BrainChip Holdings Ltd

Annual Report
2019

Board of Directors

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

Company Secretary

Kim Clark

Registered Office

Level 12, 225 George St. Sydney NSW 2000 Australia

Telephone**:** +61 2 9290 9606

Facsimile**:** +61 2 9279 0664

Postal Address

PO Box 3993, Sydney NSW 2001 Australia

Website

http://www.brainchipinc.com

Auditors

Ernst & Young

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

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

Share Registry

Computershare Investor Services Pty Ltd

Yarra Falls, 452 Johnston Street, Abbotsford VIC 3067

Telephone: 1300 850 505 International: +61 3 9415 4000

Facsimile**:** +61 8 9323 2033 Online: www.investorcentre.com

Securities Exchange

Australian Securities Exchange Limited

Exchange Centre, 20 Bridge St, Sydney NSW 2000

Code: BRN

ABN: 64 151 159 812

Contents

To our Valued Shareholders,

During the financial year ending 31 December 2019, BrainChip made significant progress in completing the design and development of the Akida™ System-on-Chip (SoC) and in preparing for manufacturing. The Company is actively marketing the Akida Intellectual Property (IP), in advance of the Akida device, to leading manufacturers of end products in the AI Edge market.

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

As the Company engages with potential customers and defines appropriate industry benchmarks, results indicate Akida's performance, in terms of power consumption and performance, is excellent. The table below shows a small network for Key Word Spotting, which is a very active market, implemented at 150uW, Object Detection at 117mW and a Complex Yolo network LiDAR in ADAS and Autonomous Vehicles at 4W.

Application	Network	Data Set	Number of Classes	Input Data Size	FPS or IPS	Akida Power
Key Word Spotting	Published CNN (DWC)* 38K parameters (9.25 KB) 4.7M MACs/inf	Google Speech Commands Dataset	30	10x49x1	7	150uW
Image classification	AlexNet 76.1M parameters (35.4 MB) 2.3B MACs/inf	ImageNet 1000	1000	224x224x3	30	117 mW
Image Classification	MobileNet V1 (DWC)* 4.2M parameters (2.0 MB) 569M MACs/inf	ImageNet 1000	1000	224x224x3	30	150 mW
Face Detection	MobileNet YOLO v2 31.5 M parameters (8.3 MB) 4.5B MACs/inf	WiderFace	1	224x224x3	30 75	406 mW 996 mW
Object Detection	MobileNet YOLO v2 31.6 M parameters (8.3 MB) 4.5B MACs/inf	VOC	20	224x224x3	30 75	406 mW 997 mW
Object Detection - LIDAR	Complex Yolo (Yolo V2) 47M parameters (11.2 MB) 10.3B MACs/inf	Kitti Dataset	3-8	512x1024x3	133	4W

Target customers in a variety of markets can integrate the Akida IP or device in their ASIC (Applied Specific Integrated Circuit) or equipment to implement existing Deep Neural Networks as Event-based Convolutional or implement a Native Spiking Network. In either architecture they enjoy a solution with ultra-low power, optimized memory usage and low cost. They can further evolve to incremental learning at the edge without retraining your network.

Akida is a complete network in silicon or as intellectual property with no host processor, external memory or MAC accelerator, coupled with the ability to provide incremental learning at the edge Akida provides the Company a competitive advantage in the high growth AI Edge race.

BrainChip is bringing to market significant and exciting technology in the form of IP and a first in a family of devices. We have expanded our sales and marketing resources to take advantage of our first mover and competitive advantages. 2020 is expected to be a year of validation of the Company's technology and penetration in the AI Edge market.

We thank our shareholders, employees and stakeholders for their support as we move our products to market.

Sincerely,

Louis DiNardo
Executive Director and Chief Executive Officer
BrainChip Holdings Ltd
25 February 2020

The directors submit their report of the consolidated entity, being BrainChip Holdings Ltd ("BrainChip Holdings" or the "Company" or "BrainChip") and its controlled entities ("Group" or "Consolidated Entity"), for the year ended 31 December 2019.

DIRECTORS

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

Emmanuel Hernandez	Non-Executive Director
Louis DiNardo	Executive Director
Peter van der Made	Executive Director (appointed 29 January 2020)
Steve Liebeskind	Non-Executive Director
Stephe Wilks	Non-Executive Director and Chair (appointed 11 February 2019, resigned 31 December 2019)
Adam Osseiran	Non-Executive Director (resigned 29 January 2020)
Julie Stein	Non-Executive Director (resigned 1 April 2019)

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

Kim Clark

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The Company entered into a Convertible Securities Agreement ("CSA") with CST Capital Pty Ltd ("CST") where the Convertible Securities were issued with a face value of US$2,850,000 less 10% interest and fees. The undiscounted balance owing on the Convertible Securities at 31 December 2019 is US$990,000.

In July 2019 the Company issued 112,206,282 shares upon the completion of a Non-renounceable Entitlement Offering raisin A$10,692,840.

Board changes during the year comprised the resignation of Ms Julie Stein effective 1 April 2019 and Mr Stephe Wilks, effective 31 December 2019. Emmanuel Hernandez was appointed Interim Chair of the Board of Directors whilst a search for a new Chair is completed.

There has been no 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 Unit hardware product.

EMPLOYEES

The Group employed 33 employees at 31 December 2019 (2018: 33).

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.

Overview

The Group made a net loss after income tax for the year ended 31 December 2019 of $11,310,062 (2018: $16,523,186).

Revenues for the year ended 31 December 2019 of $75,574 decreased 92% from $947,989 for the same period a year ago. This decrease was largely attributable to revenues recognised in the prior year from the GPI agreement.

Total operating expenses for the year ended 31 December 2019 of $11,004,318 increased 37% from $17,601,775 incurred in the year ended 31 December 2018. This increase was attributable to:

1) Research & development (R&D) expenses of $4,511,410 for the current period decreased 3%, or $149,382 from a year ago. R&D costs comprise the employee, 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) Increased employee expenses reflecting 12 months of the current headcount, offset by increased credits received from government authorities;
    b) Recognition of $1,066,590 of third party pre-development services of which $700,000 related to one supplier;
    c) Recognition in the prior year of the write off and amortisation of capitalised intangible assets related to the Studio project that was no longer capitalised in accordance with the Group's policies.
2) Selling & marketing (S&M) expenses of $1,061,595 for the current period decreased 28%, or $403,880 from a year ago. The decrease reflects management's decision to reduce S&M headcount and related expenditure during Q2 2019;
3) General & administrative (G&A) expenses of $3,795,200 for the current period decreased 9% overall, or $374,506 from the same period a year ago as a result of:
    a) Lower employee expenses reflecting the voluntary reduction in salaries of key management in early 2019, offset by the employment of a VP of Finance;
    b) a reduction in legal and other professional consultants of $949,813 in line the cost cutting efforts implemented during 2019;
    c) increased software expenses due to the implementation of a global accounting software system; and
    d) decreased travel expenses related to business development and investor relations activities; and
4) Share-based payment expense of $1,636,113 for the current period decreased 78%, or $5,669,689 from the same period a year ago. Share-based payments expense represents the current period expense for options, restricted stock units and performance rights issued to directors, employees and consultants, offset by the value of options that have been forfeited during the year.

The Company also recognised $519,494 of interest expense and $171,484 of fair value gains recognised through profit and loss related to the valuation of the Convertible Securities as at 31 December 2019.

At the end of the year the Group had consolidated net assets of $9,096,350 (2018: $8,879,309), including cash and cash equivalents of $7,622,178 (2018: $7,543,326).

Overall there has been an increase in the amount of cash outflows used in operating activities to $9,001,435 (2018: $7,203,204) as noted in the Consolidated Statement of Cash Flows, which reflects the continued focus on attaining the business milestones and strategies of the Group.

REVIEW OF OPERATIONS (Continued)

Operational Highlights

The Company progressed the Akida device development significantly in 2019 and has scheduled wafer fabrication, is completing package design and will schedule assembly and test operations.

The Company continues to work with Socionext Inc to complete the development of the Akida device. Socionext will deliver finished goods to the Company and manage production control for wafer fabrication, assembly, test, marking and packing operations.

The Company was granted U.S Patent #10,410,117 for Artificial Intelligence Dynamic Neural Network on 22 October 2019 and converted a provisional patent application related to Akida inventions to a utility patent application with the U.S. Patent and Trademark Office. The Company is evaluating expanding its IP protection strategy to include patent applications in China and Japan.

The Company continues to market the Akida IP in advance of device availability. Sales and marketing resources have been added to address potential customer opportunities in the U.S., Europe and Asia with particular focus on China which is aggressively pursuing AI Edge solutions.

The Company has reduced planned expenses for 2020 related to headcount and control of discretionary items.

The Company announced plans to establish an innovation and research centre in Perth, Western Australia and is evaluating the establishment of a design centre in Hyderabad, India to absorb current contracted software development services provided.

Trade Shows, Promotional Activities and Intellectual Property Protection:

Throughout the year the Company participated in several tradeshows, distributed promotional material and continued the process of protecting its intellectual property, summarised as follows:

- 7 February 2020, the Company announced that it would present its revolutionary new breed of neuromorphic processing IP and Device in two sessions at the tinyML Summit at the Samsung Strategy & Innovation Center in San Jose, California February 12-13.
- 4 December 2019, BrainChip and Tata Consultancy Services (TCS) announced that the Company would jointly present a demonstration featuring its Akida™ Neuromorphic System-on-Chip Technology, recognizing and classifying hand gestures from the audience at the 33rd Conference on Neural Information Processing Systems (NeurIPS), at the Vancouver Convention Center in Vancouver, Canada.
- 1 November 2019, the Company conducted a technical workshop in Perth, Western Australia. The workshop focused on implementations of Convolutional Neural Networks converted to Event-Based Neural Networks and the development of Native Spiking Neural Networks.
- 31 October 2019, the Company announced that The Linley Group had completed an analysis of the company's Akida™ processor platform. The results of the analysis are available in a comprehensive report available for download free of charge from the BrainChip web site.
- 22 October 2019, the Company announced that it was awarded a new patent for dynamic neural function libraries, a key component of its AI processing chip Akida™. United States Patent number 10,410,117 addresses a dynamic neural network within an AI device.
- 24 September 2019, the Company announced that Louis DiNardo, CEO of BrainChip was accepted into Forbes Technology Council, an invitation-only community for world-class CIOs, CTOs, and technology executives.
- 11 June 2019, the Company announced the availability of the Company's powerful neural network converter which enables users to easily convert existing convolutional neural networks (CNNs) to an Akida compatible event-based Spiking Neural Network ("SNN").
- 28 May 2019, the Company announced the availability of the Company's Akida Neural Processing Core ("NPC") as intellectual property available for licensing. This introduction marks a major development in the Company's market presence.

REVIEW OF OPERATIONS (Continued)

Risk

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

- Risks of delays in new product development as the Company develops advanced products include: internal development, development by partners and integration of the technology with third party providers of intellectual property.
- Risks of delays in new product introduction as the Company commercialises advanced products include: wafer fabrication, assembly of products and test operations.
- Risks of delays in sales and marketing of new products include: recruitment and retention of the highly skilled and experienced human resources.
- Risks of delays in customer adoption of new products include: adequate training and education, collateral materials, application engineering and customer support.

The Company's performance and success is 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, could result in significant damage awards, and could 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 of intellectual property infringement protection of the Company's patents, trademarks, trade secrets, copyrights may not be available or feasible in every country in which our products and services could be distributed.
- Risks of intellectual property protection efforts to protect proprietary rights may not be sufficient or effective. Risks of intellectual property that may not have adequate patent or copyright protection for certain innovations, that the scope of the protection will be insufficient or that an issued patent may be deemed invalid or unenforceable.
- Risks that intellectual property held as trade secrets could be compromised by outside parties, or by our employees.
- Risks that changes in government rules governing export of artificial intelligence-related products and technologies may prohibit the sale of our products or licensing of our technology in certain regions of the world.

Other key risks the Company has identified include:

- Risks of an information technology breach that may result in litigation, and potential liability.
- Risks of international operations exposure that could harm our business, operating results, and financial condition include: changes in local political, economic, regulatory, tax, social, labour conditions and health and safety issues, may adversely harm our business.
- Risks of human resources recruitment and retention of skilled personnel, motivate and reward key personnel, maintain the Company's corporate culture to successfully execute the Company's business.
- Risks of competition addressing the Company's markets and customers with advanced products with similar or better performance.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

In January 2020, CST converted 136,799 Convertible Securities in exchange for reallocation of Collateral Shares in accordance with the CSA dated 26 June 2019.

CST also elected to pay for 10,000,000 collateral shares previously sold at A$0.052 resulting in a financial cash inflow of A$500,000 net of costs in January 2020 and 5,025,521 collateral shares previously sold at A$0.046 resulting in a financial cash inflow of A$230,944 in February 2020.

On 29 January 2020, the Company announced the departure of Dr. Adam Osseiran from the Board of Directors and his appointment as the Chair of the Company's Scientific Advisory Board. On the same day, Mr Peter van der Made was appointed to the Board of Directors as Executive Director.

On 14 February 2020, the Company officially received an EAR99 classification for its Akida™ Neuromorphic System-on-Chip (NSoC), Akida Software Development Environment (ADE) and related technologies from the U.S. Government. The U.S. Department of Commerce Bureau of Industry and Security (BIS) also established Akida as not being classified as identified technology for the purposes of the Committee on

SIGNIFICANT EVENTS AFTER THE BALANCE DATE (continued)

Foreign Investment (CFIUS), which could otherwise limit investment. The BIS ruling now allows BrainChip to export its AI technology, without additional U.S. government license, to non-restricted customers, including to high-growth customers in countries such as Japan, Korea, China and Taiwan.

