables	1,083,780	2,550,738
Increase in inventory	(85,524)	(142,865)
(Increase)/Decrease in prepayments	(105,582)	151,454
Increase in other assets	(47,686)	(25,949)
Decrease in deferred revenue	(147,759)	(4,937,180)
Increase in defined benefits plan	16,327	25,011
Increase in employee provisions	11,033	(14,347)
(Decrease)/Increase in trade and other payables	(1,843,339)	1,352,894
Net cash flows used in operating activities	(17,532,390)	(13,652,254)

Refer to Note 21 for changes in liabilities arising from financing activities.

12. TRADE AND OTHER RECEIVABLES

	2023 US$	2022 US$
Current		
Trade receivables [(1)]	60,803	1,500,000
R&D refundable tax offset	1,347,203	761,062
Receivable from the issue of shares – refer Note 7	921,792	-
Derivative asset – refer Note 7	41,215	-
Other receivables	50,993	88,734
	2,422,006	2,349,796

[(1)] Trade receivables are non-interest bearing and generally on terms of 30-90 days. As at year end, there is no allowance for expected credit loss recorded.

13. RIGHT-OF-USE ASSETS

	2023 US$	2022 US$
Cost	2,264,325	2,256,307
Accumulated depreciation	(929,684)	(505,902)
Net carrying amount	1,334,641	1,750,405
Movement in Right-of-Use Assets:		
At 1 January	1,750,405	1,600,028
Additions	-	513,057
Depreciation	(418,279)	(362,934)
Foreign exchange movements	2,515	254
At 31 December	1,334,641	1,750,405

14. PLANT & EQUIPMENT

	2023 US$	2022 US$
Plant and equipment – Gross carrying value at cost	1,089,288	953,228
Accumulated depreciation	(661,551)	(518,294)
Net carrying amount	427,737	434,934
Movement in plant and equipment		
At 1 January	434,934	375,812
Additions	132,602	184,134
Depreciation charge for the year	(141,161)	(122,400)
Net foreign exchange movements	1,362	(2,612)
At 31 December	427,737	434,934

15. INTANGIBLE ASSETS

	2023 US$	2022 US$
Patents and licenses with finite useful life – at cost	1,040,312	1,040,312
Accumulated amortisation	(431,540)	(366,070)
	608,772	674,242
Movement in patents and licenses		
At 1 January	674,242	739,713
Amortisation	(65,470)	(65,471)
At 31 December	608,772	674,242

As at 31 December 2023, the Group considered indicators of impairment of these assets and determined that no impairment of the recoverable amount was required.

16. TRADE AND OTHER PAYABLES

	2023 US$	2022 US$
Current		
Trade creditors and accruals	803,952	2,554,659
Income tax payable to foreign authorities	49,690	114,165
	853,642	2,668,824

17. EMPLOYEE BENEFITS LIABILITIES

Annual leave liability	553,173	542,140
	553,173	542,140

The nature of the liability is described in Note 2(p).

18. LEASE LIABILITIES

Current	446,751	344,938
Non-current	1,147,470	1,591,155
	1,594,221	1,936,093
Movement in lease liabilities		
As at 1 January	1,936,093	1,633,778
Additions	-	547,112
Reduction in lease liabilities	(342,305)	(249,663)
Foreign exchange movements	433	4,866
As at 31 December	1,594,221	1,936,093

19. FINANCIAL LIABILITIES

Advances from third parties (a):		
Current	34,701	44,922
Non-Current	68,213	66,250
Total Financial liabilities	102,914	111,172

(a) Advance from third parties

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

Movement in advances from third parties	2023 US$	2022 US$
As at 1 January	111,172	214,988
Grant revenue recognised	(12,027)	(14,520)
Forgiveness of financial liability	-	(71,434)
Foreign exchange	3,769	(17,862)
As at 31 December	102,914	111,172

20. DEFINED BENEFIT PLAN

	2023 US$	2022 US$
Net employee defined benefit liabilities	185,767	151,551

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 (e.g., 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.

