BrainChip Holdings Ltd

(formerly Aziana Limited)

Annual Report

2015

Board of Directors

Eric (Mick) Bolto (Non-Executive Chairman)
Peter van der Made (Executive Director)
Neil Rinaldi (Non-Executive Director)
Adam Osseiran (Non-Executive Director)

Company Secretary

Nerida Schmidt

Registered Office

Level 2, 6 Thelma Street West Perth WA 6005 Australia
Telephone: +61 8 9444 2555
Facsimile: +61 8 9444 1600

Postal Address

PO Box 278 West Perth WA 6872 Australia

Website

http://www.brainchipinc.com

Auditors

Ernst & Young
Ernst & Young Building, 11 Mounts Bay Road, Perth WA 6000
Telephone: +61 8 9429 2222   Facsimile: +61 8 9429 2436

Share Registry

Computershare Investor Services Pty Ltd
Level 11, 172 St George's Terrace, PERTH WA 6000
Telephone: 1300 850 505 within Australia, +61 3 9415 4000 for overseas
Facsimile: +61 3 9473 2500

Securities Exchange

Australian Securities Exchange Limited
Exchange Plaza, 2 The Esplanade, Perth WA 6000
Codes: BRN, BRNAA, BRNAB, BRNAC, BRNAD, BRNAE,
BRNAF, BRNAG, BRNAH, BRNAI

Contents

Chairman's Address

Since the last Annual Report to shareholders, what is now BrainChip Holdings Ltd has been transformed from a mining company in a difficult market environment, to a company which has ground-breaking new technology in the field of neural computing, which has a massive market potential.

All of the pre-requisites for re-listing were satisfied by September 2015, including the raising a total of $4M for ongoing capital requirements in technology development. The Company was fortunate to have the support of existing and new shareholders in this fundraising.

The timing of the transformation could not have been more perfect.

The current CEO had spent many years developing and gaining patent protection for the Spiking Neuron Adaptive Processor ("SNAP") technology which is now owned by the Company and is its foundation stone. Development work continues in refining and finding new applications for SNAP, and because of this extensive development phase, the technology is now ready for commercialisation. Also, the appetite for what is popularly known as Artificial Intelligence has exploded, and is the focus of worldwide attention.

When the merger was negotiated, all parties were aware of the challenges which would face an early stage company with disruptive technology engaged in a business area where there was so much at stake. Hence the milestones upon which further share performance rights would be issued to the original BrainChip stakeholders were designed to challenge the team and demonstrate to the world what the SNAP technology could do (Milestones 1 & 2), and in Milestone 3 provide potential users and licensees with the opportunity to test the application of the technology to their needs. These milestones have now been achieved ahead of time.

The highlight features of the BrainChip SNAP technology include:

- Learns autonomously
- Blazingly fast
- Highly energy efficient
- Small physical footprint
- Verified technology
- Huge market potential

We are now looking to achieve Milestone 4, our first licence agreement which will be a major step forward, but this will be only the first of many future licences and collaboration agreements, bringing revenue and a powerful market bargaining position.

Significant potential customers have been waiting for the validation provided by the early Milestones, and access to SNAP via the client / server interface API so that their current neural networks can achieve their potential without the severe limitations imposed by the existing software based solutions. The advantages and scope available to SNAP are mentioned in the Review of Operations and have been well detailed in a number of ASX releases.

We are now in the marketing and commercialisation phase, with the approach and business model described in the Review of Operations, but the depth and variety of potential applications provide their own challenges. We have a small but growing team of industry experts, who must now work with each potential licensee to understand their needs, and collaborate on solutions.

The team will grow as the opportunities multiply, but we must prioritise and remain focussed on both the key industry sectors and key clients or applications where we can achieve early results, and make the most difference. At the same time, we must think strategically; there will be some clients or collaboration partners which will take longer to assess or come up with solutions, but who are so important to our future that they can't be ignored.

There are useful business models for us to follow and learn from, particularly with companies in the semi-conductor chip and processor markets, where we become the enabler, the friend not the enemy. But we are also to a certain extent out on our own, and this is an exciting feeling.

BrainChip has announced its intention to appoint a new CEO to replace the interim CEO and founder Peter van der Made, to allow Peter the time and focus to deliver more outstanding technical and commercial achievements. The Company will also engage in further fundraising, allowing for recruitment of further world class team members, and capital investment as required. The intellectual property will be developed and protected, along with marketing and scientific collaborations to support the commercialisation process.

Chairman's Address

Each of these building blocks are vital in achieving the Company's vision of becoming a truly innovative enabler of Artificial Intelligence in making the world a safer and better place for all of us.

Finally, I would like to acknowledge the dedication and contribution of the management and scientific team lead by Peter van der Made and Anil Mankar, the corporate secretarial and accounting support so ably provided by Nerida Schmidt and Michelle Afflick, other consultants and of course the directors, all working together to achieve our vision for BrainChip.

Yours faithfully

Eric (Mick) Bolto

Chairman

Mining assets and strategy

The Annual Report for 2014 contained a review of the mining projects and assets held by the Company. This included a reference to the sale of two Madagascan “non-core license packages” for a total consideration of US$690,000, payable when the transfer of the individual licenses was registered by the Madagascan authorities. The first of these transfers has been processed and the sum of US$134,364 received. It is anticipated that the balance of US$559,100 will be received during the course of the 2016 calendar year.

The Chairman’s Address stated that exploration activities in bauxite and other projects in Madagascar had ceased and the Company was focused on a strategy of seeking “suitable partners” for these assets. The Annual General Meeting of the Company held on 27th May 2015 passed a resolution approving a transaction in respect of the “Main Undertaking – Sale of Manatenina Bauxite Project”, but as reported 6th August 2015 this prospective sale did not proceed. The Group continues negotiations for the disposal of the mining interests.

BrainChip acquisition and operation

Heads of Agreement

On 18th March 2015, the Company announced in a release to the ASX that it had entered into a conditional Heads of Agreement to acquire 100% of BrainChip Inc., a US based entity with “world leading patented technology” in the field of neural computing and autonomous learning. The release set out and described:

- The Spiking Neuron Adaptive Processor (SNAP) technology, its advantages and applications.
- The basic terms of the acquisition, including issues of shares in the Company in exchange for transfer of 100% of the shares in BrainChip Inc., the issue of options in exchange for the cancellation of BrainChip Inc. warrants and the issue of four tranches of performance rights based on achievement of specified Milestones.
- The conditions to be satisfied including completion of due diligence, and exercise by the Company of its option to proceed.
- The management and scientific development team which would come across.
- The elements of the business model, with revenue to be derived from license fees, recovery of non-recurring engineering costs, and ongoing royalties from sale and use of the products derived.
- The funding and other ASX requirements for what would be a “reverse takeover”.
- A draft timetable for achievement of these requirements leading to a relisting of the Company as BrainChip Holdings Ltd.