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.

SHARES ON ISSUE

As at the date of this report, 1,337,375,663 ordinary shares were on issue (1,337,375,663 at the reporting date).

Subsequent to the end of the year 136,799 Convertible Securities were converted in exchange for reallocation of Collateral Shares in accordance with the CSA dated 26 June 2019. No new shares were issued as a result of the conversion.

SHARE OPTIONS

As at the date of this report, there were 195,068,976 unissued ordinary shares under options (195,068,976 at the reporting date). 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.

No options were exercised during the financial year and to the date of this report.

PERFORMANCE RIGHTS

No Performance Rights were on issue at the date of this report and at the reporting date.

During the period 7,500,000 Performance Rights previously issued to Mr DiNardo were cancelled in accordance with the resolution of shareholders at the Annual General Meeting on 30 May 2019.

RESTRICTED STOCK UNITS

There were 5,800,000 Restricted Stock Units ("RSU") on issue at the reporting date and the date of this report. 50,000 RSUs were converted during the year with none converted subsequent to the end of the year and to the date of this 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 2019 Corporate Governance Statement dated 27 February 2020 released to the ASX and posted on the Company website which outlines the Group's approach to corporate governance and sets out the key charters and polices of the Group.

INFORMATION ON DIRECTORS

Names, qualifications, experience and special responsibilities

Louis DiNardo, BA – Executive Director and Chief Executive Officer (Appointed 9 Dec 2016), Chair (for period 1 May 2018 to 11 Feb 2019)

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

Other directorships in the past 3 years:

- Non-Executive Director of Quantum Corporation (NYSE: QTM) (Jun 2014 – Nov 2016).

Emmanuel Hernandez – BSC, CPA, MBA - Non-Executive Director (Appointed 7 Jul 2017); Chair (Appointed 1 Jan 2020)

Mr. Hernandez is a highly regarded Silicon Valley technology executive with a broad experience of >40 years in the Semiconductor industry, >12 years in the Renewable Energy industry and >10 years in the Communications and Networking industry and cumulative public and private board experience of >16 years.

His professional resume includes key roles with some of Silicon Valley's largest and most successful technology companies including National Semiconductor (acquired by Texas Instruments in 2012), Cypress Semiconductor (NASDAQ: CY) and ON Semiconductor (NASDAQ: ON). Mr. Hernandez served in various finance capacities at National Semi between 1976-1993, then joined Cypress Semi where he served as Chief Financial Officer ("CFO") between 1993-2004. Mr. Hernandez then joined SunPower Corp where he served as CFO between 2005-2008. Mr. Hernandez's executive successes have led him to be a highly sought-after operating consultant and board member including serving as an operating Partner at Khosla Ventures, a prominent Silicon Valley venture capital firm.

Mr. Hernandez has been a Director of ON Semiconductor since 2002. Other previous board service includes SunEdison (renewable energy), Aruba Networks, (enterprise networking) acquired by Hewlett Packard Enterprise in 2015, EnStorage, Inc., (flow battery/storage technology) and Soraa, Inc., (LED and laser technology). Mr Hernandez is a member of the Company's Remuneration & Nomination Committee and Audit & Governance Committee.

Other directorships in the past 3 years:

- ON Semiconductor Corp.; Audit Committee Chair/member – 20 Nov 2002 to present
- SunEdison, Inc.; Executive Chair, Audit Committee member – 12 May 2009 to 29 Dec 2017

Steve Liebeskind, B Comm, CA ANZ– Non-Executive Director (Appointed 1 May 2018)

Mr. Liebeskind is an experienced front line operational manager with a broad set of skills developed from his time working with Ernst & Young in Australia and Canada. He has held positions of Advisor, CEO and COO for high growth companies in the telecommunications, technology and financial services sector. Mr Liebeskind is a founding principal of Sydney Capital Partners a boutique corporate advisory firm. Mr Liebeskind is Chair of the Company's Audit & Governance Committee effective from 1 April 2019 and joined the Renumeration and Nomination Committee as Chair on 1 January 2020.

Other directorships in the past 3 years: Nil.

INFORMATION ON DIRECTORS (Continued)

Names, qualifications, experience and special responsibilities (continued)

Peter van der Made – Executive Director (Appointed 29 Jan 2020)

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

Mr van der Made was previously held the position of Executive Director of BrainChip Holdings Ltd from 10 September 2015 to 1 January 2018.

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

Stephe Wilks – Non-Executive Director and Chair (Appointed 11 Feb 2019, resigned 31 Dec 2019)

Mr Wilks joined the board in February of 2019 and currently serves as Non-Executive Director of ASX listed companies (noted below) and Non-Executive Director and Chair of Interactive Pty Ltd, Australia's largest private IT services company. In addition, he was founder and Managing Director of XYZed, where he developed and managed Australia's first competitive broadband wholesaler, having earlier worked for Optus, British Telecom, and Hong Kong Telecom advising on public affairs, regulatory and government issues. Mr Wilks is a graduate of Macquarie University with Science and Law degrees and received his advanced degree from the University of Sydney in Law and Tax.

Other directorships:

- Non-Executive Director of BluGlass Limited (ASX: BLG) (May 2018 – present);
- Non-Executive Director of DataDot Technology Limited (ASX: DDT) (26 Feb 2016 – 12 May 2019).
- Non-Executive Director and Chairman of Speedcast International Limited (ASX:SDA) (27 Aug 2019 – present)

Adam Osseiran, A/Prof – Non-Executive Director (Appointed 10 Sep 2015, resigned 29 Jan 2020)

Dr Osseiran has been involved with BrainChip since 2012, providing advice and assistance on several aspects of technology, applications and commercial opportunities. Dr Osseiran is the co-founder of Termite Monitoring and Protection Solutions Pty Ltd, founded in 2013, to exploit the unique Wireless Smart Probe acoustic termite detection technology, operating in the US$15B global pest control market. He is also Senior Technical Advisor to Mulpin (MRL) Ltd which has developed a new patented concept of embedding electronic components within a multi-layered printed circuit board.

Dr Osseiran is the co-founder and director of Innovate Australia, established to promote and assist Australian innovators and encourage innovation and was the President of the Inventors Association of Australia from 2013-2014. Dr Osseiran holds a Ph.D. in microelectronics from the National Polytechnic Institute of Grenoble, France and a M.Sc. and B.Sc. from the University of Joseph Fourier in Grenoble. Dr Osseiran is currently Associate Professor of Electrical Engineering at Edith Cowan University in Perth, Western Australia. Dr Osseiran serves as a member on the Company's Remuneration & Nomination Committee effective from 1 May 2018.

Other directorships in the past 3 years: Nil.

Julie H. Stein, BA, MA, MBA, NACD Leadership Fellow – Non-Executive Director (Appointed 14 Nov 2016, resigned 1 Apr 2019)

Ms Stein began her career at Goldman Sachs in 1981. Subsequently, she joined the investment banking firm of Salomon Brothers. She co-founded SKS Investments in 1992 and successfully executed a series of joint ventures with major global institutional investors. Over the course of her career, Ms. Stein has been involved in the underwriting, negotiating, structuring and/or placement of financial transactions aggregating over $10 billion ($US). Ms Stein holds a B.A. and M.A. from the University of Pennsylvania and an M.B.A. from Columbia University. She is a National Association of Corporate Directors (NACD) Leadership Fellow, holds a Certificate in Cyber Security Management from the Software Engineering Institute of Carnegie Mellon University and she also holds a Certificate from Stanford University Directors' College. Ms Stein sits on the Audit Committee serving the International Board of the not-for-profit JDRF International organization. Ms Stein also served as the Chair of the Company's Audit & Governance Committee from 20 June 2018 to 11 February 2019 and was a Member of the Remuneration & Nomination Committee.

Other directorships in the past 3 years: Nil.

COMPANY SECRETARY

Kim Clark (Appointed 1 Dec 2018)

Ms Clark is an experienced business professional with 21 years' experience in the Banking and Finance industries and 7 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.

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

As at the date of this report, the interests of the directors in the shares, options and performance rights of the Company were:

Director	Fully Paid Ordinary Shares	Options over Ordinary Shares
L DiNardo	11,779,361	57,500,000
S Liebeskind [1]	11,649,242	6,000,000
E Hernandez	-	8,000,000
Peter van der Made	176,305,508	-
Total	**199,734,111**	**71,500,000**

(1) Equity instruments associated with Mr Liebeskind comprise:
- (i) 2,310,742 fully paid ordinary shares held in the name of Crossfield Intech Nominees Pty Ltd;
- (ii) 9,338,500 fully paid ordinary shares and 3,000,000 options held in the name of Crossfield Intech Nominees Pty Ltd as trustee for the Liebeskind Family Superfund;
- (iii) 3,000,000 options owned directly by Mr Liebeskind.

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
S Wilks	12	12	5	5	1	1
L DiNardo	13	13	n/a	n/a	n/a	n/a
J Stein	4	4	3	3	2	2
A Osseiran	13	12	n/a	n/a	3	3
E Hernandez	13	13	8	8	3	3
S Liebeskind	13	13	8	8	n/a	n/a

(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 established a Remuneration & Nomination Committee during the year. The membership of each Committee is set out below:

Audit & Governance Committee	Remuneration & Nomination Committee
S Liebeskind (Chair from 1 April 2019)	E Hernandez (Chair)
E Hernandez	A Osseiran
S Wilks (appointed 01 April 2019, resigned 31December 2019)	S Wilks (appointed 01 April 2019, resigned 31December 2019)
J Stein (Chair up to 1 April 2019)	

Subsequent to the end of the financial year, Mr Liebeskind was appointed Chair of the Remuneration & Nomination Committee, effective 1 January 2020.

REMUNERATION REPORT (Audited)

This remuneration report for the year ended 31 December 2019 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**")

REMUNERATION REPORT (Audited) (Continued)

1. Introduction

The Remuneration Report details the remuneration arrangements for Key Management Personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the 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			
S Wilks	Non-Executive Director & Chair	11 February 2019	31 December 2019
L DiNardo	Executive Director & Chief Executive Officer	30 September 2016	-
S Liebeskind	Non-Executive Director	1 May 2018	-
E Hernandez	Non-Executive Director	7 July 2017	-
A Osseiran	Non-Executive Director	10 September 2015	-
J Stein	Non-Executive Director	14 November 2016	1 April 2019
Other Key Management Personnel			
A Mankar	Chief Development Officer	1 October 2014	-
P van der Made	Chief Technical Officer	10 September 2015	-
R Levinson	Chief Operating Officer	18 March 2019	-
K Scarince	Vice President Finance, Controller	11 March 2019	-
R Beachler	Senior Vice President of Marketing and Business Development	5 March 2017	3 May 2019

Subsequent to the end of the financial year the following changes occurred,

- Mr Hernandez was appointed interim Chair effective 1 January 2020;
- Effective 29 January 2020, Mr Peter van der Made was appointed as Executive Director and Mr Osseiran resigned as Non-Executive Director.

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 programs 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 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 has not instituted a cash bonus or variable remuneration program since its inception but achieving or exceeding expected results and performance will be a necessary condition for our executives to realise targeted levels of remuneration, particularly with respect to variable pay and long-term incentives.

- Market or Peer Company Comparison. The Company's remuneration program must be competitive with those of our peer companies in order to attract and retain our executives. 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. The Remuneration & Nomination Committee is not planning to recommend significant changes to its remuneration programs until the Company achieves significant progress in Akida-related developments.

- Retention. The Company's remuneration program is designed to attract and retain highly talented individuals critical to our success by providing programs with retentive features. The Group's current use of equity, which is an acceptable methodology internationally, as part of its remuneration structure includes performance and/or time-based vesting in order to retain our executives. Achieving our objectives should lead to creation of shareholder value which 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. In accordance with best practice corporate governance, 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 incentivize 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)

Adoption of 2018 Remuneration Report

At the Annual General Meeting of Shareholders on 30 May 2019, shareholders resolved to adopt the Remuneration Report as contained within the 2018 Annual Report.

3. Non-executive director remuneration arrangements

Remuneration Policy

The Board seeks to set aggregate remuneration for non-executive directors at a level which provides the Company with the ability to attract and retain directors of the highest calibre, highest ethical standard 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 2018 Annual General Meeting, held on 10 May 2018, where shareholders approved an aggregate fee pool of A$600,000 per year.

Structure

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

With effect from 1 June 2018, each non-executive member of the Board received a base fee of A$100,000 per year. The Audit & Governance Committee Chair and the Remuneration & Nomination Committee Chair each received a fee of A$50,000 per year and each member of those Committees received A$20,000 per year. The Lead Independent Director also received A$20,000 per year.

In conjunction with Mr. Wilks' appointment on 11 February 2019, the director fee compensation was reduced with each non-executive director receiving a base fee of A$90,000 per year. Committee Chairs receive a fee of A$25,000 per year, while Committee members receive a fee of A$10,000 per year. The Non-Executive Chair receives an additional fee of A$60,000 per year.

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

4. 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 programs commensurate with executives' positions, responsibilities and experience, and incentivize them to drive towards the achievement of the Company's short and long-term objectives.

Structure

Remuneration consists of the following key elements:

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

REMUNERATION REPORT (Audited) (Continued)

4. Executive remuneration arrangements (continued)

Fixed Remuneration

The fixed pay element of the Company's remuneration program for executives are designed to attract and retain top talent in a competitive environment, taking into consideration the role, responsibilities, capabilities and experience of individual executives. In 2019 executives received a fixed base pay and their contracts do 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

Cash Bonuses

Some executive contracts include a provision for cash bonuses on such terms and conditions as may be determined from time to time by the Board. As at the date of this report, no bonus program has been set by the Board and no cash bonuses have been awarded. The Remuneration & Nomination Committee has no current plans to recommend a bonus program until the Company achieves substantial Akida-related progress.