(a) Movement in net defined benefit liability

	2023 US$	2022 US$
At 1 January	151,551	197,020
Included in profit or loss		
Current services costs	16,327	25,550
Finance costs	4,033	1,896
Included in OCI		
Actuarial losses/(gains)	8,739	(62,399)
Foreign exchange movement	5,117	(10,516)
At 31 December	185,767	151,551

(b) Defined benefit obligation

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

	2023	2022
Discount rate	3.2%	3.5%
Future salary growth	1.5%	1.5%
Retirement at employee's initiative	45.0%	45.0%
Turnover rate (weighted average)	1.0%	1.0%

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

(c) 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)	25,769	(20,712)
Future salary growth (+/-1.0 % movement)	(21,030)	(25,684)

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.

21. FINANCIAL ASSETS & LIABILITIES

Set out below is an overview of financial assets (other than cash and short-term deposits) and financial liabilities held by the Group as at 31 December 2023. Changes in liabilities arising from financing activities are disclosed within individual notes:

	2023 US$	2022 US$
Financial assets at amortised cost		
Trade and other receivables	2,422,006	2,349,796
Total financial assets	2,422,006	2,349,796
Current	2,422,006	2,349,796
Total financial assets	2,422,006	2,349,796
Financial liabilities at amortised cost		
Trade and other payables	853,642	2,668,824
Financial liabilities		
- Advances from third parties	102,914	111,172
Total financial liabilities	956,556	2,779,996
Current	888,343	2,713,746
Non-current	68,213	66,250
Total financial liabilities	956,556	2,779,996

22. CONTRIBUTED EQUITY

	2023 US$	2022 US$
(a) Ordinary Shares		
Issued and fully paid	145,626,256	135,115,291

(b) Movements in ordinary shares on issue

	Number	US$
At 1 January 2022	1,693,237,144	117,483,072
Issue of shares to the Trustee of the BrainChip LTIP	18,500,000	-
Shares allocated on exercise of LDA Capital put option premium	15,000,000	15,949,202
Issue of shares to third party on conversion of restricted stock units	125,000	-
Treasury shares issued on conversion of options	-	1,737,397
Share issue costs incurred	-	(54,380)
At 31 December 2022	1,726,862,144	135,115,291
At 1 January 2023	1,726,862,144	135,115,291
Issue of shares to the Trustee of the BrainChip LTIP	25,000,000	-
Shares allocated on exercise of LDA Capital put option premium [(1)]	30,000,000	8,560,424
Shares allocated on exercise of LDA Capital put option premium – refer Note 7(c)(ii)	15,756,540	946,732
Issue of shares to third party on conversion of restricted stock units	8,196,001	-
Treasury shares issued on conversion of options	-	1,056,803
Share issue costs incurred	-	(52,994)
At 31 December 2023	1,805,814,685	145,626,256

[(1)] *LDA Capital cash reconciliation:*	2023 US$
Cash received on settlement	8,210,972
Net (gain)/loss from financial assets and liabilities measured at fair value through the profit and loss (refer Note 7(c)(i))	380,523
Foreign currency gain recognised due to timing of closure of capital call notice and receipt of cash.	(31,071)
Value of shares allocated on exercise of LDA Capital put option premium	8,560,424

22. CONTRIBUTED EQUITY (continued)

(c) Treasury shares

	2023 Number	2022 Number
Fully paid shares issued to Trustee of Long-Term Incentive Plan ("LTIP")	11,459,234	3,393,490
	11,459,234	3,393,490
Movements in Treasury shares		
At 1 January	3,393,490	2,721,471
Shares issued to Trust from BrainChip Holdings Ltd [(1)]	25,000,000	18,500,000
Shares issued by Trustee on conversion of performance rights	(418,270)	(50,000)
Shares Issued on exercise of share options	(9,964,167)	(12,178,190)
Shares Issued on conversion of restricted stock units	(6,551,819)	(5,599,791)
At 31 December	11,459,234	3,393,490

(1) The BrainChip Long Term Incentive Plan Trust was established on 2 August 2018. Certane CT Pty Ltd was appointed the Plan Trustee effective 16 August 2021. The Company issues shares to the Trust at no value to be held available for the conversion of vested options, performance rights and restricted stock units held by LTIP members.

(d) 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.