The pre-requisites for issue of the performance rights were:

Milestone 1: “Proof of technology” by a simulated race car demonstration in software.

Milestone 2: Implementation of the race car demonstration in hardware “...*to visually illustrate the capability and scalability of BrainChip’s SNAP technology*...”.

Milestone 3: Release of software specification and Register Transfer Level (“RTL”) design solution for customer interface.

Milestone 4: First license agreement.

Option exercise after satisfaction of conditions

On 8th May 2015, the Company announced completion of due diligence and exercise of its option, and on 19th May 2015 that underwriting support had been received for a proposed capital raising (being a condition precedent within the acquisition terms).

Milestone 1

On 13th May 2015 it was announced that Milestone 1 had been successfully completed ahead of schedule.

The release stated:

"In this demonstration the BrainChip team has applied its SNAP technology into a race car to demonstrate how the SNAP technology enables neurons to learn rapidly and much faster than has previously been achieved by alternative solutions. It also proves that a process can be learned and controlled using spiking neuron based learning, the same method that is used in the human brain".

The release described the two different processes of traditional "sigmoid neurons" compared to the BrainChip spiking neurons, how these are configured and the results demonstrating a "Proof of Concept".

Completion of the BrainChip acquisition and relisting

At a General Meeting of the Company held on 30th July 2015, the shareholders approved a number of resolutions to implement the binding terms sheet entered into in respect of the BrainChip acquisition. These resolutions and their effect were described in detail in the Explanatory Statement accompanying the Notice of Meeting, and included the following matters:

- Change to nature and scale of activities.
- Issue of shares, options and performance rights in respect of the acquisition.
- Issues of shares for a fundraising.
- Appointment of directors.
- Change of Company name.

On 4th August 2015, the Company announced the retirement of Mr Peter Wall as Chairman and the appointment of Mr Eric (Mick) Bolto in his place, noting that he *"...brings strategy, governance and commercial experience…as the Company heads towards completion of the acquisition of BrainChip".*

On 18th August 2015 the Company released a prospectus to raise the sum of A$3,150,000 and convert other interim loan funding as required by the acquisition terms, and on 3rd September 2015 the Company announced that the required sum had been raised and as a consequence all of the non-regulatory hurdles had been met.

In that regard, the Company also announced that the ASX had granted conditional approval to relisting and reinstatement of official quotation, and it was working to satisfy all of the conditions. These conditions were met and the Company relisted under its new name BrainChip Holdings Ltd (ASX code BRN) on 22nd September 2015.

Management changes

Post completion of the acquisition, Mr Robert Mitro submitted his resignation as CEO and director of the Company due to health reasons. In a release dated 5th October 2015, the Company acknowledged his contribution and noted that founder and Chief Technical Officer, Mr Peter van der Made would assume the role of interim CEO, while the Company undertakes a search for a permanent US based CEO. At that time, the Senior Vice-President of Engineering Mr Anil Mankar was appointed Chief Operating Officer.

Messrs van der Made and Mankar now lead a team of four specialist and highly qualified engineers/scientists working out of the Company's technical base in Alisa Viejo, California. This team will grow to meet the customer and technical development needs.

Establishment of Scientific Advisory Board

On 27th October 2015, the Company announced the establishment of an Advisory Board to provide "additional strategic direction of a scientific nature". The first appointees, both relevantly qualified and distinguished professors at UCSD and UCI respectively, were:

- Dr. Nicholas Spitzer described as a "world renowned Neuroscientist with a career spanning over 40 years"; and
- Dr. Jeffrey Krichmar whose "research interests include neuro-robotics, embodied cognition, biologically plausible models of learning and memory, and the effect of neural architecture on neural function."

The Scientific Advisory Board was later strengthened by the appointment of Dr. Gert Cauwenberghs.

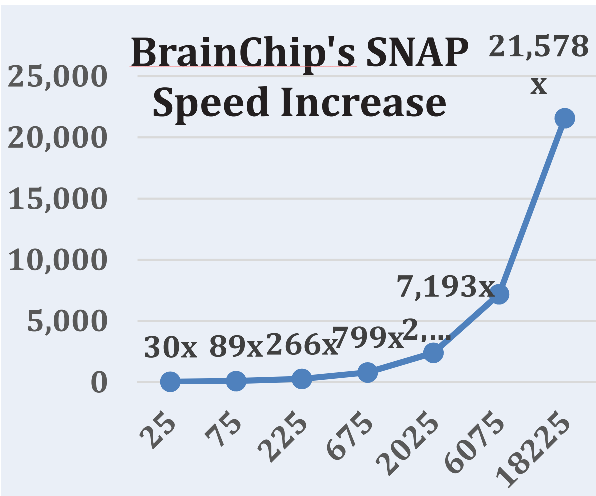
Dr. Cauwenberghs is a professor of Bio-Engineering and Neurobiology at the University of California at San Diego. Dr. Cauwenberghs pioneered the design of analog, highly energy efficient, massive parallel microchips that simulate the behavior of biological neurons.

Milestone 2

The next major step forward was the announcement on 30th October 2015 that the Company had achieved Milestone 2, a hardware-only Spiking Neural Network, demonstrated as in Milestone 1 with a race car learning how to navigate a track.

The ASX release articulated the highlights in the following terms:

- “Extremely fast processing power confirmed.
- SNAP autonomously learned to avoid the edges of the track in 0.89 seconds, whilst executing 3,571, 430 neural update cycles.
- Achieved a neural update rate of 0.25 of 1 microsecond.
- Scalability now achieved.
- Demonstrates the disruptive features and benefits of SNAP.
- BrainChip now in a position to demonstrate SNAP to potential development partners with the view to securing licensing and royalty based contracts so that SNAP can be fully commercialised.”



