



## **Independent Auditor's Report**

To the Board of Directors and Stockholders of BrainChip, Inc.:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of BrainChip, Inc. (the Company), which comprise the balance sheet as of December 31, 2014, and the income statement, statement of changes in equity, and cash flow statement for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted with IFRS; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted with IFRS. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



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

**Opinion**

In our opinion, based on our audit, the financial statements referred to above presents fairly, in all material respects, the financial position of BrainChip, Inc. as of December 31, 2014, in accordance with accounting principles generally accepted with IFRS.

San Francisco, California

July 6, 2015

**BrainChip, Inc.**  
**Statement of Financial Position**  
**as of December 31, 2014**  
**(in USD)**

Dec 31, 2014

**ASSETS**

**Current assets**

Cash	31,633
Prepaid expense	20,277
Security deposit	6,196
	58,106

**Non-current assets**

Computers	1,721
Accumulated depreciation	(72)
Intangible asset - patent	41,136
Accumulated amortization	(2,175)
	40,610
<b>Total Assets</b>	<b>98,716</b>

**EQUITY AND LIABILITIES**

**Equity attributable to owners**

Common stock	1,000
<small>(Authorized Share capital 10,000,000 Shares and Issued Share capital of 10,000,000 Shares of \$0.0001 each)</small>	
Additional paid in capital	19,112
Retained earnings	(357,967)
<b>Total equity</b>	<b>(337,855)</b>

**Non-current liabilities**

Notes payable	346,277
	346,277

**Current liabilities**

Trade and other payables	83,688
Accrued vacation	6,606
	90,294

**Total liabilities** **436,571**

**Total equity and liabilities** **98,716**

**BrainChip, Inc.**  
**Statement of Comprehensive Income**  
**for the Year Ended December 31, 2014**  
**(in USD)**

	Dec 31, 2014
Compensation and other benefits	146,206
Administrative expenses	1,976
Travel expenses	91,095
Professional service fees	105,487
Other expenses	13,203
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR</b>	<b><u><u>(357,967)</u></u></b>

**BrainChip, Inc.**  
**Statement of Cash Flows**  
**for the Year Ended December 31, 2014**  
**(in USD)**

*Cash flows from operating activities*

Set up and professional services	(96,372)
Cash payments for research and development	(231,000)
Depreciation and amortization of assets	2,247
Prepays and security deposits	(21,196)
Trade payables and accrued vacation	54,422
<b>Net cash from operating activities</b>	<b>(291,899)</b>

*Cash flows from investing activities*

Capitalized patent costs	(21,574)
Capitalized assets (computers)	(1,721)
<b>Net cash from investing activities</b>	<b>(23,295)</b>

*Cash flows from financing activities*

Loans from investors	346,277
Cash capital contributed	550
<b>Net cash from financing activities</b>	<b>346,827</b>

**Net increase in cash and cash equivalents** **-**

**Cash and cash equivalents at beginning of period** **-**

**Cash and cash equivalents at end of period** **31,633**

**BrainChip, Inc.**  
**Statement of Changes of Equity**  
**for the Year Ended December 31, 2014**  
**(in USD)**

	Share Capital	Retained Earnings	Additional Paid in capital	Total Equity
<b>Balance at January 1, 2013</b>	-	-	-	-
Changes in accounting policy	-	-	-	-
Restated balance	-	-	-	-
<i>Changes in equity for 2013</i>				
Dividends	-	-	-	-
Total Income/(loss) for the year	-	-	-	-
<b>Balance at December 31, 2013</b>	-	-	-	-
<i>Changes in Equity for 2014</i>				
Issue of share capital	1,000	-	-	1,000
Dividends	-	-	-	0
Total Income/(Loss) for the year	-	(357,967)	-	(357,967)
Transfer to Retained earnings	-	-	-	0
Additional paid in capital	-	-	19,112	19,112
<b>Balance at December 31, 2014</b>	<u>1,000</u>	<u>(357,967)</u>	<u>19,112</u>	<u>(337,855)</u>

BrainChip, Inc.  
Notes to Financial Statements  
For the year ended December 31, 2014

**NOTE 1 – Organization and Operations**

BrainChip, Inc. (“BrainChip”) is a Delaware C Corporation which was incorporated under the laws of the State of Delaware on December 24, 2013. BrainChip is in the business of development of designs that can be licensed to a semiconductor manufacturer of Chips based on Artificial Neural Network. The RTL developed and the solutions provided to their customers generate license fee and royalty to BrainChip.