(e) Options on issue

Unissued ordinary shares of the Company under option at 31 December 2023 are as follows:

Type	Expiry Date	Exercise Price (US$)	31 December 2023 Number	31 December 2022 Number
Options issued as share-based payments				
Unlisted – LTIP refer Note 25(b)	Various	Various	63,651,314	71,493,281
Total			63,651,314	71,493,281

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

(f) Performance Rights on issue

Type	31 December 2023 Number	31 December 2022 Number
Unlisted – refer Note 25(e)	4,234,609	2,864,812
Total	4,234,609	2,864,812
Movement in Performance Rights		
1 January	2,864,812	265,000
Issued during the year	3,155,185	2,649,812
Converted during the year	(418,270)	(50,000)
Cancelled during the year	(1,367,118)	-
31 December	4,234,609	2,864,812

22. CONTRIBUTED EQUITY (continued)

(g) Restricted Stock Units (RSUs) on issue

Unissued ordinary shares of the Company under restricted stock units at 31 December 2023 are as follows:

Type	31 December 2023 Number	31 December 2022 Number
Unlisted – refer Note 25(g)	39,049,960	21,495,446
Total	39,049,960	21,495,446

Movement in RSUs		
1 January	21,495,446	7,485,000
Issued during the year under LTIP	27,550,530	23,467,730
Converted during the year under LTIP	(6,551,819)	(5,724,791)
Cancelled during the year under LTIP	(3,769,690)	(3,827,000)
Issued during the year to third party (non-LTIP)	8,521,494	94,507
Converted during the year by third party (non-LTIP)	(8,196,001)	-
31 December	39,049,960	21,495,446

23. RESERVES

CONSOLIDATED	Foreign currency translation reserve US$	Share-based payment reserve US$	Other equity reserve US$	Total US$
At 1 January 2022	132,828	24,216,710	247,872	24,597,410
Share-based payments	-	9,148,153	-	9,148,153
Translation of foreign operations	(14,237)	-	-	(14,237)
At 31 December 2022	118,591	33,364,863	247,872	33,731,326
At 1 January 2023	118,591	33,364,863	247,872	33,731,326
Share-based payments	-	11,354,234	-	11,354,234
Translation of foreign operations	138,210	-	-	138,210
At 31 December 2023	256,801	44,719,097	247,872	45,223,770

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 Securities holders in BrainChip Inc., on 10 September 2015.

Foreign currency translation reserve

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

24. ACCUMULATED LOSSES

	2023 US$	2022 US$
At 1 January	(145,128,211)	(123,139,996)
Re-measurement losses on defined benefit plans	(6,453)	99,455
Net loss in current period attributable to members of the Company	(28,881,041)	(22,087,670)
At 31 December	(174,015,705)	(145,128,211)

25. SHARE-BASED PAYMENTS

	2023 US$	2022 US$
(a) Recognised share-based payment expenses		
Options issued to LTIP members and third parties	3,808,872	2,002,923
Performance Rights issued to LTIP members and consultants	748,326	763,054
Restricted stock units issued to LTIP members and consultants	6,797,036	6,382,176
Total share-based payment expense	11,354,234	9,148,153

The 2018 Long Term Incentive Plan (LTIP) was adopted by shareholders in May 2018. The Company has Options that were issued under the 2015 LTIP current at the time of offer however all new equity awards post May 2018 have been issued under the 2018 LTIP.

2018 and 2015 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 equity instruments, will provide selected employees and consultants with the opportunity to participate in the future growth of the Company. Equity instruments 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 equity instruments which are issued under the LTIP.

(b) Share Options granted as share-based payments

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

	2023 Number	2023 WAEP (US$)	2022 Number	2022 WAEP (US$)
Outstanding at 1 January	71,493,281	0.153	93,791,471	0.148
Granted during the period	2,372,200	0.263	1,330,000	0.621
Exercised during the period	(9,964,167)	(0.113)	(12,178,190)	(0.154)
Forfeited during the period	(450,000)	(0.318)	(3,100,000)	(0.254)
Lapsed during the period	-	-	(8,350,000)	(0.134)
Expired during the period	-	-	-	-
Outstanding at the end of the period	63,451,314	0.163	71,493,281	0.153
Exercisable (vested and unrestricted) at the end of the period	44,637,446	0.138	41,034,113	0.128

The weighted average remaining contractual life for the share options outstanding at 31 December 2023 is 6.828 years (2022: 6.483 years).
The weighted average fair value of options granted during the year was $0.553 (2022: $0. 562).
The range of exercise prices for options outstanding at the end of the year was $0 to $0.711 (2022: $0 to $0.711).