Neural Network Scaled Size	Software time per Update Cycle (seconds)	Hardware time per Update Cycle (seconds)	BrainChip SNAP Speed Increase
25	0.0074	0.00025	30x
75	0.0222	0.00025	89x
225	0.0666	0.00025	266x
675	0.1998	0.00025	799x
2,025	0.5994	0.00025	2,398x
6,075	1.7982	0.00025	7,193x
18,225	5.3946	0.00025	21,578x

Patent protection

The original (and first ever) digital neuromorphic chip patent for the SNAP technology was filed (for USA and Australia) on 21 September 2008 and granted in 21 August 2012. During 2015 four additional patent applications were lodged and are now pending.

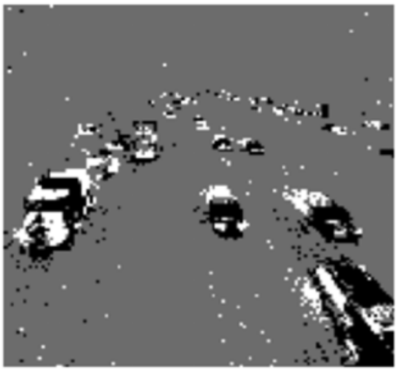
As noted in an ASX release dated 8th February 2016:

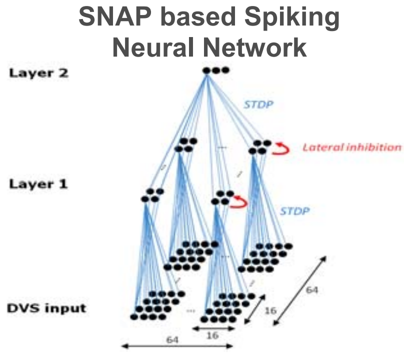
“*Protecting Intellectual Property is a central part of BrainChip’s business plan, and the Company will continue to expand its core technology patents.”*

This strategy is anticipated to result in 5-10 additional patent filings in calendar 2016.

Autonomous Feature Extraction and Unsupervised Visual Learning

In addition to the accomplishment of milestones, the Company has been working on technology developments which will be a platform for commercialization. The first of these announced on 18th February 2016, was the Autonomous Feature Extraction (“AFE”) system, which uses the SNAP neural processor to process and learn real world digital information, which can be used on a range of input patterns and shapes. The information can be submitted in real-time or from recorded media.





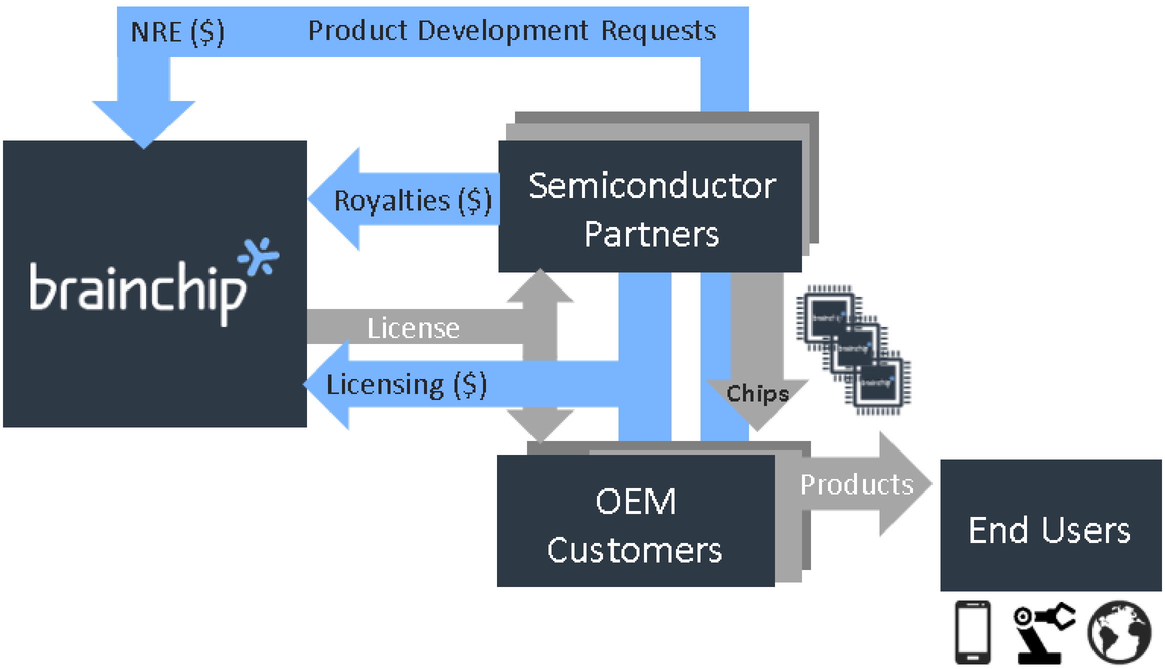
Input from the DVS camera *Structure of the SNAP hardware* *Client Computer receiving input from SNAP*

As a first major advancement from the AFE system, the Company subsequently announced its Autonomous Visual Feature Extraction ("AVFE") system, which is demonstrated by input from a Dynamic Vision Sensor (DVS) which is an artificial retina.

The importance of the AVFE development is indicated in the release:

- SNAP technology is capable of processing 100 million visual input events per second.
- Learns and identifies patterns in the image stream within seconds (Unsupervised Feature Learning) in real time. This is a major advantage over 'Deep Learning'.
- Potential applications include security cameras, collision avoidance systems in road vehicles and Unmanned Aerial Vehicles (UAVs), anomaly detection and medical imaging.
- AVFE is now commercially available.
- Discussions with potential licensees for AVFE are progressing."

The AVFE system has been implemented in a Field Programmable Gate Array ("FPGA"). This type of FPGAs are widely used in the industry to evaluate new chip designs. The interface to this chip enables scientists and engineers from the Company to collaborate with similar teams from potential customers and partners to design solutions and the chips to deliver those solutions. The customer can use the FPGA to test and qualify the application, then contract with manufacturers and OEMs to produce the necessary products. The business model for the Company remains the same: upfront license fees, Non-recurring Engineering (NRE) integration fees and ongoing royalties, without the capital expense or risk of creating and marketing the products themselves. The company intends to build an extensive network of partners in the Artificial Intelligence industry to market its products.



Milestone 3

The Company announced on 15th March 2016 that the requirements of Milestone 3 had been met by the release of its Client/Server Interface Tool, which creates a live environment for developers to remotely access BrainChip's SNAP technology and assess their requirements, and create end user applications in real time.