**NOTE 2 – Summary of Significant Accounting Policies**

These financials are the first set of financial statements prepared by BrainChip in accordance with the *International Financial Reporting Standards for Small and Medium-Sized Entities* (the “IFRS for SME’s”) issued by the International Accounting Standards Board (the “IASB”). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**2.1 Basis of preparation** - These financial statements have been prepared in accordance with the IFRS for SMEs issued by the IASB. These are presented in US dollars which is the reporting currency of BrainChip.

The presentation of financial statements in accordance with the IFRS for SMEs requires the determination and consistent application of accounting policies to transactions and events. The principal accounting policies adopted by BrainChip are described in this note.

In some cases applying Brainchip’s accounting policies requires the use of estimates and other judgments. The judgments that management has made in the process of applying Brainchip’s accounting policies and that have the most significant effect on the amount recognized in the financial statements are set out in Note 3.

**2.2 Cash and cash equivalents** - BrainChip defines its cash and cash equivalents to include only cash on hand and in bank accounts, demand deposits, and investments with original maturities of ninety days or less.

Cash and cash equivalents as of December 31, 2014 was as follows:

Cash in Bank (Wells Fargo Bank – Checking)	\$30,993
Cash in Bank (Wells Fargo Bank – Savings)	<u>640</u>
	\$31,633

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BrainChip maintains its cash and cash equivalents at financial institutions, the balances of which may, at times, exceed federally insured limits. Management believes the risk of loss is minimal.

**2.3 Property and equipment** - Property and equipment are recorded at cost. Maintenance and repair costs are charged to expense when incurred. Gains and losses on the disposition of property and equipment are reflected in other income or expense when realized. Depreciation is computed on the straight-line method based on the useful lives of the assets. If there is indication that there has been a significant change in depreciation rate, useful life or residual value of the asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

Amortization of leasehold improvements is computed on the straight-line method over the shorter of estimated lives or remaining term of the lease plus options to extend the lease term.

*Impairment of long-lived assets* - At each reporting date, property, plant and equipment are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount (selling price less costs to complete and sell, in the case of inventories), but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

To date, management has not identified any impairment of long-lived assets. There can be no assurance, however, that market conditions will not change or demand for BrainChip's products will continue, which could result in impairment of long-lived assets in the future.

**2.4 Revenue recognition** - Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of BrainChip's activities. Revenue is shown net of any related taxes, returns, rebates and discounts. BrainChip recognizes revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to BrainChip.

**2.5 Income taxes** - The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except that a change attributable to an item of income or expense recognized as other comprehensive income is also recognized directly in other comprehensive income.

The current income tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where BrainChip's subsidiaries operate and generate taxable income.



BrainChip, Inc.  
Notes to Financial Statements  
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Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

**2.6 Subsequent events** - Subsequent events have been evaluated by BrainChip through July 2, 2015, which is the date of these financial statements were issued, and are listed below:

On January 2, 2015 BrainChip received further funds from the Robert F Mitro Living Trust in the amount of \$190,000. BrainChip and the Robert F Mitro Living Trust subsequently entered into a convertible promissory note for this amount on similar terms to the existing promissory notes discussed in Note 6 below.

On March 18, 2015 BrainChip signed a binding heads of agreement (“HOA”) with Aziana Limited (“Aziana”), an Australian Securities Exchange (“ASX”) listed company, to grant Aziana an option (“Option”) to acquire 100% of the securities on issue in BrainChip. Consideration for the transaction was:

- (a) 303,600,000 fully paid ordinary shares in the capital of Aziana (adjustable in accordance with a top up clause depending on the ultimate number of Aziana shares on issue at completion of the transaction and capital raising); and
- (b) Performance shares in the capital of Aziana, comprising:
  - (i) 49,500,000 A Class Performance Shares;
  - (ii) 49,500,000 B Class Performance Shares;
  - (iii) 49,500,000 C Class Performance Shares; and
  - (iv) 49,500,000 D Class Performance Shares.

The Option was to be exercised within 20 days from the date of execution of the HOA. The HOA is conditional upon the completion of due diligence by both parties, obtaining all required shareholder and regulatory approvals and with Aziana re-complying with Chapters 1 and 2 of the ASX listing rules.

On April 8, 2015 BrainChip and Aziana signed off the completion of their due diligence. Further to this Aziana exercised their Option to proceed with the acquisition by paying the AUD\$400,000 refundable option fee to BrainChip as per the terms of the HOA.

On May 12, 2015 BrainChip received a loan of AUD\$250,000 from Aziana as allowed under the terms of the HOA.