2018 and 2015 Long Term Incentive Plan (LTIP) Performance Rights Plan (PRP) and Directors' and Officers' Option Plan (DOOP)

The granting of options and Performance Rights is a critical element of the Company's remuneration program for executives as it aligns their interests directly with that 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.

The Group does not currently grant options, Performance Rights or RSUs to executives on an annual or re-fresh basis. The market internationally incentivises executives with annual and refresh scenarios. The Remuneration & Nomination Committee will monitor the remuneration program of the Group, particularly from a retention standpoint, but has no current plans to recommend significant changes to our remuneration program until the Company achieves substantial Akida-related progress.

The 2018 Long Term Incentive Plan (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 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, performance rights and restricted stock units ("*LTIP equity instruments*"), will provide eligible participants with 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 options which are issued under the LTIP.

LTIP equity instruments issued to eligible participants are made under the 2018 LTIP and have historically been issued in accordance with the 2015 LTIP, PRP and DOOP. 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 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 and performance rights granted as part of remuneration

(a) Options 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.

No options over ordinary shares or performance rights with performance criteria attached were issued during 2019 or 2018. There are no unsatisfied performance criteria linked to options and performance rights at year end.

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

	Year	Options awarded during the year	Grant Date	Fair value per option	Total Fair Value	Exercise price per option	Expiry date	Options vested during the year	Options forfeited during the year	Options lapsed during the year
Directors		**Number**		**US$**	**US$**	**US$**		**Number**	**Number**	**Number**
L DiNardo	2016	21,000,000	28/09/2016	$0.064	1,334,151	$0.172	30/09/2021	3,750,000	-	-
	2017	6,000,000	16/02/2017	$0.175	1,050,104	$0.173	30/09/2021	1,500,000	-	-
R Beachler	2017	12,000,000	05/03/2017	$0.166	1,995,992	$0.209	31/03/2022	3,000,000	6,000,000	6,000,000

Mr Beachler resigned effective 3 May 2019 resulting in the cancellation of 6,000,000 vested options and forfeiture of 6,000,000 unvested options.

REMUNERATION REPORT (Audited) (Continued)

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

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

Options were also issued to KMP with no performance criteria however included a service condition of between 1 to 4-years vesting period in equal tranches from the date of issue of the options to encourage the retention of staff. Details of these Options over ordinary shares in the Company are set out in the table below:

	Year	Options awarded during the year	Options vested during 2019	Options forfeited during 2019	Options lapsed during 2019	Grant Date	End of Vesting Period	Fair value per option ^	Total Fair Value	Exercise price per option	Expiry date
		Number	Number	Number	Number			US$	US$	US$	
S Wilks [1]	2019	8,000,000	-	-	8,000,000	06/06/2019	06/06/2023	$0.037	298,901	$0.052	06/06/2029
L DiNardo	2016	-	5,750,000	-	-	28/09/2016	30/09/2020	$0.064	1,461,607	$0.172	30/09/2021
L DiNardo [2]	2019	7,500,000	7,500,000	-	-	30/05/2019	30/05/2019	$0.104	780,000	$0.100	30/05/2029
A Osseiran	2017	-	1,000,000	-	-	31/05/2017	01/02/2019	$0.118	118,423	$0.182	01/02/2024
J Stein [3]	2017	-	2,000,000	-	-	31/05/2017	31/01/2019	$0.121	242,700	$0.138	31/01/2024
J Stein [3]	2017	-	-	-	2,000,000	31/05/2017	31/01/2020	$0.125	250,145	$0.138	31/01/2025
J Stein [3]	2017	-	-	-	2,000,000	31/05/2017	31/01/2021	$0.128	256,101	$0.138	31/01/2026
E Hernandez	2017	-	2,000,000	-	-	7/07/2017	07/07/2019	$0.106	209,581	$0.125	07/07/2024
R Beachler [4]	2017	-	4,000,000	4,000,000	4,000,000	05/03/2017	21/03/2021	$0.166	1,330,662	$0.209	31/03/2022
R Levinson	2019	10,000,000	-	-	-	18/03/2019	18/03/2029	$0.039	388,304	$0.042	18/03/2029
R Levinson	2019	12,000,000	-	-	-	18/03/2019	18/03/2029	$0.039	388,304	$0.042	18/03/2029
K Scarince	2019	10,000,000	-	-	-	11/03/2019	11/03/2023	$0.038	381,370	$0.047	11/03/2029
K Scarince	2019	10,000,000	-	-	-	11/03/2019	11/03/2023	$0.038	381,370	$0.047	11/03/2029

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

(1) Mr Wilks' options were forfeited on 31/12/2019 effective from his resignation.
(2) Replacement options issued to Mr DiNardo, as approved by shareholders on 30 May 2019, reflects the fair value of the cancelled performance right (see next page)
(3) 4,000,000 unvested options held by Ms Stein were forfeited upon her resignation. 4,000,000 vested options held by Ms Stein will lapse if not exercised by 1 April 2020.
(4) Mr Beachler options were forfeited upon his resignation effective 3 May 2019.

REMUNERATION REPORT (Audited) (Continued)

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

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

Details of Performance Rights over ordinary shares in the Company provided as remuneration to KMPs, of which there are no performance conditions however included a service condition to encourage the retention of staff, are set out in the table below:

		Class E Performance Rights				
	Year	Performance rights awarded during the year (Number)	Grant Date	Fair value per performance right at grant date (US$)	Expiry Date	Number cancelled (1)
L DiNardo	2018	-	10/5/2018	$0.104	08/06/2028	7,500,000

(1) On 30 May 2019, shareholders approved the issue of 7,500,000 options exercisable at A$0.10 and expiring 30/5/2019 to Mr DiNardo as a result of the cancellation of 7,500,000 Performance Rights issued in 2018.

6. Company performance and the link to remuneration

The actual remuneration earned by executives and non-executive directors during 2019 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 were calculated at the date of grant using the Black Scholes model and the costs are expensed over the vesting period.

Remuneration in the form of share-based payments awarded to executives has been largely in recognition of the service provided. However as noted in section 5 of this report, Mr DiNardo was awarded options in 2016 that were subject to specific performance criteria. In 2017, Mr Beachler also received options in the Company with specific performance criteria.

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 carried out to attain 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.

	2019	2018	2017	Restated 2016 (1)	2015
Net loss after tax US$ million	11.31	16.52	13.77	5.10	27.36
Closing share price AUD	$0.047	$0.105	$0.185	$0.28	$0.26
Closing share price USD	$0.033	$0.074	$0.144	$0.202	$0.189
Loss per share (US cents)	0.95	1.64	1.59	0.69	8.43
Net tangible assets US cents per share	0.49	0.68	1.77	0.38	0.25

(1) 2016 results have been restated after the finalisation of the fair value of the acquisition of BrainChip SAS.

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

REMUNERATION REPORT (Audited) (Continued)

7. Executive contractual arrangements

Details for executive contractual arrangements for KMP are detailed below:

Name	Louis DiNardo
Title	Chief Executive Officer and Executive Director
Term of agreement	Open agreement with no fixed term
Details	Base fee of US$400,000 plus benefits under health and welfare benefit plans, practices, policies and programs provided by BrainChip Inc.
Termination	Terminated at any time with or without cause or notice by either himself or BrainChip Inc. Mr DiNardo is entitled to 12 months' severance pay upon termination by BrainChip Inc. at any time without cause. The amount is payable over 12 months from the date of termination.

Name	Peter van der Made
Title	Chief Technical Officer
Term of agreement	Open agreement with no fixed term
Details	Base fee of US$300,000 plus benefits under health and welfare benefit plans, practices, policies and programs provided by BrainChip Inc. Mr van der Made will be entitled to a cash bonus on such terms and conditions as determined from time to time by the Board (Annual Bonus). The Annual Bonus may be an amount up to fifty percent (50%) of the base salary in effect at the end of any fiscal year. No bonuses have been paid to date.
Termination	Terminated at any time with or without cause or notice by either himself or BrainChip Inc. Mr van der Made is entitled to 12 months' severance pay upon termination by BrainChip Inc. at any time without cause. The amount is payable over 12 months from the date of termination.

Name	Anil Mankar
Title	Chief Development Officer
Term of agreement	Open agreement with no fixed term
Details	Base fee of US$300,000 plus benefits under health and welfare benefit plans, practices, policies and programs provided by BrainChip Inc. Mr Mankar will be entitled to a cash bonus on such terms and conditions as determined from time to time by the Board (Annual Bonus). The Annual Bonus may be an amount up to fifty percent (50%) of the base salary in effect at the end of any fiscal year. No bonuses have been paid to date.
Termination	Terminated at any time with or without cause or notice by either himself or BrainChip Inc. Mr Mankar is entitled to 24 months' severance pay upon termination by BrainChip Inc. at any time without cause. The amount is payable over 24 months from the date of termination.

Name	Roger Levinson
Title	Chief Operating Officer
Term of agreement	Open agreement with no fixed term
Details	Base fee of US$300,000 plus benefits under health and welfare benefit plans, practices, policies and programs provided by BrainChip Inc. Mr Levinson will be entitled to a cash bonus on such terms and conditions as determined from time to time by the Board (Annual Bonus). The Annual Bonus may be an amount up to fifty percent (50%) of the base salary in effect at the end of any fiscal year. No bonuses have been paid to date.
Termination	Terminated at any time with or without cause or notice by either himself or BrainChip Inc. Mr Levinson 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.

REMUNERATION REPORT (Audited) (Continued)

7. Executive contractual arrangements (continued)

Name	Ken Scarince
Title	Vice President Finance, Controller
Term of agreement	Open agreement with no fixed term
Details	Base fee of US$250,000 plus benefits under health and welfare benefit plans, practices, policies and programs 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 bonuses have been paid to date.
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.

Name	Robert Beachler *(ceased as KMP on 3 May 2019)*
Title	Senior Vice President of Marketing and Business Development
Term of agreement	Open agreement with no fixed term
Details	Base fee of US$300,000 plus benefits under health and welfare benefit plans, practices, policies and programs provided by BrainChip Inc.
Termination	Terminated at any time with or without cause or notice by either himself or BrainChip Inc. Mr Beachler is entitled to 12 months' severance pay upon termination by BrainChip Inc. at any time without cause. The amount is payable over 12 months from the date of termination.

There are no other formalised KMP employment agreements.

REMUNERATION REPORT (Audited) (Continued)

7. Executive contractual arrangements (continued)

Remuneration of KMP

	Short Term		Post-Employment	Share-based Payment [7]	Termin-ation	Total	Perform-ance related
2019	**Salary and Fees [6]**	**Annual leave**	**Super-annuation**	**Equity Instruments**			
	US$	**US$**	**US$**	**US$**	**US$**	**US$**	**%**
Non-Executive Directors							
S Wilks [1]	92,087	-	-	-	-	92,087	
S Liebeskind	78,884	-	-	-	-	78,884	-
E Hernandez	90,530	-	-	180,901	-	271,431	-
A Osseiran	71,130	-	-	77,625	-	148,755	-
J Stein [2]	27,528	-	-	(272,640)	-	(245,112)	-
Executive Directors							
L DiNardo	377,051	17,988	-	798,709	-	1,193,748	25%
Other Key Management Personnel							
A Mankar	292,259	20,747	8,344	-	-	321,350	-
P van der Made	291,671	20,747	-	-	-	312,418	-
R Levinson [3]	246,685	17,152	-	372,359	-	636,196	-
K Scarince [4]	207,833	14,571	3,750	342,411	-	568,565	-
R Beachler [5]	106,809	5,214	3,028	(786,349)	-	(671,298)	-
Totals	**1,882,467**	**96,419**	**15,122**	**713,016**	**-**	**2,707,024**	

(1) Mr Wilks was appointed Non-Executive Director and Chair on 11 February 2019. Options awarded to Mr Wilks during 2019 were forfeited upon his resignation with no financial impact.

(2) Ms Stein resigned effective 1 April 2019. Unvested options were forfeited upon her resignation.

(3) Mr Levinson was appointed 18 March 2019

(4) Mr Scarince was appointed 11 March 2019.

(5) Mr Beachler ceased to be KMP upon his resignation, effective 3 May 2019.

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

(7) 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)

Remuneration of KMP

2018	Short Term: Salary and Fees [4]	Short Term: Annual leave	Post-Employment: Super-annuation	Share-based Payment [5]: Equity Instruments	Termin-ation	Total	Perform-ance related
	US$	US$	US$	US$	US$	US$	%
Non-Executive Directors							
J Stein	102,732	-	-	287,805	-	390,537	-
A Osseiran	67,660	-	-	141,360	-	209,020	-
E Hernandez	94,042	-	-	335,488	-	429,530	-
S Liebeskind [1]	55,246	-	-	-	-	55,246	-
E Bolto [1]	19,871	-	-	37,457	-	57,328	-
Executive Directors							
L DiNardo	405,897	12,516	-	3,826,121	-	4,244,534	15%
Other Key Management Personnel							
A Mankar	313,341	5,836	8,250	-	-	327,427	-
P van der Made [2]	313,341	5,747	-	-	-	319,088	-
R Beachler	313,341	3,528	7,500	1,129,177	-	1,453,546	49%
R Benton [3]	247,895	10,007	-	160,388	-	418,290	8%
Totals	**1,933,366**	**37,634**	**15,750**	**5,917,796**	**-**	**7,904,546**	

(1) Mr Bolto resigned, and Mr Liebeskind was appointed, as a Non-Executive Director on 1 May 2018. The Board engaged Mr Bolto as a consultant to the Company from 1 May 2018.