In achieving Milestone 3 BrainChip went to the next stage and produced a demonstrable version to illustrate the capability of the Client / Server Interface Tool. The Company has released a video demonstration of the system in operation which can be viewed at: **http://ir.brainchipinc.com/**

The Client / Server Interface will enable the Company and its marketing/collaboration partners, such as Applied Brain Research with which an alliance was recently announced, to directly interface with multiple potential clients and licensees.

Marketing, Fundraising and Management

The Company will focus over the coming year on achieving the commercial aims of its business plan, and to that end there will be a continued and concentrated emphasis on marketing. This effort will be focused on existing and new contacts, potential customers with an immediate need, an understanding of how SNAP can meet those needs, and the resources to act quickly. Besides clear advantages in faster processing, lower power consumption and a smaller footprint, which make it possible to embed the technology, BrainChip SNAP has a huge advantage over 'Deep Learning' technology in its ability to learn rapidly, within a few seconds and its ability to extract unknown patterns from data. The Company aims to exploit these advantages to their fullest extent. At the same time, the Company will act to ensure that is has sufficient funds to achieve the targeted yet sizeable growth plans, which will include additions to management of a US-based CEO, a full time marketing team and additions to the engineering team involved in the delivery of resources. The Company will continue to pursue commercial and technical partnerships with established corporations involved in the Artificial Intelligence marketplace to strengthen its commercial position.

Yours faithfully

Peter van der Made

Chief Technical Officer and acting Chief Executive Officer

Directors' Report

The Directors submit their report of the consolidated entity, being BrainChip Holdings Ltd (previously Aziana Limited) ("BrainChip Holdings" or "the Company") and its controlled entities (the "Group"), for the year ended 31 December 2015.

DIRECTORS

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

Eric (Mick) Bolto – Non-Executive Chairman (appointed 3 August 2015)

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

Neil Rinaldi – Non-Executive Director (appointed 12 June 2013 as CEO; Non-Executive Director from 10 September 2015)

Adam Osseiran – Non-Executive Director (appointed 10 September 2015)

Robert Mitro – Executive Director (appointed 10 September 2015; resigned 3 October 2015)

Peter Wall – Non-Executive Chairman (appointed 30 September 2014, resigned 3 August 2015)

Peter Cook – Non-Executive Director (appointed 30 May 2011, resigned 10 September 2015)

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

Nerida Schmidt - appointed 14 December 2015

Sonia Joksimovic - appointed 30 September 2015, resigned 14 December 2015

Scott Balloch – resigned 30 September 2015

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 10 September 2015 BrainChip Holdings completed the legal acquisition of BrainChip Inc., a company incorporated in Delaware, USA with operations in California, USA ("Acquisition"). Under Australian Accounting Standards, BrainChip Inc. was deemed to be the accounting acquirer in this transaction. The Acquisition has been accounted for as a share based payment by which BrainChip Inc. acquired the net assets and listing status of BrainChip Holdings.

Accordingly, the consolidated financial statements of the Group have been prepared as a continuation of the business and operations of BrainChip Inc. As the deemed acquirer BrainChip Inc. has accounted for the, in substance, acquisition of BrainChip Holdings from 10 September 2015. The comparative information for the 12 months ended 31 December 2014 is that of BrainChip Inc. as presented in its last set of financial statements.

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

PRINCIPAL ACTIVITIES

The principal activity of the Group is the development of neural computing technology with a primary focus on the further development of its Spiking Neuron Adaptive Processor ("SNAP") technology and licensing the SNAP technology designs with potential technology partners.

EMPLOYEES

The Consolidated Entity employed 6 employees at 31 December 2015 (2014: 3).

DIVIDENDS

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

REVIEW OF OPERATIONS

Operating Results

The Group made a net loss after income tax for the year of US$27,360,115 (2014: US$357,967).

The loss from ordinary activities and attributable to members increased due to:

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

2) The increased development and operational activities of BrainChip Group and the completion of the acquisition of BrainChip Holdings has resulted in an increase in salaries (employees increased from 3 to 6), increased consultancy and other associated expenses.

3) Options and performance rights issued to directors, employees and consultants since the Acquisition have been valued at US$1,939,902.

4) Increased revenues are the result of royalty income earned from oil and gas interests in Louisiana, USA, increased interest income from increased cash on deposit and a foreign exchange gain of US$36,980 due to fluctuations in the Australian dollar and the Malagasy Ariary.

At the end of the financial year the Group had consolidated net assets of US$1,736,570 (2014: net liabilities US$337,855), including cash reserves of US$1,393,869 (2014: US$31,633).

Cash of US$2,627,240 was acquired by the Group upon the completion of the Acquisition transaction, and funding completed prior to the Acquisition resulted in further cash injections of US$628,082 via the issue of convertible notes and loans from shareholders.

Overall there has been an increase in the amount of cash spent in operating activities to US$1,886,504 (2014: US$304,150) as noted in the Statement of Consolidated Cash Flows, which reflects the work completed in achieving various milestones to date and general corporate administration.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

It is expected that the Group will further development of its SNAP technology and licensing of the SNAP technology designs with potential technology partners. At the same time the Group will look to divest itself of its exploration assets within Madagascar.

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

SHARE ISSUES

The following share issues of the Company were completed during the financial year:

- 5,475,700 shares issued throughout the year on conversion of options (see below);
- 13,161,644 shares issued in consideration for the conversion of the Metals X Limited A$250,000 convertible loan plus interest of A$13,233 on 24 August 2015;
- 20,063,695 shares issued at an issue price of A$0.157 per Share to raise A$3,150,000 on 10 September 2015;
- 5,414,014 shares issued for conversion of the funds drawn down by the Company under the D'Yquem Advance and BrainChip Inc. under the Tripartite Advance issued to D'Yquem and various unrelated lenders pursuant to the D'Yquem Converting Loan Agreement and the Tripartite Converting Loan Agreements on 10 September 2015;
- 353,605,500 shares issued to the BrainChip Inc. shareholders pursuant to the Acquisition Agreement as part consideration for the acquisition by the Company of 100% of the issued capital of BrainChip Inc. on 10 September 2015; and
- 69,000,000 shares issued throughout the year on conversion of performance rights. 36,000,000 on conversion of Class A Performance Rights on attainment of Milestone 1 on 10 September 2015, 33,000,000 on conversion of Class B Performance Rights on attainment of Milestone 2 as announced on 20 November 2015.