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

25. SHARE-BASED PAYMENTS (continued)

(c) Options granted under the Long Term Incentive Plan

Unissued ordinary shares of the Company under option at 31 December 2023 are as follows:

Grant Type	Grant Date	Expiry Date	Exercise Price (US$)	Number at 1 January	Granted during the year	Exercised during year	Forfeited during year	Lapsed / Expired during year	Number at 31 December	Vested at year end
AGM 2017 [3]	31/05/2017	31/01/2023	0.138	2,000,000	-	(2,000,000)	-	-	-	-
AGM 2017 [3]	31/05/2017	31/01/2024	0.138	2,000,000	-	-	-	-	2,000,000	2,000,000
AGM 2017 [4]	31/05/2017	01/02/2023	0.182	1,000,000	-	(1,000,000)	-	-	-	-
AGM 2017 [4]	31/05/2017	01/02/2024	0.182	1,080,000	-	(80,000)	-	-	1,000,000	1,000,000
AGM 2017 [4]	31/05/2017	01/02/2025	0.182	1,630,000	-	(80,000)	-	-	1,550,000	1,550,000
AGM 2017 [4]	31/05/2017	01/02/2026	0.182	1,000,000	-	-	-	-	1,000,000	1,000,000
LTIP [6]	5/03/2018	13/03/2028	0.147	1,603,000	-	-	-	-	1,603,000	1,603,000
LTIP [1]	5/03/2018	13/03/2028	0.171	200,000	-	-	-	-	200,000	200,000
LTIP [1]	30/04/2018	08/06/2028	0.136	443,138	-	-	-	-	443,138	443,138
LTIP [5]	11/03/2019	13/03/2029	0.047	19,300,000	-	(1,800,000)	-	-	17,500,000	17,500,000
LTIP [6]	18/03/2019	18/03/2029	0.042	207,976	-	-	-	-	207,976	207,976
LTIP [1]	13/06/2019	30/05/2029	0.037	3,100,000	-	(400,000)	-	-	2,700,000	2,700,000
LTIP [1]	23/09/2019	23/09/2029	0.031	125,000	-	-	-	-	125,000	125,000
LTIP [7]	23/09/2019	23/09/2029	0.035	104,167	-	(104,167)	-	-	-	-
LTIP [8]	10/8/2020	06/08/2030	0.125	7,550,000	-	-	-	-	7,550,000	-
LTIP [1]	26/8/2020	17/08/2030	0.144	13,300,000	-	(2,500,000)	-	-	10,800,000	7,300,000
LTIP [1]	7/10/2020	07/10/2030	0.250	600,000	-	-	-	-	600,000	450,000
LTIP [1]	3/12/2020	03/12/2030	0.256	2,550,000	-	-	-	-	2,550,000	1,875,000
LTIP [1]	07/12/2020	07/12/2030	0.262	2,900,000	-	-	-	-	2,900,000	2,175,000
LTIP [1]	21/12/2020	21/12/2030	0.244	500,000	-	(250,000)	(250,000)	-	-	-
LTIP [1]	09/04/2021	09/04/2031	0.446	280,000	-	-	-	-	280,000	140,000
LTIP [1]	09/04/2021	09/04/2031	0.411	2,900,000	-	-	(200,000)	-	2,700,000	1,450,000
LTIP [1]	04/06/2021	04/06/2031	0.460	1,000,000	-	-	-	-	1,000,000	500,000
LTIP [1]	23/06/2021	23/06/2031	0.464	250,000	-	(250,000)	-	-	-	-
LTIP [9]	23/11/2020	27/05/2031	0.279	2,500,000	-	-	-	-	2,500,000	1,875,000
LTIP [10]	15/07/2021	02/08/2031	0.000	1,500,000	-	(1,500,000)	-	-	-	-
LTIP [1]	10/08/2021	10/08/2031	0.400	540,000	-	-	-	-	540,000	-
LTIP [2]	20/04/2022	21/04/2032	0.711	450,000	-	-	-	-	450,000	299,999
LTIP [2]	28/04/2022	28/04/2032	0.659	280,000	-	-	-	-	280,000	-
LTIP [2]	18/09/2022	19/09/2032	0.618	300,000	-	-	-	-	300,000	100,000
LTIP [2]	23/12/2022	23/12/2032	0.453	300,000	-	-	-	-	300,000	100,000
LTIP [2]	21/04/2023	21/04/2033	0.278	-	1,762,200	-	-	-	1,762,200	-
LTIP [2]	14/12/2023	14/12/2032	0.243	-	130,000	-	-	-	130,000	43,333
LTIP [2]	18/08/2023	17/08/2033	0.214	-	480,000	-	-	-	480,000	-
				71,493,281	2,372,200	(9,964,167)	(450,000)	-	63,451,314	44,637,446