(2) Mr van der Made resigned as an Executive Director on 1 January 2018 however continues to be reported as a KMP in his role as Chief Technology Officer.

(3) Mr Benton ceased to be KMP upon his resignation as CFO, effective 14 September 2018. The share-based payment expense relates to 6,250,000 options which vested prior to his resignation.

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

(5) 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 KMP (including nominees)

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

	Balance held at 1 January 2019	Acquired / Disposed	Shares issued as remuneration	Conversion of Performance Rights	Net change other	Balance held at 31 December 2019
Directors						
S Wilks	-	-	-	-	-	-
L DiNardo	11,779,361	-	-	-	-	11,779,361
S Liebeskind [1]	11,649,242	-	-	-	-	11,649,242
E Hernandez	-	-	-	-	-	-
A Osseiran [2]	9,338,500	-	-	-	-	9,338,500
J Stein	-	-	-	-	-	-
Other KMPs						
A Mankar [3]	121,885,000	-	-	-	-	121,885,000
P van der Made	176,305,508	-	-	-	-	176,305,508
R Levinson	-	-	-	-	-	-
K Scarince	-	-	-	-	-	-
R Beachler [4]	700,304	-	-	-	(700,304)	-
Total	331,657,915	-	-	-	(700,304)	330,957,611

(1) Shares held indirectly comprise 2,310,742 fully paid shares in the name of Crossfield Intech Nominees Pty Ltd and 9,338,500 fully paid shares via Crossfield Intech Nominees Pty Ltd as trustee for the Liebeskind Family Superfund.
(2) Shares held indirectly by Adam Osseiran and Rebecca Osseiran-Moisson ATF the Osseiran Family Trust.
(3) 99,135,000 fully paid ordinary shares are held by Merrill Lynch (Australia) Nominees Pty Ltd on behalf of Mr Mankar.
(4) Mr Beachler resigned as a KMP on 3 May 2019.

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 2019	Granted as remuner-ation	Exercised	Net change other	Balance at end of period 31 December 2019	Vested and not exercise-able	Vested and exercisable
Directors							
S Wilks [1]	-	8,000,000	-	(8,000,000)	-	-	-
L DiNardo [2]	50,000,000	7,500,000	-	-	57,500,000	-	36,750,000
S Liebeskind [3]	6,000,000	-	-	-	6,000,000	-	6,000,000
E Hernandez	8,000,000	-	-	-	8,000,000	-	2,000,000
A Osseiran	4,000,000	-	-	-	4,000,000	-	2,000,000
J Stein [4]	8,000,000	-	-	(8,000,000)	-	-	-
Other KMPs							
A Mankar	-	-	-	-	-	-	-
P van der Made	-	-	-	-	-	-	-
R Levinson	-	22,000,000	-	-	22,000,000	-	-
K Scarince	-	20,000,000	-	-	20,000,000	-	-
R Beachler [5]	20,000,000	-	-	(20,000,000)	-	-	-
Total	96,000,000	57,500,000	-	(36,000,000)	117,500,000	-	46,750,000

(1) Mr Wilks was appointed 11 February 2019.
(2) Mr DiNardo received 7,500,000 options in place of 7,500,000 performance rights as approved by shareholders.
(3) Mr Liebeskind held 3,000,000 options directly and 3,000,000 indirectly via Crossfield Intech Nominees Pty Ltd as trustee for the Liebeskind Family Superfund.
(4) 4,000,000 unvested options held by Ms Stein were forfeited upon her resignation as a director on 1 April 2019. A further 4,000,000 vested options held by Ms Stein will lapse if not exercised by 1 April 2020.
(5) Mr Beachler resigned as a KMP on 3 May 2019 resulting in the forfeiture of 10,000,000 unvested options and 10,000,000 vested options lapsed 30 days after his resignation.

REMUNERATION REPORT (Audited) (Continued)

8. Equity Instruments Disclosure (continued)

Performance Rights held by KMP (including nominees)

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

	Balance at beginning of period 1 January 2019	Granted as remuner-ation	Cancelled	Other	Balance at end of period 31 December 2019	Vested and exercise-able	Value of performance rights exercised US$
Directors							
S Wilks							
L DiNardo [(1)]	7,500,000	-	(7,500,000)	-	-	-	-
S Liebeskind	-	-	-	-	-	-	-
E Hernandez	-	-	-	-	-	-	-
A Osseiran	-	-	-	-	-	-	-
J Stein	-	-	-	-	-	-	-
Other KMPs							-
A Mankar	-	-	-	-	-	-	-
P van der Made	-	-	-	-	-	-	-
R Levinson	-	-	-	-	-	-	-
K Scarince	-	-	-	-	-	-	-
R Beachler	-	-	-	-	-	-	-
Total	7,500,000	-	(7,500,000)	-	-	-	-

(1) Mr DiNardo was awarded 15,000,000 performance rights on 8 June 2018 as part of his remuneration. 7,500,000 performance rights vested on 8 December 2018 and were converted to fully paid shares on 20 December 2018. The remaining 7,500,000 performance rights were cancelled and replaced by 7,500,000 options, as approved by shareholders on 30 May 2019.

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

9. Other transactions and balances with KMP

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

End of Audited Remuneration Report.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

INDEMNIFICATION OF AUDITORS

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

AUDITOR INDEPENDENCE

The Directors received the Independence Declaration, as set out on page 26, from Ernst & Young.

NON-AUDIT SERVICES

No non-audit services were provided by the entity's auditor, Ernst & Young during the current and the prior year.

Signed in accordance with a resolution of the Directors.

Emmanuel Hernandez
Chair
California, U.S.A., 25 February 2020

Building a better working world

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

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

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

As lead auditor for the audit of the financial report of BrainChip Holdings Ltd for the financial year ended 31 December 2019, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

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

Ernst & Young

Ernst & Young

Philip Teale
Partner
26 February 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019

	Note	31 December 2019 $US	31 December 2018 $US
Continuing operations			
Revenue from contracts with customers	5	75,574	947,989
Research & development expenses	6(a)	(4,511,410)	(4,660,792)
Selling & marketing expenses	6(b)	(1,061,595)	(1,465,475)
General & administrative expenses	6(c)	(3,795,200)	(4,169,706)
Share-based payment expense	23(a)	(1,636,113)	(7,305,802)
Operating Loss		(10,928,744)	(16,653,786)
Finance income	7(a)	66,571	130,600
Finance expense	7(b)	(612,945)	-
Fair value gain through profit and loss	7(c)	165,056	-
Loss from continuing operations before income tax		(11,310,062)	(16,523,186)
Income tax expense	9(c)	-	-
Loss from continuing operations after income tax		(11,310,062)	(16,523,186)
Net loss for the year		(11,310,062)	(16,523,186)
Other comprehensive income/(loss)			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):			
Remeasurement (losses)/gains on defined benefit plans		(16,990)	34,094
Items that may be reclassified subsequently to profit or loss (net of tax):			
Exchange differences on translation of foreign operations		(7,723)	(1,030)
Other comprehensive income for the year, net of tax		(24,713)	33,064
Total comprehensive loss for the year, net of tax		(11,334,775)	(16,490,122)
		US cents per share	**US cents per share**
Loss per share attributable to ordinary equity holders of the Company			
Basic and diluted loss per share	10	(0.95)	(1.64)

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

Consolidated Statement of Financial Position
As at 31 December 2019

	Note	31 December 2019 $US	31 December 2018 [1] $US
CURRENT ASSETS			
Cash and cash equivalents	11	7,622,178	7,543,326
Trade and other receivables	12	1,187,512	461,129
Inventory		16,021	20,864
Prepayments		135,534	139,789
Total current assets		8,961,245	8,165,108
NON-CURRENT ASSETS			
Right-of-use assets	2	191,460	-
Plant and equipment	13	178,883	226,456
Intangible assets and goodwill	14	1,776,113	1,735,122
Other assets		34,801	38,950
Total non-current assets		2,181,257	2,000,528
TOTAL ASSETS		11,142,502	10,165,636
CURRENT LIABILITIES			
Trade and other payables	15	471,284	723,541
Financial liabilities	17	736,932	-
Lease liabilities	2	102,362	-
Employee benefits liabilities	16	280,801	228,962
Total current liabilities		1,591,379	952,503
NON-CURRENT LIABILITIES			
Financial liabilities	17	222,667	226,873
Lease liabilities	2	90,691	-
Defined benefit plan	18	141,415	106,951
Total non-current liabilities		454,773	333,824
TOTAL LIABILITIES		2,046,152	1,286,327
NET ASSETS		9,096,350	8,879,309
EQUITY			
Contributed equity	20(a)	64,740,268	55,143,789
Share-based payments reserve	21	18,418,864	16,463,527
Foreign currency translation reserve	21	72,803	80,526
Other equity reserve	21	247,872	247,872
Accumulated losses	22	(74,383,457)	(63,056,405)
TOTAL EQUITY		9,096,350	8,879,309

[1] As the Group adopted the modified retrospective approach as a result of AASB 16 *Leases*, the 2018 balance sheet is not considered comparative.

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

Consolidated Statement of Cash Flows
For the year ended 31 December 2019

	Note	31 December 2019 US$	31 December 2018 US$
CASH FLOWS USED IN OPERATING ACTIVITIES			
Receipts from customers		186,142	909,662
Payments to suppliers and employees		(9,583,435)	(8,694,093)
Interest received		80,054	97,339
Interest paid		(9,804)	-
Grants and R&D credits received from third parties		325,608	483,888
Net cash flows used in operating activities	11	(9,001,435)	(7,203,204)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Payments for property, plant and equipment		(39,673)	(86,738)
Payments for purchase of patents and licenses		(119,826)	(457,273)
Payments for capitalised research and development		-	(686,189)
Net cash flows used in investing activities		(159,499)	(1,230,200)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from the issue of shares		7,394,000	-
Receipt from the issue of Convertible Securities	19(c)	2,565,000	-
Payment of share issue costs		(484,151)	(26,560)
Payment of Convertible Securities costs	19(c)	(30,453)	-
Repayment of loans to third parties	19(c)	(2,193)	(2,092)
Payment to reduce lease liabilities	19(c)	(223,779)	-
Net cash flows generated from /(used in) financing activities		9,218,424	(28,652)
Net increase /(decrease) in cash and cash equivalents		57,490	(8,462,056)
Net foreign exchange differences		21,362	(43,948)
Cash at the beginning of the financial period		7,543,326	16,049,330
Cash and cash equivalents at the end of the period	11	7,622,178	7,543,326

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

Consolidated Statement of Changes in Equity
For the year ended 31 December 2019

	Contributed equity US$	Share-based payment reserve US$	Other reserves US$	Foreign currency reserve US$	Accumulated losses US$	Total equity US$
At 1 January 2018	53,570,901	10,733,454	247,872	81,556	(46,567,313)	18,066,470
Loss for the year	-	-	-	-	(16,523,186)	(16,523,186)
Other comprehensive (loss)/gain	-	-	-	(1,030)	34,094	33,064
Total comprehensive loss for the period	-	-	-	(1,030)	(16,489,092)	(16,490,122)
Issue of share capital	1,599,448	-	-	-	-	1,599,448
Share issue costs	(26,560)	-	-	-	-	(26,560)
Share-based payment – Note 24(a)	-	5,730,073	-	-	-	5,730,073
At 31 December 2018	55,143,789	16,463,527	247,872	80,526	(63,056,405)	8,879,309

	Contributed equity US$	Share-based payment reserve US$	Other reserves US$	Foreign currency reserve US$	Accumulated losses US$	Total equity US$
At 1 January 2019	55,143,789	16,463,527	247,872	80,526	(63,056,405)	8,879,309
Loss for the year	-	-	-	-	(11,310,062)	(11,310,062)
Other comprehensive loss	-	-	-	(7,723)	(16,990)	(24,713)
Total comprehensive loss for the period	-	-	-	(7,723)	(11,327,052)	(11,334,775)
Issue of share capital	9,056,810	-	-	-	-	9,056,810
Converted treasury shares	1,023,821	-	-	-	-	1,023,821
Share issue costs	(484,152)	-	-	-	-	(484,152)
Share-based payment – Note 23(a)	-	1,955,337	-	-	-	1,955,337
At 31 December 2019	64,740,268	18,418,864	247,872	72,803	(74,383,457)	9,096,350

1. CORPORATE INFORMATION

The annual financial report of BrainChip Holdings Ltd ("Company") and its controlled entities ("Consolidated Entity" or "Group") for the year ended 31 December 2019 was authorised for issue in accordance with a resolution of the Directors on 25 February 2020, California, U.S.A.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(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.

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

Except for the adoption of new and amended standards including the adoption of AASB16 leases, the policies are consistently applied.

New standards, interpretation and amendments adopted by the Group

The Group applied for the first time all new and amended Accounting Standards and Interpretations, which are effective for annual periods beginning 1 January 2019. Although these new and amended standards and Interpretations applied for the first time in 2019, they did not have a material impact on the annual consolidated financial statements of the Group.

AASB 16 Leases

AASB 16 *Leases* supersedes *AASB 117 Leases, Interpretation 4 Determining whether an Arrangement contains a Lease*, *Interpretation 115 Operating Leases Incentives,* and *Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. AASB16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Group adopted AASB 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedients allowing a) the standard to be applied only to contracts that were previously identified as leases applying AASB 117 and Interpretation 4 at the date of initial application, and b) the measuring the right-of-use asset on transition as being equal to the amount of the lease liability initially recognised on transition.