SHARE OPTIONS

As at the date of this report, there were 29,550,000 unissued ordinary shares under option.

There are no participating rights or entitlements inherent in the options and option holders are not entitled to participate in new issues of capital or bonus issues offered or made to shareholders during the currency of the options.

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

- 6,250,000 unlisted options exercisable at A$0.157 per share before 10 September 2019 issued to a BrainChip Inc. shareholder as part consideration for the Acquisition by the Company of 100% of the issued capital of BrainChip Inc. on 10 September 2015;
- 11,000,000 unlisted options exercisable at A$0.225 per share before 30 November 2018 issued pursuant to the Company's Directors' and Officers' Option Plan as approved by shareholders on 4 December 2015 to Directors on 11 December 2015;
- 250,000 unlisted options exercisable at A$0.36 per share before 21 December 2020 issued pursuant to the Company's Long Term Incentive Plan as approved by shareholders on 30 July 2015 to employees on 21 December 2015;
- 10,550,000 unlisted options exercisable at A$0.24 per share before 21 December 2020 issued pursuant to the Company's Long Term Incentive Plan as approved by shareholders on 30 July 2015 to employees and consultants on 21 December 2015; and
- 1,500,000 unlisted options exercisable at A$0.23 per share before 1 February 2021 issued pursuant to the Company's Long Term Incentive Plan as approved by shareholders on 30 July 2015 to employees on 1 February 2016.

The following options were converted to shares in BrainChip Holdings during the financial year and prior to the Acquisition:

- 5,175,700 exercisable at A$0.059 per share before 30 June 2015; and
- 300,000 exercisable at A$0.26 per share before 15 May 2015.

The following options of BrainChip Holdings were cancelled or lapsed during the financial year and prior to the Acquisition:

- 65,000 exercisable at A$0.59 per share lapsed on 30 June 2015;
- 250,000 exercisable at A$0.26 per share lapsed on 15 May 2015; and
- 675,000 exercisable at A$0.26 per share before 15 May 2015 were cancelled on 1 April 2015.

PERFORMANCE RIGHTS

As at the date of this report, there were 122,500,000 Performance Rights on issue (31 December 2014: Nil).

The following Performance Rights were issued during and since the end of the financial year:

- 46,500,000 A Class Performance Rights issued pursuant to the Company's Performance Rights Plan as approved by shareholders on 30 July 2015 to the BrainChip Inc. Shareholders pursuant to the Acquisition Agreement as part consideration for the acquisition by the Company of 100% of the issued capital of BrainChip Inc. on 10 September 2015;
- 3,000,000 A Class Performance Rights issued pursuant to the Company's Performance Rights Plan as approved by shareholders on 30 July 2015 to employees on 10 September 2015;
- 46,500,000 B Class Performance Rights issued pursuant to the Company's Performance Rights Plan as approved by shareholders on 30 July 2015 to the BrainChip Inc. Shareholders pursuant to the Acquisition Agreement as part consideration for the acquisition by the Company of 100% of the issued capital of BrainChip Inc. on 10 September 2015;
- 46,500,000 C Class Performance Rights issued pursuant to the Company's Performance Rights Plan as approved by shareholders on 30 July 2015 to the BrainChip Inc. Shareholders pursuant to the Acquisition Agreement as part consideration for the acquisition by the Company of 100% of the issued capital of BrainChip Inc. on 10 September 2015;
- 2,500,000 C Class Performance Rights issued pursuant to the Company's Performance Rights Plan as approved by shareholders on 30 July 2015 to employees on 21 December 2015 and 1 February 2016; and
- 46,500,000 D Class Performance Rights issued pursuant to the Company's Performance Rights Plan as approved by shareholders on 30 July 2015 to the BrainChip Inc. Shareholders pursuant to the Acquisition Agreement as part consideration for the acquisition by the Company of 100% of the issued capital of BrainChip Inc. on 10 September 2015.

The following Performance Rights were converted during the financial year:

- 36,000,000 on conversion of Class A Performance Rights on attainment of Milestone 1 on 10 September 2015; and
- 33,000,000 on conversion of Class B Performance Rights on attainment of Milestone 2 as announced on 20 November 2015.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 1 February 2016, the Company announced it had signed a strategic joint development and marketing agreement with Applied Brain Research (ABR), a provider of an integrated technology software platform focused on building unified Artificial Intelligence (AI) systems.

On 18 February 2016, in a major advancement to its existing and patented SNAP technology, the Company announced that its research and development team had completed development of a unique Autonomous Feature Extraction ("AFE") system. Utilizing the hyper-speed SNAP neural processor, the AFE system is able to process and learn complex and overlapping real-world digital features, and has been used on a range of input patterns and shapes.

On 23 February 2016, the Company announced that it had achieved a further significant advancement of its artificial intelligence technology with completion of the development of an Autonomous Visual Feature Extraction system (AVFE), an advancement of the AFE system. The AVFE system was developed and interfaced with a Dynamic Vision Sensor (DVS) which is an artificial retina.

On 15 March 2016, the Company announced the achievement of Milestone 3 by achieving the development and release of a Client / Server Interface Tool to its autonomously learning SNAP technology, ahead of schedule and within budget.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

CORPORATE GOVERNANCE

The directors of the Group support and adhere to the principles of corporate governance, recognising the need for the highest standard of corporate behaviour and accountability. Please refer to the Corporate Governance Statement dated 31 March 2016 released to ASX and posted on the Company website.

INFORMATION ON DIRECTORS

Names, qualifications, experience and special responsibilities

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

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

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

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

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

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

Neil Rinaldi – Non-Executive Director (Appointed 12 June 2013)

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

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

INFORMATION ON DIRECTORS (Continued)

Names, qualifications, experience and special responsibilities (continued)

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

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

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

Robert Mitro – Executive Director (Appointed 10 September 2015; resigned 3 October 2015)

Mr Mitro has been a private investor and has served on the boards of directors of Vovida Networks which was acquired by Cisco Systems in 2000; co-founder and director of vCIS Technology which was acquired by Internet Security Systems in 2002; and co-founder and director Telverse Communications which was acquired by Level 3 Communications in 2003: and Chairman and CEO of STEP Labs which was acquired by Dolby Labs in 2009; and President and CEO of Rosum which was acquired by True Position in 2010.