25. SHARE-BASED PAYMENTS (continued)

(1) Options issued to employees and consultants which vest equally over a 4-year period on each anniversary of the grant date.
(2) Options issued to employees and consultants which vest equally over a 3-year period on each anniversary of the grant date.
(3) 4,000,000 unlisted options issued to Directors, of which 25% of the options vest on each anniversary date of the offer date (1 February 2017) and expire five years from each vesting date.
(4) 4,710,000 unlisted options issued to Directors of which 25% of the options vest on each anniversary date of the offer date (7 July 2017) expire five years from each vesting date.
(5) 7,500,000 options vest on the first anniversary of the grant date, with 1/36th monthly thereafter; 2,500,000 options will vest each anniversary of the grant date.
(6) 7,500,000 options vest on the first anniversary of the grant date, with 1/36th monthly thereafter; 3,000,000 options will vest each anniversary of the grant date.
(7) 25% vests on the first anniversary of the grant date, with 1/36th monthly thereafter.
(8) Options vest on the 4th anniversary of the grant date.
(9) 2,500,000 unlisted options were issued to a Director, of which 25% of the options vest on each anniversary date of the offer date (23 November 2020) and expire 27 May 2031.
(10) 1,500,000 unlisted options were issued to an ex-Director providing consulting services during 2021 with no exercise price. 50% vest on 2 August 2021 and 50% vest 31 December 2021.

(d) Options pricing model

(1) Options issued under LTIP - 2023

The fair value of the equity-settled share options granted under the LTIP is estimated as at the date of the offer of the 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 2023:

	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
	1,762,200	0.251	0.278	0.278	100.0	3.49	10.0
Employees	130,000	0.209	0.233	0.243	100.0	4.10	10.0
	480,000	0.194	0.214	0.214	100.0	4.22	10.0

(2) Options issued under LTIP - 2022

The fair value of the equity-settled share options granted under the LTIP is estimated as at the date of the offer of the 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 2022:

	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
	450,000	0.663	0.711	0.711	100.0	3.09	10.0
Employees	280,000	0.609	0.659	0.659	100.0	3.12	10.0
	300,000	0.531	0.587	0.618	100.0	3.69	10.0
	300,000	0.398	0.439	0.453	100.0	3.85	10.0

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.

(e) Performance Rights granted as share-based payments

The following table summarises the movement in Performance Rights issued as share-based payments:

	Number 2023	**Number 2022**
At 1 January	2,864,812	265,000
Issued during the year	3,155,185	2,649,812
Converted during the year under LTIP	(418,270)	(50,000)
Cancelled during the year under LTIP	(1,367,118)	-
At 31 December	4,234,609	2,864,812

25. SHARE-BASED PAYMENTS (continued)

(f) Performance rights valuation model

The fair value of the performance rights granted under the LTIP is estimated as at the date of grant using the share price and the exchange rate at the date of the offer of the grant. The following table lists the fair value of performance rights issued during the current and prior years:

		Number of performance rights	Grant date	Fair value at the date of offer of the grant US$
2023:	Employees	1,492,591	20/04/2023	0.277
	Directors	1,662,594	26/05/2023	0.278
2022:	Employees	433,000	11/04/2022	0.674
	Employees	145,000	29/04/2022	0.702
	Directors	2,071,812	25/05/2022	0.814

(g) Restricted Stock Units granted as share-based payments

The following table summarises the movement in Restricted Stock Units issued as share-based payments:

	Number 2023	**Number 2022**
At 1 January	21,495,446	7,485,000
Issued during the year under LTIP	27,550,530	23,467,730
Converted during the year under LTIP	(6,551,819)	(5,724,791)
Cancelled during the year under LTIP	(3,769,690)	(3,827,000)
Issued during the year to third party (non-LTIP)	8,521,494	94,507
Converted during the year to third party (non-LTIP)	(8,196,001)	-
At 31 December	39,049,960	21,495,446

(h) Restricted Stock Units valuation model

The Company granted the following Restricted Stock Units to employees, the fair value of which is estimated using the share price on the date of the offer of the grant. The RSUs are subject to various vesting periods effective from date of grant.