BrainChip, Inc.  
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On June 17, 2015 the terms of the HOA were restated to fix the consideration which was previously variable due to a top up clause. The consideration is now fixed as:

- (a) 286,925,000 fully paid ordinary shares in the capital of Aziana for existing BrainChip shareholders;
- (b) 18,125,000 for the conversion of the Robert Mitro Living Trust convertible notes;
- (c) 15,000,000 for the payout of third party note holders;
- (d) 33,555,500 to incoming BrainChip shareholder, Nerona Pte. Ltd; and
- (e) Performance shares in the capital of Aziana, comprising:
  - (i) 49,500,000 A Class Performance Shares;
  - (ii) 49,500,000 B Class Performance Shares;
  - (iii) 49,500,000 C Class Performance Shares; and
  - (iv) 49,500,000 D Class Performance Shares.

No other subsequent events have arisen that would require disclosure in these financial statements.

**2.7 Approval of financial statements** - These financial statements were approved by the Board of Directors and authorized for issue on May 31, 2015.

**2.8 Comprehensive Income** Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain statements, however, require entities to report specific changes in assets and liabilities, such as unrealized gains or losses on available for sale securities, as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income. There were no items of comprehensive income during 2014; accordingly, a Statement of Comprehensive income is not presented.

**NOTE 3 – Transition to IFRS for SMEs**

BrainChip’s financial statements for the year ended December 31, 2014 are its first annual financial statements prepared under accounting policies that comply with IFRS for Small and Medium Sized Entities (“SMEs”). BrainChip’s transition date is January 1, 2014. BrainChip prepared its opening IFRS for SMEs statements of financial position at that date.

In preparing these financial statements in accordance with the IFRS for SMEs, management has determined that none of the mandatory or optional exceptions from full retrospective application of IFRS for SMEs were applicable to the financial statements of BrainChip.

BrainChip, Inc.  
Notes to Financial Statements  
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Management has determined that there is no material effect of the transition from the previous generally accepted accounting principles to IFRS for SMEs on Brainchip's equity as of January 1, 2014 and on the results of operations for the year then ended.

**NOTE 4 – Information About Key Sources of Estimation Uncertainty and Judgments**

Estimates and judgments are continually evaluated. They are based on historical experience and other factors, including expectations of future.

**4.1 Estimates and judgments** - The significant estimates and judgments used in the preparation of these financial statements are related to the valuation of the deferred tax assets and liabilities including the estimate of the tax asset valuation allowance.

**4.2 Key sources of estimation uncertainty** - BrainChip makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have significant risk in causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

*Income taxes* - BrainChip is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. BrainChip recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

**NOTE 5 – Long Lived Assets**

Long lived assets as of December 31, 2014 include property and equipment with a cost of \$1,721 and accumulated depreciation of \$72 resulting in net balance of \$1,649 as of December 31, 2014. Property and equipment is depreciated over the estimated useful life of the assets in the range of 3 to 7 years.

In addition, BrainChip has long lived assets including patents that include legal costs to develop the patent with a cost of \$41,136 and accumulated amortization of \$2,175 resulting in net balance of \$38,961 as of December 31, 2014. The Patents are amortized over the estimated legal life of the Patent of 20 years.

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Notes to Financial Statements  
For the year ended December 31, 2014

**NOTE 6 – Long Term Promissory Notes & Warrants**

These promissory notes are issued against deposits which will be converted into shares at the rate of 50% of the price for which the company issues shares to the public (which the company referred as 'Liquidity Event' in the promissory notes). In the event of non-happening of the Liquidity Event, these notes will be payable on demand or after 12/31/2015 with interest accrued at the rate of United States Applicable Federal Rate (“AFR”) till the date the note is repaid.

BrainChip also sold two warrants to the holder-Robert F. Mitro Living Trust permitting the purchase shares of company stock in the amount that is obtained by dividing warrant coverage amount and exercise price. The exercise price is equal to the price per share of the shares issued in a Qualified Financing. The warrant shall expire and no longer be exercisable as of the earlier of either December 31, 2018 at 5 pm PST or the closing of the acquisition of BrainChip by another entity by means of any transaction or series of related transactions. The warrant does not entitle the holder to any rights as a stockholder of the BrainChip.

**NOTE 7 – Commitments and Contingencies**

BrainChip has a monthly office lease agreement of \$3,380. The end of the lease period is November 2015.

**NOTE 8 – Related Party Transactions**

BrainChip has a loan payable due to a major shareholder in the amount of \$100. This amount is due upon demand and is non-interest bearing.

**NOTE 9 – Continued Existence**

BrainChip has incurred significant losses in its first year of operation and has a shareholder's deficit of \$337,855 as of December 31, 2014. The Company's ability to continue as going concern is dependent upon the continuing support of the investors. These factors raise doubt about the Company's ability to continue as a going concern. The factors, however, are mitigated by the intention of creditors/investors to convert their notes that the Company owes them to an investment in the Company, as discussed in Note 6.