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

Peter Wall – Non-Executive Chairman (Appointed 30 September 2014, resigned 3 August 2015)

Mr Wall is a corporate lawyer and has been a Partner at Steinepreis Paganin (Perth based corporate law firm) since July 2005. Mr Wall graduated from the University of Western Australia in 1998 with a Bachelor of Laws and Bachelor of Commerce (Finance). He has also completed a Masters of Applied Finance and Investment with FINSIA. Mr Wall has a wide range of experience in all forms of commercial and corporate law, with a particular focus on resources (hard rock and oil/gas), equity capital markets and mergers and acquisitions. He also has significant experience in dealing in cross border transactions.

During the past three years Mr Wall has served as a director of the following public listed companies:

- Global Metals Exploration (current)
- Galicia Energy Corporation Ltd (current);
- Minbos Resources Limited (current);
- Discovery Resources Limited (resigned 8 November 2013) and
- NSL Consolidated Limited (resigned 20 December 2012).

Peter Cook – Non-Executive Director (Appointed 30 May 2011, Resigned 10 September 2015)

Mr Cook is a Geologist BSc (Applied Geology) and Mineral Economist MSc (Min. Econ), MAusIMM with over 30 years of experience in the fields of exploration, project, operational and corporate management of mining companies.

During the past three years he has served as a director of the following public listed companies:

- Metals X Limited (current);
- Westgold Resources Limited (current);
- Pacific Niugini Limited (current); and
- Kingsrose Mining Limited (resigned 21 August 2012).

COMPANY SECRETARY

Nerida Schmidt - Company Secretary (appointed 14 December 2015)

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

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

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

Director	Fully Paid Ordinary Shares	Options over Ordinary Shares	Performance Rights
E Bolto	-	5,000,000 (1)	-
P Van der Made	126,805,508	-	54,000,000 (2)
N Rinaldi	7,803,335	4,000,000 (1)	-
A Osseiran	7,538,500	2,000,000 (1)	1,800,000 (3)
Total	**142,147,343**	**11,000,000**	**55,800,000**

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

(2) Mr van der Made holds 13,500,000 Class A Performance Rights, 13,500,000 Class B Performance Rights, 13,500,000 Class C Performance Rights and 13,500,000 Class D Performance Rights. Mr van der Made also currently holds an interest in 1,800,000 Class B Performance Rights, 300,000 Class C Performance Rights and 1,800,000 Class D Performance Rights that will revert to him if they are not issued to new or existing employees by 30 June 2018 as explained in note 20(e).

(3) Dr Osseiran holds 900,000 Class C Performance Rights and 900,000 Class D Performance Rights.

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	
	Eligible to attend	Attended
E Bolto (Appointed 3 August 2015)	2	2
P van der Made (Appointed 10 September 2015)	1	1
N Rinaldi	5	5
A Osseiran (Appointed 10 September 2015)	1	1
R Mitro (Appointed 10 September 2015, Resigned 3 October 2015)	-	-
P Cook (Resigned 10 September 2015)	4	4
P Wall (Resigned 3 August 2015)	3	3

Committee Membership

The Company did not utilise an Audit Committee during the year with the full board carrying out the duties that would ordinarily be carried out by the Audit Committee under the Audit Committee Charter. As at the date of this report, the Company had reconstituted an Audit Committee of the Board of Directors with the following members:

A Osseiran (Chairman)

N Rinaldi

E Bolto

REMUNERATION REPORT (Audited)

This remuneration report for the year ended 31 December 2015 outlines the remuneration arrangements of the Consolidated Entity in accordance with the requirements of the *Corporations Act 2001* ("the Act") and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report is presented under the following sections:

1. Introduction
2. Remuneration governance
3. Non-executive Director remuneration arrangements
4. Executive remuneration arrangements
5. Options 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

REMUNERATION REPORT (Audited) (Continued)

1. Introduction

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

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

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

Key Management Personnel

Name	Position	Date of appointment	Date of resignation
Directors [1]			
E Bolto	Non-Executive Chairman	3 August 2015	-
P van der Made	Executive Director & acting CEO	10 September 2015	-
N Rinaldi	Non-Executive Director	12 June 2013	-
A Osseiran	Non-Executive Director	10 September 2015	-
R Mitro	Executive Director & CEO	10 September 2015	3 October 2015
P Wall	Non-Executive Chairman	30 September 2014	3 August 2015
P Cook	Non-Executive Director	30 May 2011	10 September 2015
Other Key Management Personnel (BrainChip Inc.)			
P van der Made	Chief Technical Officer	1 December 2014	10 September 2015
R Mitro	Chief Executive Officer	1 October 2014	10 September 2015
A Mankar	Chief Operating Officer	1 October 2014	-

[1] Date on which this individual was appointed to/resigned from the relevant role of the legal parent entity, BrainChip Holdings Ltd.

There were no other changes to key management personnel after reporting date and before the date the financial report was authorised for issue.

REMUNERATION REPORT (Audited) (Continued)

2. Remuneration governance

Remuneration Committee

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

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

Remuneration approval process

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

Remuneration Strategy

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

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

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

Remuneration Structure

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

3. Non-executive director remuneration arrangements

Remuneration Policy

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

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

The board will not seek any increase for the non-executive director pool at the 2015 annual general meeting.

Structure

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

REMUNERATION REPORT (Audited) (Continued)

3. Non-executive director remuneration arrangements (continued)

Structure (continued)

The Non-Executive Chairman receives a base fee of A$80,000 and each other non-executive director receives a base fee of A$50,000 for being a director of the Group, unless otherwise approved by the Board. There are no additional fees for serving on any board committees.

Non-executive directors have long been encouraged by the Board to hold shares in the Company. The shares are purchased by the directors at the prevailing market share price.

4. Executive remuneration arrangements

Remuneration Policy

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company. The current remuneration policy adopted is that no element of any executive package be directly related to the Company's financial performance. Indeed, there are no elements of any executive remuneration that are dependent upon the satisfaction of any specific condition. Remuneration is not linked to the performance of the Company but rather to the ability to attract and retain executives of the highest calibre. The overall remuneration policy framework however is structured in an endeavour to advance/create shareholder wealth.

Structure

Remuneration consists of the following key elements:

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

Fixed Remuneration

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

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

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

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

REMUNERATION REPORT (Audited) (Continued)

4. Executive remuneration arrangements (continued)

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

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

Hedging of equity awards

The Company's Remuneration Committee Charter contains a policy restricting participants of the LTIP, PRP and/or DOOP from entering into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the schemes.