		Number of RSUs granted	Grant date	Fair value at the date of offer of grant. US$
2023:	Employees	600,000	27/01/2023	0.466
	Employees	13,138,711	21/04/2023	0.278
	Employees	1,359,675	12/05/2023	0.292
	Directors	3,102,144	26/05/2023	0.278
	Employees	150,000	31/05/2023	0.295
	Employees	1,600,000	23/06/2023	0.231
	Employees	150,000	29/06/2023	0.241
	Employees	600,000	2/10/2023	0.114
	Employees	850,000	14/11/2023	0.127
	Employees	6,000,000	29/11/2023	0.152
2022:	Directors	3,102,144	26/05/2023	0.278
	Employees	3,750,000	11/04/2022	0.905
	Employees	4,376,000	29/04/2022	0.980
	Employees	80,000	25/05/2022	0.814
	Directors	10,081,730	25/05/2022	0.814
	Consultant	94,507	22/07/2022	0.870
	Employees	530,000	23/08/2022	0.661
	Employees	1,000,000	19/09/2022	0.880
	Employees	3,650,000	15/12/2022	0.473

26. CONTINGENT ASSETS AND LIABILITIES

The Group had no contingent assets or liabilities at 31 December 2023 (31 December 2022: $Nil).

27. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the end of the year, the following events occurred:

Since 1 January 2023 and to the date of this report, 249,146 PRs and 103,732 RSUs held by BrainChip LTIP participants converted to shares upon vesting.

On 4 December 2023, BrainChip submitted a capital call notice to LDA Capital in accordance with the POA to subscribe for up to 25 million shares. On 23 January 2024, cash funds of A$3,850,488 were received. The purpose of this capital call notice was to support the Akida technology development and working capital commitments, as well as satisfy the Company's obligation under The Second Minimum Drawdown Amount requiring a minimum of A$15 million to be drawn no later than 31 December 2023.

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 Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

28. AUDITOR'S REMUNERATION

	2023 US$	2022 US$
Amounts received or due to be receivable by HLB Mann Judd (WA Partnership) for:		
An audit or review of the financial reports of the entity	59,260	56,592
	59,260	56,592
Amounts received or due to be receivable by Ernst & Young (Australia) (resigned 28 May 2021) for:		
An audit or review of the financial reports of the entity	-	1,891
	-	1,891
Amounts received or due and receivable by non-HLB Mann Judd (WA Partnership) or non-Ernst & Young audit firms for:		
An audit or review of the financial report of the entity	11,096	10,081
	11,096	10,081

29. OPERATING SEGMENTS

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

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

The Group currently derives revenue from BrainChip Inc., located in the USA, and BrainChip SAS, its France based subsidiary.

Geographically, the Group has the following revenue information based on the location of its customers and non-current assets from where its investing activities are managed.

	2023 US$	2022 US$
Revenue from external customers		
North America	132,933	4,626,132
Oceania	29,970	444,115
Europe, Middle East & Asia (EMEA)	69,101	1,005
Revenue from continuing operations	232,004	5,071,252

Customers representing more than 10% of revenues in the current year amounted to $115,813 (2022: $4,198,982) comprising USA based customers comprising product and development service revenue (2022: USA based customers comprising product and development service revenue).

Non-current assets	2023 US$	2022 US$
North America	2,033,021	2,359,034
Oceania	261,759	318,173
EMEA	329,458	384,428
	2,624,238	3,061,635

30. RELATED PARTY DISCLOSURES

(a) Ultimate parent

The ultimate legal parent entity of the Group is BrainChip Holdings Ltd.

(b) 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 2023	2022
Subsidiary companies of BrainChip Holdings Ltd			
BrainChip Inc. [1]	USA	100%	100%
BrainChip Research Institute Pty Ltd	Australia	100%	100%
Subsidiary companies of BrainChip Inc.			
BrainChip SAS	France	100%	100%
BrainChip Systems India Private Limited [2]	India	100%	100%

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

[2] BrainChip Holdings Ltd holds 1%, and BrainChip Inc. holds 99%, of the shares of BrainChip Systems India Private Limited, effective from 22 July 2020.