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption of AASB 16 is as follows:

The impact on the consolidated statement of financial position as at 1 January 2019 is an increase in right-of-use assets of $114,407 and an increase in the lease liability of $114,407.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

(a) Basis of preparation (continued)

The lease liabilities as of 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	US$
Operating lease commitments as at 31 December 2018	177,388
Weighted average incremental borrowing rate at 1 January 2019	8%
Discounting of operating lease commitments at 1 January 2019	(3,322)
Less:	
Commitments relating to short -term leases	(40,733)
Other miscellaneous adjustments	(18,926)
Lease liabilities as at 1 January 2019	**114,407**

(i) Nature and effect of adoption of AASB 16

The Group has lease contracts for various office premises. Before the adoption of AASB 16, the Group classified each of its leases (as lessee) at the inception date as an operating lease (as it held no finance leases). In an operating lease, the leased property was not capitalised, and the lease payments were recognised as an expense in the condensed interim consolidated statement of comprehensive loss on a straight-line basis over the lease term. Prepaid or accrued rent was recognised under prepaid expenses and deposits and accounts payable and accrued liabilities, respectively.

Upon adoption of AASB 16, the Group applied a single recognition and measurement approach for all leases where it is the lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. In accordance with the modified retrospective method of adoption, the Group applied AASB 16 at the date of initial application by measuring the right-of-use assets based on the amount equal to the lease liabilities. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

(ii) Summary of new accounting policy

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term office premises leases i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

(iii) Amounts recognised in the statement of financial position and profit and loss

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets US$	Lease Liabilities US$
As at 31 December 2018		
Initial adoption of AASB 16	114,407	114,407
Additions	305,736	305,736
Depreciation expense	(226,992)	-
Interest expense	-	9,804
Payments of interest and reduction in lease liabilities	-	(233,583)
Foreign exchange remeasurement	(1,691)	(3,311)
As at 31 December 2019	191,460	193,053
Disclosed as:		
Current		102,362
Non-current		90,691
Total Lease liabilities		193,053

Set out below, are the amounts recognised in profit and loss for the year ended 31 December 2019:

	31 Dec 2019 US$
Depreciation expense of right-of-use asset included in General & administrative expenses	226,992
Interest expense on lease liabilities included in Finance expense	9,804
Rent expense of short-term leases included in General & administrative expenses	93,165
Total amount recognised in profit or loss	329,961

AASB Interpretation 23 *Uncertainty over Income Tax Treatment*

The Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed. The Group applies significant judgement in identifying uncertainties over income tax treatments.

The Group assessed whether the Interpretation had an impact on its consolidated financial statements. Upon adoption of the Interpretation, the Group concluded that there were no uncertain tax positions and therefore the interpretation does not have an impact on the consolidated financial statements of the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

Going concern

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

During the period ended 31 December 2019, the Group incurred a net loss after tax of $11,310,062 and a cash outflow from operating activities of $9,001,435.

At 31 December 2019, the Group had cash and cash equivalents of $7,622,178, net assets of $9,096,350 and a net working capital of $7,369,866.

The Company has prepared a detailed cash budget showing the need to generate additional commercial agreements or receive additional funds in order to finance the Group for the next twelve months.

This creates a material uncertainty that may cast doubt as to whether the Group will continue as a going concern and, therefore, whether it will settle its liabilities and commitments in the normal course of business.

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

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

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

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

(b) Statement of compliance

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

The following Standards and Interpretations have been issued by the AASB, are relevant to the Group, but are not yet effective and have not been adopted by the Group for the period ending 31 December 2019. Unless otherwise stated, the Group has yet to fully assess the impact of these Standards and Interpretations when applied in future periods.

Amendment to *Conceptual Framework for Financial Reporting*

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows:

- Chapter 1 – The objective of financial reporting
- Chapter 2 – Qualitative characteristics of useful financial information
- Chapter 3 – Financial statements and the reporting entity
- Chapter 4 – The elements of financial statements
- Chapter 5 – Recognition and derecognition
- Chapter 6 – Measurement
- Chapter 7 – Presentation and disclosure
- Chapter 8 – Concepts of capital and capital maintenance

AASB 2019-1 has also been issued, which sets out the amendments to Australian Accounting Standards, Interpretations and other pronouncements in order to update references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of accounting standards in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying AASB 3 and developing accounting policies for regulatory account balances using AASB 108, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the Framework for the Preparation and Presentation of Financial Statements (July 2004), and not the definitions in the revised Conceptual Framework.

The amendments apply prospectively on or after 1 January 2020, with no material effect to the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance (continued)

Amendments to AASB 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to AASB 101: Definition of Material

This Standard amends AASB 101 Presentation of Financial Statements and AAS 108 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The amendments apply prospectively on or after 1 January 2020, with no material effect to the Group.

Amendments to IAS 1: Presentation of Financial Statements

This Standard aims to improve presentation in financial statements by clarifying the criteria for the classification of a liability as either current or non-current.

This amendment is to:

- Clarify that the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period
- Clarify the link between the settlement of the liability and the outflow of resources from the entity

The amendments apply prospectively on or after 1 January 2022. The client has not yet determined the impact of this amendment.

(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.

(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 (i) below for 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 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 (p) 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.

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)

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.

This category includes derivative instruments which the Group had not irrevocably elected to classify at fair value through OCI.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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)

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.

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 25 years.

Derecognition

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Intangible assets

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

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

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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 Long Term Incentive Plan (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 24.

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

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

(iv) Defined benefit plan
The Group's net obligation in respect of defined benefits plans is calculated by estimating the discounted amount of future benefit that employees have earned in the current and prior periods. The calculation of defined benefit plan obligations is performed annually by a qualified actuary using the projected unit credit method, taking into account staff turnover and mortality probability.

Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in OCI. The Group determines the net interest expense on the defined benefit liability for the period by applying the discount rate used to measure the net defined benefit obligation. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

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

(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 labour hours expended relative to the total expected labour hours to complete the 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 income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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.

  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 23. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities in the next annual reporting period but may impact expenses and equity.

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

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

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

- **Goodwill**

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

- **Impairment of goodwill**

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

- **Development costs**

  The Group capitalises development costs for a project in accordance with the accounting policy. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. At 31 December 2019, the carrying amount of capitalised development costs was $Nil (2018: $Nil).

- **Defined benefit plans**

  The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These includes the determination of the discount rate, future salary growth, mortality rates and employee turnover rate. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Further details about defined benefit plans are provided in Note 18.

- **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 19 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 Convertible Securities described in Note 19, 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 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 Notes 12).

Credit risk associated with Other receivables related to the sale of collateral shares is considered low due to its short-term nature and is ability to offset the receivable against any outstanding liability recognised in relation to the Convertible Securities.

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	
		2019	**2018**
	Note	**US$**	**US$**
Cash and cash equivalents	11	7,622,178	7,543,326
Trade and other receivables	12	1,187,512	461,129

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 Convertible Securities during 2019 which are expected to terminate in 2020. See Note 2(a) Basis of Preparation - Going Concern for further comment.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (continued)

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

	Carrying amount US$	Contractual cash flows US$	6 mths or less US$	6-12 mths US$	1-5 years US$
31 December 2019					
Trade and other payables	471,284	471,284	471,284	-	-
Financial liabilities	959,599	1,214,060	990,000	-	224,060
Lease liabilities	193,053	197,845	81,652	24,040	92,153
	1,623,936	1,883,189	1,542,936	24,040	316,213
31 December 2018					
Trade and other payables	723,541	723,541	723,541	-	-
Financial liabilities	226,873	233,890	-	-	233,890
	950,414	957,431	723,541	-	233,890

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's exposure to foreign currency risk at the balance sheet date was negligible.

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.

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.

(ii) The fair value of the Convertible Securities are carried at amortised cost is considered to approximate the fair value given the 12-month term.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Management

Capital managed by the Board includes contributed equity totalling $64,740,268 and other equity reserves of $247,872 at 31 December 2019 (2018: $55,143,789 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 2019, management did not pay a dividend and does not expect to pay a dividend in the foreseeable future.

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

	2019 US$	2018 US$
(a) Types of good and services		
Product revenue	10,153	108,140
License revenue	2,232	327,349
Development service revenue	63,189	512,500
Total revenue from contracts with customers	75,574	947,989
(b) Timing of revenue recognition		
Services transferred over time	63,189	512,500
Sale of product and license transferred at a point in time	12,385	435,489
Total revenue	75,574	947,989

6. EXPENSES

		2019 US$	2018 US$
(a)	**Research & development expenses**		
	Employee expenses	3,530,335	2,655,771
	Grants received	(547,034)	(332,283)
	Third party development services	700,000	-
	Other contractor fees	366,590	-
	Amortisation of intangible assets	78,509	1,098,396
	Write off of intangible assets	-	813,228
	Other expenses	383,010	425,680
	Total research & development expenses	4,511,410	4,660,792
(b)	**Selling & marketing expenses**		
	Employee expenses	541,981	785,715
	Contractor fees	234,356	309,364
	Other expenses	285,258	370,396
	Total selling & marketing expenses	1,061,595	1,465,475
(c)	**General and administration expenses**		
	Employee expenses	1,631,083	1,406,621
	Legal and professional fees	894,000	1,843,813
	Travel and accommodation expenses	285,323	293,260
	Depreciation of plant & equipment	86,311	51,610
	Depreciation of right of use assets	226,992	-
	Office rent	93,165	237,577
	Software lease expense	191,763	72,818
	Other	386,563	264,007
	Total general & administrative expenses	3,795,200	4,169,706

7. FINANCE INCOME, FINANCE EXPENSEAND FAIR VALUE THROUGH PROFIT AND LOSS

		2019 US$	2018 US$
(a)	**Finance income**		
	Interest received	66,571	107,448
	Foreign exchange gain	-	23,152
	Total finance income	66,571	130,600
(b)	**Finance expense**		
	Convertible Securities interest expense	519,454	-
	Other interest expense	11,413	-
	Foreign exchange loss	82,078	-
	Total finance expense	612,945	-
(c)	**Fair value gain through profit and loss**		
	Gain from financial assets and liabilities measured at fair value through the profit or loss (refer to Note 17 and 19)	165,056	-
		165,056	-

8. DIVIDENDS PAID AND PROPOSED

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

9. INCOME TAX

	2019 US$	2018 US$
(a) Major components of income tax expense		
Consolidated income statement		
Current income tax:		
Current income tax expense/(benefit)	-	-
Tax losses previously not recognised	-	-
Deferred tax asset not recognised	-	-
Income tax (benefit)/expense reported in the statement of comprehensive income	-	-
(b) Amounts charged or credited directly to equity		
Current income tax related to items charged or credited directly to equity	-	-
Deferred income tax related to items charged or credited directly to equity	-	-
Income tax (benefit)/expense reported in equity	-	-
(c) A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting loss before tax	11,310,062	16,523,186
At statutory income tax rate of 27.5% (2018: 27.5%)	(3,110,267)	(4,543,877)
Non-deductible (income) / expenses	-	452,887
Effect of lower/(higher) taxation rates of foreign subsidiaries	576,357	(985,749)
Other	(148,252)	(567,597)
Unrecognised tax losses and deferred income tax assets	2,682,162	5,644,336
Income tax expense/(benefit) reported in statement of profit or loss and other comprehensive income	-	-
Effective income tax rate	0%	0%

(d) Deferred tax relates to the following:

	Consolidated Statement of financial position 2019	2018
Accrued expenses	96,525	68,855
Tax losses	9,730,206	7,249,575
Share-based compensation	4,234,651	4,822,847
Intangible assets	32,222	35,986
Deferred State Tax deduction	-	(254,391)
Other	24,660	14,281
Not recognised	(14,118,264)	(11,937,153)
Net deferred tax liability	-	-
Deferred tax income/(expense)	-	-

(e) Unrecognised losses

At 31 December 2019, there are unrecognised losses of $9,730,206 (tax effected), for the Group (2018: $7,249,575 (tax effected)).

10. LOSS PER SHARE

	2019 US$	2018 US$
Net loss attributable to ordinary shareholders for basic and diluted earnings per share	(11,310,062)	(16,523,186)
	US cents per share	**US cents per share**
Basic and diluted loss per share	(0.95)	(1.64)
	Number	**Number**
Weighted average number of ordinary shares for basic loss per share [3]	1,187,151,633	1,006,859,664
Effect of the dilution of share options and performance rights [1] [2]	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	1,187,151,633	1,006,859,664

[1] At 31 December 2019, the Company had on issue 195,068,976 (2018: 162,950,000) share options that are excluded from the calculation of diluted loss per share for the current period as they are considered anti-dilutive.

[2] At 31 December 2019, the Company had on issue 5,800,000 restricted stock units (2018: 3,850,000 restricted stock units and 8,500,000 performance rights) that are excluded from the calculation of diluted loss per share for the current period as they are considered anti-dilutive.

[3] Weighted average number of ordinary shares has been adjusted as a result of rights issue to institutional and sophisticated investors for all periods:
- to 31 December 2017 by a factor of approximately 1.02, effective November 2017;
- to 31 December 2019 by a factor of approximately 1.01, effective July 2019.