5. Options granted as part of remuneration

Details of Options over ordinary shares in the Company provided as remuneration to each Key Management Personnel, of which there are no performance conditions linked, is set out in the table below:

31 December 2015	Year	Options awarded during the year	Grant Date	First Exercise and Vesting Date	Fair value per option ^	Total Fair Value	Exercise price per option	Expiry date	Options vested during the year	Options lapsed during the year
Directors		**(Number)**			**(US$)**	**(US$)**	**(US$)**		**(Number)**	**(Number)**
E Bolto	2015	5,000,000	4/12/2015	11/12/2015	$0.110	548,068	$0.161	30/11/2018	5,000,000	-
N Rinaldi	2015	4,000,000	4/12/2015	11/12/2015	$0.110	438,455	$0.161	30/11/2018	4,000,000	-
A Osseiran	2015	2,000,000	4/12/2015	11/12/2015	$0.110	219,227	$0.161	30/11/2018	2,000,000	-

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

6. Company performance and the link to remuneration

Remuneration is not directly linked to the performance of the Company. Remuneration is set at a level to attract and retain executives of the highest calibre. The overall remuneration policy framework however is structured in an endeavour to advance/create shareholder wealth.

The BrainChip Holdings LTIP and DOOP have no direct performance requirements as the options were issued for past performance and to encourage retention. The granting of options is in substance a performance incentive which allows executives to share the rewards of the success of the Company.

REMUNERATION REPORT (Audited) (Continued)

6. Company performance and the link to remuneration (continued)

The table below shows various commonly used measures of performance for the 2014 to 2015 years of the consolidated entity:

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

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

7. Executive contractual arrangements

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

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

Mr Robert Mitro was appointed Executive Director of the Company and had an annual salary contract with BrainChip Inc. Mr Mitro was employed by BrainChip Inc. in the position of Chief Executive Officer on 1 October 2014 and was appointed as Managing Director of the Company between 10 September 2015 and 3 October 2015. His employment contract had the following terms:

- During the term of his employment Mr Mitro was to render his services exclusively to BrainChip Inc.;
- During the term of his employment Mr Mitro received a base salary of US$200,000 effective 1 October 2015 (US$180,000 prior to this) as compensation for his services (Base Salary). The Base Salary was subject to annual reviews by the Board. In addition to the Base Salary, Mr Mitro was to 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 was to be an amount up to fifty percent (50%) of the base salary in effect at the end of any fiscal year;

REMUNERATION REPORT (Audited) (Continued)

7. Executive contractual arrangements (continued)

- Mr Mitro was to be entitled to receive all reasonable expenses incurred in the fulfilment of his duties. In addition, Mr Mitro was to be entitled to receive all benefits under welfare benefit plans, practices, policies and programs provided by BrainChip to the extent they were offered to other executives of BrainChip;
- Mr Mitro's position was able to be terminated at any time with or without cause or notice by either himself or BrainChip; and
- Mr Mitro is entitled to 12 months' severance pay upon termination by BrainChip Inc. at any time without cause. The amount was payable over 12 months from the date of termination.

Mr Mitro's resigned as Executive Director on 3 October 2015 due to health reasons. Accrued annual leave payable to Mr Mitro was paid in October 2015 and his termination payment based on his base salary plus benefits is being paid on a monthly basis until 30 September 2016.

Mr Neil Rinaldi, was employed as an Executive Director under an annual salary employment contract from 12 June 2013 until 10 September 2015 when he became a Non-Executive Director.

Under the terms of the Executive Director contract:

- Mr Rinaldi received a fixed remuneration of A$150,000 (excluding superannuation) per annum effective from 1 May 2014.
- Previous to this Mr Rinaldi received a fixed remuneration being A$250,000 (excluding superannuation) per annum.
- Mr Rinaldi could resign from his position and thus terminate his contract by giving three months' written notice. On resignation any unvested options were to be forfeited.
- The Company could terminate the employment agreement by providing three months' written notice or providing payment in lieu of notice period. On termination by the Company, any options that had vested or that would vest during the notice period would be released. Options that had not yet vested would be forfeited.
- The Company could terminate the contract at any time without notice if serious misconduct had occurred. Where termination with cause occurred the Executive Director was only entitled to that portion of remuneration that was fixed, and only up to the date of termination. On termination with cause by the Company, any options that had vested would be released. Options that had not yet vested would be forfeited.

From 10 September 2015 Mr Rinaldi became a Non-Executive Director and an agreement was reached with Mr Rinaldi that he would provide services to the Company on a consultancy basis. Under the terms of this consultancy agreement:

- A$50,000 (in addition to directors' fees) was to be paid over 6 months for non-recurrent, specific professional and advisory services not within the ordinary role of a Non-Executive Director. At the expiry of this term, the contract would revert to A$50,000 per annum as a Non-Executive Director.

REMUNERATION REPORT (Audited) (Continued)

7. Executive contractual arrangements (continued)

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

- During the term of his employment Mr Mankar must render his services exclusively to the BrainChip Inc.;
- During the term of his employment Mr Mankar will receive a base salary of US$200,000 effective 1 October 2015 (US$180,000 prior to this) as compensation for his services (Base Salary). The Base Salary is subject to annual reviews by the Board. In addition to the Base Salary, Mr Mankar will be entitled to a cash bonus on such terms and conditions as determined from time to time by the Board (Annual Bonus). The Annual Bonus may be an amount up to fifty percent (50%) of the base salary in effect at the end of any fiscal year;
- Mr Mankar will be entitled to receive all reasonable expenses incurred in the fulfilment of his duties. In addition, Mr Mankar and his family will be entitled to receive all benefits under health and welfare benefit plans, practices, policies and programs provided by BrainChip Inc. to the extent they are offered to other executives of BrainChip Inc.; and
- Mr Mankar's position may be 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.

There are no other formalised KMP employment agreements.