(c) Other entities

The consolidated financial statements include the following entities controlled by BrainChip Holdings Ltd:

Name	Country of registration	Beneficial interest 2023	2022
BrainChip Long Term Incentive Plan Trust [1]	Australia	-	-

[1] BrainChip Holdings Ltd executed the BrainChip Long Term Incentive Plan Trust on 2 August 2018. The Company appointed Certane CT Pty Limited on 3 August 2021 as the Plan Trustee, replacing Equity Trustees Limited who replaced Solium Nominees (Australia) Pty Ltd effective from 2 March 2020.

(d) Key Management Personnel compensation

Total remuneration paid to KMP of the Group during the year are as follows:

	2023 US$	2022 US$
Short-term employee benefits	1,963,990	2,577,155
Share-based payment	4,273,463	5,543,812
	6,237,453	8,120,967

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

Mr Antonio J. Viana entered into an agreement with BrainChip Inc on 1 November 2021 to provide business development consultancy services on a rolling 6-month period, renewed up to four years. The consideration agreed by Mr Viana and the Company was valued at $6,000 per month and was satisfied by the issue of 1 million RSUs in BrainChip Holdings Ltd, as approved by shareholders at the 2022 AGM, vesting 25% annually upon the anniversary of the agreement.

In light of key executive appointments made by the Company in 2023, Mr Hehir as CEO of the Company, determined that the business development consultancy services that Mr Viana had provided were no longer required. The consultancy agreement with Mr Viana was terminated by the Company effective 31 December 2023. Consistent with the terms of the agreement Mr Viana will receive 250,000 RSUs on 1 November 2024.

There were no other related party transactions with KMPs of the Group.

(e) Transactions with other related parties

There were no transactions with other related parties.

(f) Loans to/from related parties

There were no outstanding loans arising to or from related parties (31 December 2022: $Nil).

31. PARENT ENTITY INFORMATION

	2023 US$	2022 US$
Information relating to BrainChip Holdings Ltd		
Current assets	12,996,270	4,468,363
Non-current assets	4,567,848	20,681,389
Total assets	17,564,118	25,149,752
Current liabilities	(754,973)	(1,468,483)
Non-current liabilities	-	-
Total liabilities	(754,973)	(1,468,483)
Net assets	16,809,145	23,681,269
Issued capital	171,329,522	160,808,514
Other contributed equity	2,025,617	2,025,617
Accumulated losses	(220,328,765)	(192,133,460)
Share-based payment reserve	63,553,068	52,750,895
Option premium reserve	480,731	480,731
Other reserves	(251,028)	(251,028)
Total shareholders' equity	16,809,145	23,681,269
Net loss of the parent entity [1]	28,195,304	21,694,878
Total comprehensive loss of the parent entity	28,195,304	21,694,878

[1] At the reporting date investments and loans receivable from controlled entities net of provision for impairment totalled $4,518,730 (2022: $23,683,446). Impairment expense of $16,113,586 (2022: $11,590,000) was recognised for the year ended 31 December 2023.

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

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 Group are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Company's and the Group's financial position as at 31 December 2023 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 2023.

On behalf of the Board.

Antonio J. Viana
Chair
California, U.S.A., 26 February 2024

HLB MANN JUDD
ADVISORY AND ACCOUNTING

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 controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 31 December 2023, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes to the financial statements, including material accounting policy information, 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 Group's financial position as at 31 December 2023 and of its financial performance for the year then ended; 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 (including Independence Standards)* ("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 judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matter	How our audit addressed the key audit matter
Financial Instruments Refer to Note 7	
During the period, the Group continued to drawdown on their Put Option Agreement with LDA Capital Limited and LDA Captial LLC (together LDA Capital). The accounting treatment, classification and valuation of the financial instruments was complex due to the significant judgements involved in identifying and valuing the possible derivative asset and derivative liability at balance date.	Our procedures included but were not limited to the following: • Examining the original and extension agreements to understand the key terms and conditions; • Evaluating the Group's accounting treatment of the financial instruments in accordance with the applicable Australian Accounting Standards; • Assessing the adequacy of management's expert who was engaged to perform the valuations and assess the accounting treatment; • Testing the calculation of the fair value movements on the financial instruments; and • Assessing the adequacy of the presentation and disclosure in the financial statements, including whether the classification and disclosures were presented in accordance with the applicable Australian 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 Group's annual report for the year ended 31 December 2023, 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.

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 ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or 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 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 judgement 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.

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, actions taken to eliminate threats or safeguards applied.