11. CASH AND CASH EQUIVALENTS

	2019 US$	2018 US$
Cash at bank and in hand	7,593,022	5,505,494
Term deposits	29,156	2,037,832
Total	7,622,178	7,543,326
Reconciliation of the net loss after tax to net cash flows from operations		
Loss after tax	(11,310,062)	(16,523,186)
Non-cash adjustment to reconcile loss before tax to net cash flows:		
Depreciation	313,303	51,610
Amortisation	78,509	1,098,396
Write off of intangible assets	-	813,228
Share-based payments	1,636,113	7,305,802
Gain from financial liabilities measured at fair value through the profit or loss	(165,056)	-
Interest expense	521,063	-
Foreign exchange (gain)/loss	87,311	(10,991)
Working capital adjustments:		
(Increase)/decrease in trade and other receivables	47,571	126,581
Decrease /(increase) in inventory	4,843	(301)
Decrease in prepayments	(57,278)	(34,924)
Increase in other assets	4,913	2,561
Decrease in financial liabilities	(4,207)	(9,469)
Increase /(decrease) in defined benefits plan	34,464	(32,084)
Increase in employee provisions	51,840	20,832
Decrease in trade and other payables	(244,762)	(11,259)
Net cash flows used in operating activities	(9,001,435)	(7,203,204)

12. TRADE AND OTHER RECEIVABLES

	2019 US$	2018 US$
Current		
Trade receivables	4,228	114,795
Research tax credit [1]	402,974	336,582
Receivable from sale of collateral shares [2] – refer Notes 17 and 19	766,818	-
Other receivables	13,492	9,752
	1,187,512	461,129

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

[2] Under the terms of the Convertible Securities Agreement ("CSA"), Collateral Shares were issuable to CST. These Collateral Share are treated as Treasury Shares until traded by CST. If traded by CST they effectively become issued and CST must pay the Company an amount determined based on the lower of $0.79 per share and 92% of the average 5 day VWAP during the 20 actual trading days prior to maturity, at the end of the instrument. As such the receivable is recorded at fair value through profit and loss. Refer to Note 19 for details of the CSA.

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. PLANT & EQUIPMENT

	2019 US$	2018 US$
Plant and equipment		
Plant and equipment – Gross carrying value at cost	498,290	385,299
Accumulated depreciation	(319,407)	(158,843)
Net carrying amount	178,883	226,456
Movement in plant and equipment		
At 1 January net of accumulated depreciation	226,456	192,307
Additions	39,673	86,738
Depreciation charge for the year	(86,311)	(51,610)
Net foreign exchange movements	(935)	(979)
At 31 December net of accumulated depreciation	178,883	226,456

14. INTANGIBLE ASSETS AND GOODWILL

	2019 US$	2018 US$
Patents and licenses (a)	870,655	829,664
Capitalised research & development costs (b)	-	-
Goodwill	905,458	905,458
	1,776,113	1,735,122

		2019 US$	2018 US$
(a)	Patents and licenses with finite useful life – at cost	1,081,320	970,212
	Accumulated amortisation	(210,665)	(140,548)
		870,655	829,664
	Movement in patents and licenses		
	At 1 January	829,664	773,437
	Additions	119,826	130,556
	Amortisation	(78,509)	(73,397)
	Net foreign exchange movements	(326)	(932)
	At 31 December	870,655	829,664
(b)	Capitalised research & development costs	-	-
	Accumulated amortisation	-	-
		-	-
	Movement in capitalised research & development costs		
	At 1 January	-	1,135,132
	Additions	-	686,189
	Amortisation	-	(1,024,999)
	Write off	-	(813,228)
	Net foreign exchange movements	-	16,906
	At 31 December	-	-

The uncertainty of revenue has resulted in the write off of carry forward capitalised research & development costs related to BrainChip Studio in the prior year, with all other projects fully amortised by the end of that year in line with the Group's amortisation policy.

As at 31 December 2019, the Group performed an impairment assessment based on the fair value less cost of disposal (Level 2 in the fair value hierarchy) to confirm the recoverability of the Group's net assets. Based on the Group's assessment as at 31 December 2019, the market capitalisation of the Group was above the book value of its equity, which shows that the estimated recoverable amount was sufficient to recover the consolidated net assets at 31 December 2019. Assumptions used within the Group's fair value less cost of disposal determination included the Group's share price of A$0.047 at 31 December 2019 and the foreign exchange rate of $0.701 AUD/USD at 31 December 2019.

As at 31 December 2019, the Group considered indicators of impairment of these assets and determined that there was none other than those noted above.

15. TRADE AND OTHER PAYABLES

	2019 US$	2018 US$
Current		
Trade creditors and accruals	469,408	676,479
VAT and other taxes payable to foreign authorities	1,876	47,062
	471,284	723,541

16. EMPLOYEE BENEFITS LIABILITIES

	2019 US$	2018 US$
Provision for annual leave	280,801	228,962
	280,801	228,962

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

17. FINANCIAL LIABILITIES

	2019 US$	2018 US$
Current		
Convertible liabilities (2)	586,673	-
Derivative liabilities (2)	150,259	-
	736,932	-
Non-Current		
Advances from third parties (1)	222,667	226,873
	222,667	226,873

(i) 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.

(2) *Convertible Securities Agreement*

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

Key Terms and conditions

a) The Convertible Securities are convertible into ordinary shares at the discretion of CST based on an amount determined being on the lower of $0.079 per share and 92% of average 5 day VWAP during the 20 day VWAP during the 20 trading days prior to conversion
b) The term of the Convertible Securities is 12 months but the term may be extended by the Company by 6 months up to a total of 18 months by paying an extension fee equal to 3% of the face value of the then outstanding Convertible Securities. The Company can also early repay up to 50% of the amount outstanding preventing CST from converting its shares
c) Whilst the Convertible Securities are unsecured, the Company issued 30,000,000 shares to CST for no consideration ("Collateral Shares") at the time of issue of the Convertible Securities. CST may trade the Collateral Shares at any time but is not obliged to use them in full or partial satisfaction of the Company's obligations to issue Shares on conversion of the Convertible Securities or exercise of Options. The Collateral Shares are reported as Treasury Shares until traded by CST or used in satisfaction of the Company's obligation to issue Shares on conversion of the Convertible Securities.
d) On Maturity, or an earlier date elected by the Company, the outstanding number of the Collateral Shares, may be applied to reduce the outstanding amount.

As part of the issuance of the Convertible Securities, the Company:

e) issued 1,561,279 shares to CST in lieu of a drawdown fee. The shares were fair valued at $83,167 by reference to the equity instruments issued as they provide the most reliable estimate of the value of services delivered.
f) granted CST 21,868,976 options to purchase Shares, with an exercise price of A$0.117 and expiry date of 26 June 2022. The Options were valued at $567,135 by reference to the equity instruments issued as they provide the most reliable estimate of the value of services delivered.
g) The value of these and options shares has been split between the Convertible Securities (transaction cost) and profit and loss in accordance with the relative value of the Convertible Securities and embedded derivatives at the time of issuance.

Conversion of debt and treasury shares

h) The Company issued 77,177,256 ordinary shares to CST between September and December 2019 as a result of the conversion of Convertible Securities. The shares were valued in accordance with the CSA at the lower of A$0.079 or 92% of the average 5 day VWAP during the 20 actual trading days prior to conversion. The value of the debt converted totalled $1,549,251.
i) CST sold 29,581,510 collateral shares, reported as treasury shares, in the period July to September 2019. The consideration payable by CST was initially fair valued at $1,023,821 which resulted in an increase to Contributed Equity but has since been remeasured to $766,818 (Note 12)

18. DEFINED BENEFIT PLAN

	2019 US$	2018 US$
Net employee defined benefit liabilities	141,415	106,951

BrainChip SAS has a defined benefit pension plan which is governed by the employment laws of France. Pension plans that are defined benefit schemes (in which the Company guarantees an amount or defined level of benefits) are recognised on the balance sheet based on an actuarial valuation of the obligations at period-end.

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

The defined benefit plan is administered by the French regulatory authority and is legally separated from the Group. The authority is required by law to act in the best interests of the plan participants and is responsible for setting certain policies (eg investment, contribution and indexation policies) of the fund.

The defined benefit plan exposes the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk, and market (investment) risk.

(a) Defined benefit obligation

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

	2019	2018
Discount rate	0.8%	1.6%
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.

(b) 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)	(16,519)	21,118
Future salary growth (+/-1.0 % movement)	20,683	(16,542)

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.

19. FINANCIAL ASSETS & LIABILITIES

(a) 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 2019:

	2019 US$	2018 US$
Financial assets at amortised cost		
Trade and other receivables	420,694	461,129
Financial assets at fair value through profit or loss		
Receivable on sale of collateral shares	766,818	-
Total financial assets	1,187,512	461,129
Current	1,187,512	461,129
Non-current	-	-
Total financial assets	1,187,512	461,129
Financial liabilities at amortised cost		
Trade and other payables	471,284	723,541
Financial liabilities		
- Advances from third parties	222,667	226,873
- Convertible liabilities	586,673	-
Financial liabilities at fair value through profit & loss		
Financial liabilities		
- Derivative liabilities	150,259	-
Financial liabilities at fair value through OCI		
Defined benefit plan	141,415	106,951
Total financial liabilities	1,572,298	1,057,365
Current	1,208,216	723,541
Non-current	364,082	333,824
Total financial liabilities	1,572,298	1,057,365

19. FINANCIAL ASSETS & LIABILITIES (Continued)

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

		Fair value measurement using		
	Total	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
As at 31 December 2019	**US$**	**US$**	**US$**	**US$**
Financial assets measurement at fair value				
Receivable on sale of collateral shares	766,818	766,818	-	-
	766,818	766,818	-	-
Financial liabilities measured at fair value				
Derivative liabilities	150,259	-	150,259	-
Defined benefit plan	141,415		141,415	
	291,674	-	291,674	-
As at 31 December 2018				
Financial liabilities measured at fair value				
Defined benefit plan	106,951	-	106,951	-
	106,951	-	106,951	-

There were no transfers between Level 1 and Level 2 during 2019 and 2018.

(c) The following table provides the changes in liabilities arising from financing activities

2019	**1 January 2019 US$**	**Cashflows US$**	**Foreign exchange US$**	**Changes in fair values US$**	**New leases US$**	**Other US$**	**31 December 2019 US$**
Advances from third parties	226,873	(2,193)	4,415	(6,429)	-	-	222,666
Convertible Securities and derivative liability	-	2,534,547	-	171,485	-	(1,969,100) [1]	736,932
Defined benefit plan	106,951	-	(2,443)	16,990	-	19,917	141,415
Lease liabilities	-	(223,779)	(1,310)	-	305,736	112,406	193,053
	333,824	2,308,575	662	182,046	305,736	(1,836,777)	1,294,066

Change in fair values reconciled as follows:

Fair value through profit or loss	165,056
Fair value through other comprehensive income	16,990
	182,046

[1] Other transaction related to Convertible Securities includes interest accretion and the value of shares converted on exercise of conversion notices during the financial year.

2018	**1 January 2018 US$**	**Cashflows US$**	**Foreign exchange US$**	**Changes in fair values US$**	**New leases US$**	**Other US$**	**31 December 2018 US$**
Advances from third parties	236,342	(2,092)	(10,669)	3,292	-	-	226,873
Defined benefit plan	139,036	-	(6,276)	(42,674)	-	16,865	106,951
	375,378	(2,092)	(16,945)	(39,382)	-	16,865	333,824

20. CONTRIBUTED EQUITY

		2019 US$	2018 US$
(a)	**Ordinary Shares**		
	Issued and fully paid	64,740,268	55,143,789

(b) Movements in ordinary shares on issue

	Number	US$
At 1 January 2018	969,080,489	53,570,901
Issue of shares as remuneration to Mr Louis DiNardo [1]	15,000,000	1,563,870
Issue of shares to the Trustee of the BrainChip LTIP [2]	10,000,000	-
Conversion of Performance Rights	49,500,000	-
Conversion of Performance Rights	6,000,000	-
Issue of shares to third party for services performed [3]	303,030	35,578
Share issue costs incurred	-	(26,560)
At 31 December 2018	1,049,883,519	55,143,789
At 1 January 2019	1,049,883,519	55,143,789
Issue of shares as per Convertible Securities – refer note 17(2)(b)	1,561,279	-
Issue of shares as collateral in relation to the Convertible Securities – refer note 17(2)(d)	30,000,000	-
Issue of shares upon non-renounceable entitlement [4]	178,753,609	7,507,560
Shares issued on conversion of Convertible Securities - refer note 17(2)(f)	77,177,256	1,549,251
Treasury shares disposed by CST Capital Pty Ltd - refer note 17(2)(g)	-	1,023,820
Share issue costs incurred	-	(484,152)
At 31 December 2019	1,337,375,663	64,740,268

[1] On 8 June 2018, 15,000,000 shares were issued to Mr Louis DiNardo. The shares were fair valued based on the share price of A$0.14 (US$0.104) on 10 May 2018, being the date of approval by shareholders at the AGM. The value of the shares issued are reported as a share-based payment expense.
[2] On 9 October 2018, 10,000,000 shares were issued to the Trustee of the BrainChip Long Term Incentive Plan for Nil consideration.
[3] On 21 December 2018, 303,030 shares were issued to a third party for services performed over a 12 month period commencing 18 August 2018.
[4] The Company issued 112,206,282 shares on 8 July 2019 raising A$6,732,377 (US$4,696,641) and 66,547,327 shares on 16 July 2019 raising a further A$3,992,840 (US$2,810,919).

		2019 Number	2018 Number
(c)	**Treasury shares**		
	Fully paid shares issued to CST Capital Pty Ltd	368,490	-
	Fully paid shares issued to Trustee of Long Term Incentive Plan ("LTIP")	500,000	1,500,000
		868,490	1,500,000

Movements in Treasury shares

	2019 Number	2018 Number
At 1 January	1,500,000	-
Shares issued to Trust from BrainChip Holdings Ltd [1]	-	10,000,000
Shares issued to CST Capital Pty Ltd – refer note 17(2)(c)	30,000,000	-
Shares disposed by CST Capital Pty Ltd	(29,581,510)	-
Shares issued by Trustee of the LTIP on conversion of Performance Rights – refer note 23(b)	(1,000,000)	-
Shares Issued on conversion of Performance Rights	-	(1,000,000)
Shares Issued on conversion of Performance Rights	-	(7,500,000)
Shares Issued on conversion of RSU – refer note 20(g)	(50,000)	-
At 31 December	868,490	1,500,000

[1] The BrainChip Long Term Incentive Plan Trust was established on 2 August 2018 and Solium Nominees (Australia) Pty Limited was appointed as the Plan Trustee. On 9 October 2018, 10,000,000 shares were issued to the Trust at no value in the name of the Trustee to be held for the conversion of vested options, performance rights and restricted stock units of the LTIP.

20. CONTRIBUTED EQUITY (Continued)

(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) Performance Rights movements

	Opening balance 1 January 2019	Converted	Cancelled	Closing balance 31 December 2019
Class B Performance Rights (1)	1,000,000	(1,000,000)	-	-
Class E Performance Rights (2)	7,500,000	-	(7,500,000)	-
	8,500,000	(1,000,000)	(7,500,000)	-

(1) 1,000,000 Class B Performance Rights previously issued to employees were converted to Treasury shares on 8 June 2019 after the achievement of certain vesting conditions.
(2) Shareholders approved the cancellation of 7,500,000 performance rights previously issued to Mr DiNardo and the issue of 7,500,000 options, exercisable at A$0.075, expiring 30 May 2029.

(f) Options on issue

Unissued ordinary shares of the Company under option at 31 December 2019 are as follows:

Type	Expiry Date	Exercise Price (US$)	31 December 2019 Number	31 December 2018 Number
Options issued as part consideration as part of the Acquisition				
Unlisted	10/09/2019	0.112	-	6,250,000
Options issued to shareholders				
Unlisted	31/05/2020	0.171	20,000,000	20,000,000
Options issued as share-based payments				
Unlisted – refer Note 23(d)	Various	Various	175,068,976	136,700,000
Total			195,068,976	162,950,000

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

(g) Restricted Stock Units (RSUs) on issue

Unissued ordinary shares of the Company under option at 31 December 2019 are as follows:

Type	31 December 2019 Number	31 December 2018 Number
Unlisted – refer Note 23(h)	5,800,000	3,850,000
Total	5,800,000	3,850,000
Movement in RSUs		
1 January	3,850,000	-
Issue during the period	2,000,000	3,850,000
Converted during the period	(50,000)	-
31 December	5,800,000	3,850,000

21. RESERVES

	Foreign currency reserve	Share- based payment reserve	Other equity reserve	Total
CONSOLIDATED	**US$**	**US$**	**US$**	**US$**
At 1 January 2018	81,556	10,733,454	247,872	11,062,882
Share-based payments	-	5,730,073	-	5,730,073
Translation of foreign operations	(1,030)	-	-	(1,030)
At 31 December 2018	80,526	16,463,527	247,872	16,791,925
At 1 January 2019	80,526	16,463,527	247,872	16,791,925
Share-based payments	-	1,955,337	-	1,955,337
Translation of foreign operations	(7,723)	-	-	(7,723)
At 31 December 2019	72,803	18,418,864	247,872	18,739,539

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.

Translation reserve

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

22. ACCUMULATED LOSSES

	2019 US$	2018 US$
At 1 January	(63,056,405)	(46,567,313)
Re-measurement (losses)/gains on defined benefit plans	(16,990)	34,094
Net loss in current period attributable to members of the Company	(11,310,062)	(16,523,186)
At 31 December	(74,383,457)	(63,056,405)

23. SHARE-BASED PAYMENTS

	2019 US$	2018 US$
(a) Recognised share-based payment expenses		
Performance Rights issued to employees	358,447	1,438,285
Options issued to directors, employees, contractors and CST	1,384,201	4,190,478
Restricted stock units issued to employees	212,689	101,310
Recognised in share-based payment reserve	1,955,337	5,730,073
Equity Instruments capitalised to Convertible Securities	(342,965)	-
Equity instruments reported as prepayments	23,741	-
Shares issued to director and consultants	-	1,575,729
Total share-based payment expense	1,636,113	7,305,802

23. SHARE-BASED PAYMENTS (Continued)

The 2018 Long Term Incentive Plan (LTIP) was adopted by shareholders in May 2018. The Company has Performance Rights and Options that were issued under the plans current at the time of offer (Performance Rights Plan, Long Term Incentive Plan and Directors and Officers Option Plan) 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 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.

Performance Rights Plan

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

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

(b) Performance Rights issued to employees

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

	Opening balance 1 January 2019	**Converted during the year**	**Cancelled during the year**	**Closing balance 31 December 2019**
Class B Performance Rights	1,000,000	(1,000,000)	-	-
Class E Performance Rights	7,500,000	-	(7,500,000)	-
	8,500,000	(1,000,000)	(7,500,000)	-

(c) 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 at the date of grant. No performance rights were issued during the year ended 31 December 2019. The following table lists the fair value of performance rights issued during the prior year:

	Number of performance rights	Grant date	Fair value at grant date $US
2018 : Employees	1,000,000	8/06/2018	0.110
	15,000,000	10/05/2018	0.104
	16,000,000		

23. SHARE-BASED PAYMENTS (Continued)

(d) 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:

	2019 Number	2019 WAEP (US$)	2018 Number	2018 WAEP (US$)
Outstanding at 1 January	136,700,000	0.165	164,300,000	0.161
Granted during the period	85,018,976	0.056	11,400,000	0.142
Forfeited during the period	(28,275,000)	(0.138)	(21,250,000)	(0.128)
Lapsed during the period	(11,375,000)	(0.201)	(500,000)	(0.215)
Expired during the period	(7,000,000)	(0.137)	(17,250,000)	(0.150)
Outstanding at the end of the period	175,068,976	0.115	136,700,000	0.165
Exercisable (vested and unrestricted) at the end of the period	91,656,476	0.117	50,850,000	0.180

The weighted average remaining contractual life for the share options outstanding at 31 December 2019 is 3.23 years (2018: 3.83 years).
The weighted average fair value of options granted during the year was $0.081 (2018: $0.108)
The range of exercise prices for options outstanding at the end of the year was $0.037 to $0.242 (2018: US$0.105 to US$0.258).

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

(e) Options granted under the Long Term Incentive Plan

Unissued ordinary shares of the Company under option at 31 December 2019 are as follows:

Grant Type	Grant Date	Expiry Date	Exercise Price (US$)	Number	Vested at year end
LTIP (1)	4/12/2015	21/12/2020	0.172	4,800,000	4,800,000
LTIP (1)	22/01/2016	01/02/2021	0.165	1,500,000	1,125,000
LTIP (2)	28/09/2016	30/09/2021	0.172	50,000,000	29,250,000
LTIP (1)	8/07/2016	10/10/2021	0.113	4,000,000	3,000,000
LTIP (1)	7/10/2016	10/10/2021	0.205	2,000,000	1,500,000
LTIP (1)	27/01/2017	16/02/2022	0.242	100,000	50,000
LTIP (3)	30/01/2017	16/02/2022	0.185	3,000,000	3,000,000
LTIP (3)	30/01/2017	31/12/2022	0.185	3,000,000	3,000,000
AGM 2017 (4)	31/05/2017	31/01/2023	0.138	2,000,000	2,000,000
AGM 2017 (4)	31/05/2017	31/01/2024	0.138	2,000,000	2,000,000
AGM 2017 (5)	31/05/2017	01/02/2023	0.182	1,750,000	1,750,000
AGM 2017 (5)	31/05/2017	01/02/2024	0.182	1,750,000	1,750,000
AGM 2017 (5)	31/05/2017	01/02/2025	0.182	1,750,000	-
AGM 2017 (5)	31/05/2017	01/02/2026	0.182	1,750,000	-
LTIP (6)	7/07/2017	7/07/2023	0.125	2,000,000	2,000,000
LTIP (6)	7/07/2017	7/07/2024	0.125	2,000,000	2,000,000
LTIP (6)	7/07/2017	7/07/2025	0.125	2,000,000	-
LTIP (6)	7/07/2017	7/07/2026	0.125	2,000,000	-
LTIP (1)	28/11/2017	14/12/2022	0.136	500,000	250,000
LTIP (1)	28/11/2017	14/12/2022	0.141	300,000	150,000
LTIP (1)	28/11/2017	14/12/2022	0.148	400,000	200,000
LTIP (1)	1/12/2017	14/12/2022	0.140	200,000	100,000
LTIP (7)	5/03/2018	13/03/2028	0.147	4,450,000	1,537,500
LTIP (8)	5/03/2018	13/03/2028	0.147	2,000,000	2,000,000
LTIP (1)	5/03/2018	13/03/2028	0.171	800,000	200,000
LTIP (1)	30/04/2018	08/06/2028	0.136	500,000	125,000
LTIP (1)	30/04/2018	08/06/2028	0.117	1,000,000	250,000
LTIP (1)	16/06/2018	16/06/2028	0.105	600,000	150,000
LTIP (1)	19/11/2018	5/10/2028	0.103	400,000	100,000

23. SHARE-BASED PAYMENTS (Continued)

(e) Options granted under the Long Term Incentive Plan (continued)

Grant Type	Grant Date	Expiry Date	Exercise Price (US$)	Number	Vested at year end
LTIP [9]	11/03/2019	13/03/2029	0.047	20,000,000	-
LTIP [10]	18/03/2019	18/03/2029	0.042	22,000,000	-
AGM 2019 [11]	30/05/2019	30/05/2029	0.069	7,500,000	7,500,000
LTIP [1]	13/06/2019	30/05/2029	0.037	4,150,000	-
LTIP [1]	23/09/2019	23/09/2029	0.031	500,000	-
LTIP [12]	23/09/2019	23/09/2029	0.035	500,000	-
Convertible Security Agreement – note 17(c)	13/06/2019	26/06/2022	0.081	21,868,976	21,868,976
Total				175,068,976	91,656,476

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

(2) 50,000,000 unlisted options were issued to the CEO, Lou DiNardo, on 30 September 2016 with an expiry date of 30 September 2021. 23,000,000 options vest equally over a 4-year period. 27,000,000 options vest equally over a 4-year period after attainment of specific performance criteria.

(3) 6,000,000 unlisted options issued to consultants on 16 February 2017. 50% of these options vested immediately and expire on 16 February 2022. 50% vested on 31 December 2017 as long as continuous service is provided and expire 31 December 2022.

(4) 4,000,000 unlisted vested options held after the resignation of the Director. The options will lapse if not exercised by 1 April 2020.

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

(6) 8,000,000 unlisted options were issued to Directors of which 25% of the options vest on each anniversary date of the offer date (7 July 2017) so long as continuous service is provided and expire five years from each vesting date.

(7) 4,450,000 unlisted options issued to employees on 13 March 2018 and expiring on 13 March 2028 with the following vesting terms:
- 1,200,000 vest 5 July 2021;
- 800,000 vest 7 October 2021;
- 1,500,000 vest 9 December 2019;
- 800,000 vest 15 January 2021;
- 150,000 vesting equally over a 4-year period from 5 March 2018.

(8) 2,000,000 unlisted options issued to consultants on 13 March 2018, expiring on 13 March 2028, with the following vesting terms: 25% on 30 April 2018, 25% on 30 September 2018 and 50% on 13 February 2019.

(9) 7,500,000 options vest on the first anniversary of the grant date, with $1/36^{th}$ monthly thereafter; 2,500,000 options will vest each anniversary of the grant date.

(10) 7,500,000 options vest on the first anniversary of the grant date, with $1/36^{th}$ monthly thereafter; 3,000,000 options will vest each anniversary of the grant date.

(11) 7,500,000 options were issued to Mr DiNardo in replacement of cancelled performance rights – refer also Note 20(e).

(12) 25% vests on the first anniversary of the grant date, with $1/36^{th}$ monthly thereafter.