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

REPORT ON THE REMUNERATION REPORT

Opinion on the Remuneration Report

We have audited the Remuneration Report included within the directors' report for the year ended 31 December 2023.

In our opinion, the Remuneration Report of BrainChip Holdings Limited for the year ended 31 December 2023 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.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

Perth, Western Australia
26 February 2024

B M'V

B G McVeigh
Partner

Additional Shareholder Information as at 31 January 2024

(a) Top 20 Shareholders	Number of Shares	%
MR PETER ADRAIN VAN DER MADE	156,805,823	8.683
CITICORP NOMINEES PTY LIMITED	114,017,157	6.314
BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM	100,721,639	5.578
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED (1)	86,833,100	4.809
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	57,625,423	3.191
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	51,255,721	2.838
BNP PARIBAS NOMS PTY LTD	49,564,207	2.745
CERTANE CT PTR LTD<BRAINCHIP LTIP UNALLOC A/C>	11,076,756	0.613
BNP PARIBAS NOMINEES PTY LTD <DRP A/C>	10,168,111	0.563
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	9,000,899	0.498
CERTANE CT PTR LTD<BRAINCHIP LTIP ALLOC A/C>	8,923,728	0.494
MRS REBECCA OSSEIRAN-MOISSON <OSSEIRAN FAMILY A/C>	7,855,672	0.435
NATIONAL NOMINEES LIMITED	7,757,885	0.430
FINCLEAR PTY LTD <SUPERHERO SECURITIES A/C>	7,300,767	0.404
CROSSFIELD INTECH NOMINEES PTY LTD <LIEBESKIND FAMILY S/FUND A/C>	7,025,757	0.389
MR PAUL GLENDON HUNTER	6,250,000	0.346
MR JEFFREY BRIAN WILTON	5,800,000	0.321
MR DAVID JAMES EVANS	5,555,555	0.308
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING A/C>	5,449,774	0.302
MR HUGH KENT ELLIOT & MS PENELOPE ANN ELLIOT <THE STARDUST SUPER FUND A/C>	5,000,000	0.277
Total Shares - Top 20 Holdings	**713,987,974**	**39.538**
Total Shares	**1,805,814,685**	

(1) 84,999,933 fully paid ordinary shares are held by Merrill Lynch (Australia) Nominees Pty Limited on behalf of Mr Mankar.

(b) (i) Distribution of quoted fully paid ordinary shares

Size of parcel	Number of share holders	Number of shares	%
1 to 1,000	8,692	5,649,763	0.31
1,001 to 5,000	17,157	45,529,562	2.52
5,001 to 10,000	6,688	52,189,790	2.89
10,001 to 100,000	10,401	330,564,142	18,31
100,001 and over	1,789	1,371,881,428	75,97
Total	**44,727**	**1,805,814,685**	**100.0**

There are 20,611 holders with less than a marketable parcel of ordinary shares based on the Company's closing market price of $0.16 on 31 January 2024.

(ii) Distribution of unquoted securities

Size of parcel	Number of Option holders	Number of options	Number of perfor-mance rights holders	Number of perform-ance rights	Number of restricted stock unit holders	Number of restricted stock units
1 to 1,000	-	-	-	-	-	-
1,001 to 5,000	-	-	-	-	-	-
5,001 to 10,000	-	-	-	-	-	-
10,001 to 100,000	1	100,000	-	-	6	374,791
100,001 and over	39	61,351,314	11	3,985,463	48	39,095,171
Total	**40**	**61,451,314**	**11**	**3,985,463**	**54**	**39,469,962**

(c) Substantial Shareholders	%	Number of shares
MR PETER AJ VAN DER MADE	8.683	156,805,823
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED (1)	4.809	86,833,100

(1) 84,999,833 fully paid ordinary shares are held by Merrill Lynch (Australia) Nominees Pty Limited on behalf of Mr Mankar.

(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 voting rights. Upon exercise of the option, the holders will be holders of fully paid ordinary shares and therefore will have voting rights as afforded to shareholders of these securities.

Performance Rights
The holders of performance rights have no voting rights. Upon vesting of the performance rights, the holders will be holders of fully paid ordinary shares and therefore will have voting rights as afforded to shareholders of these securities.

Restricted Stock Units
The holders of restricted stock units have no voting rights. Upon vesting of the restricted stock units, the holders will be holders of fully paid ordinary shares and therefore will have voting rights as afforded to shareholders of these securities.