(f) Options forfeited and lapsed during the period are as follows:

Type	Grant Date	Expiry Date	Exercise Price (US$)	Number forfeited	Number lapsed	Number expired
Unlisted	4/12/2015	21/12/2020	0.172	500,000	-	-
Unlisted	5/03/2017	31/03/2022	0.209	10,000,000	10,000,000	-
Unlisted	31/05/2017	31/01/2025	0.138	2,000,000	-	-
Unlisted	31/05/2017	31/01/2026	0.138	2,000,000	-	-
Unlisted	28/11/2017	14/12/2022	0.141	3,750,000	1,250,000	-
Unlisted	5/03/2018	13/03/2028	0.171	1,025,000	125,000	-
Unlisted	17/07/2018	17/07/2028	0.108	500,000	-	-
Unlisted	30/05/2019	30/05/2029	0.037	500,000	-	-
Unlisted	01/11/2016	01/11/2019	0.137	-	-	7,000,000
Unlisted	6/9/2019	06/09/2019	0.052	8,000,000	-	-
Total				28,275,000	11,375,000	7,000,000

23. SHARE-BASED PAYMENTS (Continued)

(g) Options pricing model

(i) *Options issued under LTIP - 2019*

The fair value of the equity-settled share options granted under the LTIP is estimated as at the date of grant using a Black Scholes Option Pricing model. The following table lists the inputs to the models used for the valuation of options during the year ended 31 December 2019:

	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
Director	8,000,000	0.031	0.037	0.052	88.4	1.50	10.3
Employees	22,000,000	0.038	0.045	0.047	88.4	1.44	10.0
	20,000,000	0.039	0.045	0.042	88.4	1.44	10.0
	7,500,000	0.030	0.037	0.069	88.4	1.50	10.1
	4,650,000	0.042	0.048	0.037	94.5	1.17	10.0
	500,000	0.023	0.026	0.031	94.4	0.96	10.0
	500,000	0.028	0.032	0.035	95.3	1.00	10.0

Options issued under LTIP - 2018

The following table lists the inputs to the models used for the valuation of options during the year ended 31 December 2018:

	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
Employees	5,100,000	0.124	0.140	0.147	97.3	2.75	10.0
	1,300,000	0.123	0.140	0.171	97.3	2.75	10.0
	500,000	0.097	0.110	0.136	97.3	2.77	10.1
	600,000	0.094	0.105	0.105	97.3	2.67	10.0
	500,000	0.089	0.089	0.107	97.3	2.64	10.0
	400,000	0.074	0.074	0.103	97.3	2.64	10.0
Consultants	2,000,000	0.124	0.140	0.147	97.3	2.75	10.0
	1,000,000	0.098	0.110	0.117	97.3	2.77	10.1

(ii) *Options issued in accordance with Convertible Securities Agreement*

The fair value of the equity-settled share options granted in accordance with the Convertible Securities Agreement is estimated as at the date of grant using a Black Scholes Option Pricing model applying the following inputs:

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
21,868,976	0.03	0.053	0.082	92.0	0.98	3

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

23. SHARE-BASED PAYMENTS (Continued)

(h) Restricted Stock Units issued as share-based payments

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 grant. The RSUs are subject to a 2 year vesting period effective from date of grant.

	Number of RSUs granted	Grant date	Fair value at grant date $US	Number of RSUs converted
2019 : Employees	2,000,000	26/06/2019	0.048	
			0.107	50,000
	2,000,000			50,000
2018 : Employees	2,950,000	8/06/2018	0.103	-
	50,000	17/7/2018	0.107	-
	300,000	6/8/2018	0.089	-
	200,000	3/9/2018	0.089	-
	150,000	8/10/2018	0.089	-
	200,000	19/11/2018	0.088	-
	3,850,000			-

24. COMMITMENTS

Operating lease commitments - Company as lessee

	2019 (1) US$	2018 US$
Office lease		
Up to one year	-	177,388
Two to five years	-	-
More than five years	-	-
	-	177,388

(1) No activity reported in 2019 as modified retroactive approach adopted in line with AASB 16 Leases – refer Note 2.

25. CONTINGENT ASSETS AND LIABILITIES

The Group had no contingent assets or liabilities at 31 December 2019 (31 December 2018: $Nil).

26. EVENTS AFTER THE BALANCE SHEET DATE

In January 2020, CST converted 136,799 Convertible Securities in exchange for reallocation of Collateral Shares in accordance with the CSA dated 26 June 2019.

CST also elected to pay for 10,000,000 collateral shares previously sold at A$0.052 resulting in a financial cash inflow of A$500,000 net of costs in January 2020 and 5,025,521 collateral shares previously sold at A$0.046 resulting in a financial cash inflow of A$230,944 in February 2020.

On 29 January 2020 the Company announced the departure of Dr. Adam Osseiran from the Board of Directors and his appointment as the Chair the Company's Scientific Advisory Board. On the same day, Mr Peter van der Made was appointed to the Board of Directors as Executive Director.

On 14 February 2020, the Company officially received an EAR99 classification for its Akida™ Neuromorphic System-on-Chip (NSoC), Akida Software Development Environment (ADE) and related technologies from the U.S. Government. The U.S. Department of Commerce Bureau of Industry and Security (BIS) also established Akida as not being classified as identified technology for the purposes of the Committee on

Foreign Investment (CFIUS), which could otherwise limit investment. The BIS ruling now allows BrainChip to export its AI technology, without additional U.S. government license, to non-restricted customers, including to high-growth customers in countries such as Japan, Korea, China and Taiwan.

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.

27. AUDITOR'S REMUNERATION

	2019 US$	2018 US$
Amounts received or due to be receivable by Ernst & Young (Australia) for:		
An audit or review of the financial reports of the entity	96,460	87,370
	96,460	87,370
Amounts received or due and receivable by non-Ernst & Young audit firms for:		
An audit or review of the financial report of the entity	9,785	10,255
	9,785	10,255

28. OPERATING SEGMENTS

For management purposes, the Group is organised into one operating segment, being the technological development of designs that can be licensed to OEM (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.

	2019 US$	2018 US$
Revenue from external customers		
North America	12,231	722,586
Europe, Middle East & Asia (EMEA)	63,343	225,403
Revenue from continuing operations	75,574	947,989

Customers representing more than 10% of revenues in the current year amounted to $10,000 of product sales from an Asian customer and $60,958 of development service revenue from European customers, comprising Customer A: $22,228 and Customer B $38,730.

In the prior year, customers representing more than 10% of revenues totaled $712,500 from a North American customer comprising license revenue of $200,000 and development service revenue of $512,500. Development service revenue includes (i) further development of existing licensed technology and/or (ii) engineering services for existing licensed technology.

Non-current assets	2019 US$	2018 US$
North America	1,104,788	1,018,340
EMEA	1,076,469	982,188
	2,181,257	2,000,528

29. RELATED PARTY DISCLOSURES

(a) Ultimate parent

The ultimate legal Australian parent entity and 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 2019	2018
Subsidiary companies of BrainChip Holdings Ltd			
BrainChip Inc. (1)	USA	100%	100%
Subsidiary companies of BrainChip Inc.			
BrainChip SAS	France	100%	100%

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

(c) Other entities

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

Name	Country of registration	Beneficial interest 2019	2018
BrainChip Long Term Incentive Plan Trust (1)	Australia	-	-

(1) BrainChip Holdings Ltd executed the BrainChip Long Term Incentive Plan Trust on 2 August 2018 and appointed Solium Nominees (Australia) Pty Ltd as the Plan Trustee.

29. RELATED PARTY DISCLOSURES (continued)

(d) Key Management Personnel compensation

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

	2019 US$	2018 US$
Short-term employee benefits	1,994,008	1,986,750
Share-based payment	713,016	5,917,796
	2,707,024	7,904,546

Related party transactions with KMPs of the Group are as follows:
There were no 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 (31December 2018: $Nil).

30. PARENT ENTITY INFORMATION

	2019 US$	2018 US$
Information relating to BrainChip Holdings Ltd		
Current assets	6,373,463	318,207
Non-current assets	3,538,746	8,879,309
Total assets	9,912,209	9,197,516
Current liabilities	(815,859)	(87,099)
Non-current liabilities	-	-
Total liabilities	(815,859)	(87,099)
Net assets	9,096,350	9,110,417
Issued capital	89,961,546	80,383,215
Other contributed equity	2,025,617	2,025,617
Accumulated losses	(121,309,888)	(109,836,277)
Share-based payment reserve	38,189,372	36,308,159
Option premium reserve	480,731	480,731
Foreign currency translation reserve	-	-
Other reserves	(251,028)	(251,028)
Total shareholders' equity	9,096,350	9,110,417
Net loss of the parent entity (1)	12,563,187	15,239,650
Total comprehensive loss of the parent entity	12,563,187	15,239,650

(1) At the reporting date investments and loans receivable from controlled entities net of provision for impairment totalled $3,537,745 (2018: $8,879,309). Impairment expense of $8,684,413 (2018: $7,742,170) was recognised for the year ended 31 December 2019.

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

Contingent liabilities of the parent entity
Nil

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

Directors' Declaration

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

In the opinion of the Directors:

(a) the financial statements and notes of the Company and of the 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 2019 and of their performance for the year ended on that date; and

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

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

(c) subject to the matters described in note 2(a), there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2019.

On behalf of the Board.

Emmanuel T. Hernandez
Chair
California, U.S.A., 25 February 2020

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

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

Independent Auditor's Report to the Members of BrainChip Holdings Ltd

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of BrainChip Holdings Ltd (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2019, 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 a summary of significant accounting policies, and the directors' declaration.

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

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance for the year ended on that date; and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2(a) Going Concern in the financial report which describes the principal conditions that raise doubt about the consolidated entity's ability to continue as a going concern. These events or conditions indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Building a better working world

Key audit matters

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

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

Convertible notes

Why significant	How our audit addressed the key audit matter
As disclosed in Note 17 to the financial statements, the Group has entered into an unsecured Convertible Securities Agreement ("CSA") with CST Capital Pty Ltd ("CST"), under which the Company has issued convertible securities with a face value of US$2,850,000 ("Convertible Securities") to CST for a term of 12 months. The accounting treatment and the valuation of Convertible Securities were complex due to significant judgement involved in identifying and valuing derivatives embedded within the Convertible Securities. At year end the Convertible Security and associated embedded derivatives were valued at US$0.6 million and US$0.2 million respectively. As such this matter was determined to be a key audit matter.	Our audit procedures included the following: ▸ Evaluated the Group's accounting treatment of the Convertible Securities. ▸ Reviewed the Group's valuations of the Convertible Securities, including assessing the methodology used for the valuations. ▸ Involved our valuation specialists and considered the reasonableness of the assumptions used in the valuation by agreeing key inputs such as maturity, repayment and conversion terms and pricing to the agreement; as well as assessing volatility used in the valuation by reference to historical share price information. We also assessed the adequacy of the presentation and disclosures included in Note 17 to the financial statements.

Share-based payment

Why significant	How our audit addressed the key audit matter
As disclosed in Notes 20 and 23 to the financial statements, the Group has awarded significant share-based payments to employees, Directors, consultants and CST during the year, contributing to a total share-based payment expense of approximately US$1.6 million and a reduction in debt of US$0.3 million. The valuation of share-based payments is complex and involves the use of subjective assumptions that have a material effect on the financial statements. As such this matter was determined to be a key audit matter.	We assessed the Group's determination of share based payment expense to ensure the balances were calculated in accordance with the applicable Australian Accounting Standards. We involved our valuation specialists to assess the Group's calculation of the fair value of share-based payments issued during the year, including assessing the key assumptions used. We also assessed the adequacy of the disclosures included in Notes 20 and 23 to the financial statements, including whether the classifications 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 Company's 2019 Annual Report, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

Building a better working world

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

Building a better working world

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

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

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

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2019.

In our opinion, the Remuneration Report of BrainChip Holdings Ltd for the year ended 31 December 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

Ernst & Young

Ernst & Young

Teale

Philip Teale
Partner
Perth
26 February 2020

Additional Shareholder Information as at 24 January 2020

(a) Top 20 Quoted Shareholders

	%	Number of shares
MR PETER AJ VAN DER MADE	13.18	176,305,508
MR ROBERT F MITRO <ROBERT F MITRO LIVING A/C>	8.99	120,202,500
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED (1)	7.47	99,920,715
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	1.72	22,983,041
MR ANIL SHAMRAO MANKAR & MRS MEENA ANIL MANKAR <MANKAR FAMILY A/C> (1)	1.70	22,750,000
CST CAPITAL PTY LTD <CST INVESTMENTS FUND A/C>	1.70	22,679,381
CITICORP NOMINEES PTY LIMITED	1.58	21,180,843
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1.38	18,504,946
NERONA PTE LTD	0.98	13,159,500
MR PAUL GLENDON HUNTER	0.75	10,000,000
MS CRISTINA M MITRO	0.75	10,000,000
MS VELIA MITRO	0.75	10,000,000
CROSSFIELD INTECH NOMINEES PTY LTD <LIEBESKIND FAMILY S/FUND A/C>	0.70	9,338,500
MR ADAM OSSEIRAN + MRS REBECCA OSSEIRAN-MOISSON <OSSEIRAN FAMILY A/C>	0.70	9,338,500
MR LOUIS DINARDO	0.56	7,500,000
AJAVA HOLDINGS PTY LTD	0.44	5,860,281
MR JEFFREY BRIAN WALTON	0.41	4,100,000
ZERO NOMINEES PTY LTD	0.41	5,477,265
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	0.38	5,123,765
Total	**44.55%**	**595,824,745**

(1) 99,135,000 fully paid ordinary shares are held by Merrill Lynch (Australia) Nominees Pty Limited on behalf of Mr Mankar. Total holding by Mr Mankar is 121,885,000 fully paid ordinary shares.

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

Size of parcel	Number of share holders	Number of shares	%
1 to 1,000	162	35,606	-
1,001 to 5,000	2,249	7,750,173	0.58
5,001 to 10,000	1,693	13,809,213	1.03
10,001 to 100,000	4,678	171,985,663	12.86
100,001 and over	1,411	1,143,795,008	85.53
Total	**10,193**	**1,337,375,663**	**100.0**

There are 3,397 holders with less than a marketable parcel of ordinary shares based on the Company's closing market price of $0.054 on 24 February 2020.

(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	6	548,424	-		8	600,000
100,001 and over	8	174,520,552	-	-	16	5,200,000
Total	**74**	**175,068,976**	**-**	**-**	**24**	**5,800,000**

(c) Substantial Shareholders

	%	Number of shares
MR PETER AJ VAN DER MADE	13.18	176,305,508
MR ROBERT F MITRO <ROBERT F MITRO LIVING A/C>	8.99	120,202,500
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED (1)	7.47	99,920,715

(1) 99,135,000 fully paid ordinary shares are held by Merrill Lynch (Australia) Nominees Pty Limited on behalf of Mr Mankar. Total holding by Mr Mankar is 121,885,000 fully paid ordinary shares.

(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.