REMUNERATION REPORT (Audited) (Continued)

7. Executive contractual arrangements (continued)

Remuneration of Directors

		Short Term (10) Salary and Fees	Post-Employment Super-annuation	Short Term Annual leave	Share-based Payment Options	Termin-ation	Total	% Perform-ance related	% of remuner-ation that consists of options
		US$	US$	US$	US$	US$	US$		
Non-Executive Directors									
E Bolto [1]	**2015**	**24,750**	**-**	**-**	**548,068**	**-**	**572,818**	**-**	**96%**
	2014	-	-	-	-	-	-	-	-
N Rinaldi [2]	**2015**	**18,804**	**-**	**-**	**438,455**	**-**	**457,259**	**-**	**96%**
	2014	-	-	-	-	-	-	-	-
A Osseiran [3]	**2015**	**11,492**	**-**	**-**	**219,227**	**-**	**230,719**	**-**	**96%**
	2014	-	-	-	-	-	-	-	-
P Cook [4]	**2015**	**13,082**	**1,243**	**-**	**-**	**-**	**14,325**	**-**	**-**
	2014	34,445	3,296	-	-	-	37,741	-	-
P Wall [5]	**2015**	**21,061**	**-**	**-**	**-**	**-**	**21,061**	**-**	**-**
	2014	10,826	-	-	-	-	10,826	-	-
W Hallam [6]	**2015**	-	-	-	-	-	-	-	-
	2014	10,631	1,030	-	-	-	11,661	-	-
P Laskaris [6]	**2015**	-	-	-	-	-	-	-	-
	2014	10,615	982	-	-	-	11,597	-	-
Executive Directors									
P van der Made [7]	**2015**	**65,512**	**-**	**-**	**-**	**-**	**65,512**	-	-
	2014	-	-	-	-	-	-	-	-
R Mitro [8]	**2015**	**12,456**	**-**	**11,538**	**-**	**216,330**	**240,324**	**-**	**-**
	2014	-	-	-	-	-	-	-	-
N Rinaldi [2]	**2015**	**84,626**	**8,039**	**21,539**	**-**	**-**	**114,204**	**-**	**-**
	2014	165,405	15,469	-	-	-	180,874	-	-
J Morris [9]	**2015**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2014	94,900	-	-	-	45,419	140,319	-	-
Totals	**2015**	**251,783**	**9,282**	**33,077**	**1,205,750**	**216,330**	**1,716,222**		
	2014	326,822	20,777	-	-	45,419	393,018		

(1) Mr Bolto was appointed as Non-Executive Chairman on 3 August 2015.

(2) Mr Rinaldi ceased being an Executive Director on 10 September 2015 and continued as a Non-Executive Director.

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

(4) Mr Cook resigned on 10 September 2015.

(5) Mr Wall resigned on 3 August 2015.

(6) Mr Laskaris and Mr Hallam both resigned on 11 April 2014.

(7) Mr van der Made was appointed as Executive Director of BrainChip Holdings on 10 September 2015. He was employed as a KMP of BrainChip Inc. on 1 December 2014.

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

(9) Mr Morris resigned on 30 September 2014. Mr Morris resided outside Australia and was employed by a British Virgin Island registered company.

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

REMUNERATION REPORT (Audited) (Continued)

7. Executive contractual arrangements (continued)

Remuneration of Key Management Personnel

		Short Term	Post-Employment	Short Term Annual leave	Share-based Payment	Termination	Total	% Performance related	% of remuneration that consists of options
		Salary and Fees	Superannuation		Options				
		US$	US$	US$	US$	US$	US$		
Other Key Management Personnel									
P van der Made [(1)]	**2015**	**136,347**	**-**	**-**	**-**	**-**	**136,347**	**-**	**-**
	2014	15,054	-	-	-	-	15,054	-	-
R Mitro [(2)]	**2015**	**126,143**	**-**	**-**	**-**	**-**	**126,143**	**-**	**-**
	2014	45,582	-	-	-	-	45,582	-	-
A Mankar [(3)]	**2015**	**201,255**	**-**	**-**	**-**	**-**	**201,255**	**-**	**-**
	2014	48,992	-	-	-	-	48,992	-	-
Totals	**2015**	**463,745**	**-**	**-**	**-**	**-**	**463,745**		
	2014	109,628	-	-	-	-	109,628		

(1) Mr van der Made was employed as a KMP of BrainChip Inc. on 1 December 2014. He is reported as a KMP until his appointment as Executive Director on 10 September 2015.

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

(3) Mr Mankar was appointed Chief Operating Officer of BrainChip Inc. on 1 October 2014.

REMUNERATION REPORT (Audited) (Continued)

8. Equity Instruments Disclosure

Value of options awarded, exercised and lapsed during the year

There were options granted during the current year (please refer to note 23). There were no alterations to the terms and conditions of options awarded as remuneration since their award date.

Shareholdings of Key Management Personnel (including nominees)

	Balance held at 1 January 2015	Acquired	Disposed	Exercise of options	Net change other	Balance held at 31 December 2015
Directors – BrainChip Holdings						
E Bolto	-	-	-	-	-	-
P van der Made [(1)]	-	-	-	-	126,805,508	126,805,508
N Rinaldi	7,673,335	-	-	130,000	-	7,803,335
A Osseiran [(2)]	-	-	-	-	7,538,500	7,538,500
R Mitro [(3)]	-	-	-	-	-	-
P Cook [(4)]	1,560,000	-	-	-	(1,560,000)	-
P Wall	-	-	-	-	-	-
Other Key Management Personnel						
A Mankar [(5)]	-	-	-	-	91,885,000	91,885,000
Total	9,233,335	-	-	130,000	224,669,008	234,032,343

(1) Mr van der Made was appointed on 10 September 2015 and received 126,805,508 shares as a shareholder of BrainChip Inc.

(2) Dr Osseiran was appointed 10 September 2015 and received 5,738,500 shares as a shareholder of BrainChip Inc. He also received 900,000 Class A Performance Rights and 900,000 Class B Performance Rights as a shareholder of BrainChip Inc. which were converted to shares in the year ended 31 December 2015.

(3) Mr Mitro was appointed 10 September 2015. At the time of the Acquisition he received 104,202,500 shares as a shareholder and noteholder of BrainChip Inc. and 9,000,000 Class A Performance Rights as a shareholder of BrainChip Inc. which were converted to shares prior to his resignation as a Director on 3 October 2015.

(4) Mr Cook resigned on 10 September 2015 and ceased being a KMP.

(5) Mr Mankar received 57,385,000 shares as a shareholder of BrainChip Inc. He also received 17,250,000 Class A Performance Rights and 17,250,000 Class B Performance Rights as a shareholder of BrainChip Inc. which were converted to shares in the year ended 31 December 2015.

Options holdings of Key Management Personnel (including nominees)

	Balance at beginning of period 1 January 2015	Granted as remuneration	Exercised	Balance at end of period 31 December 2015	Vested and not exercisable	Vested and exercisable
Directors – BrainChip Holdings						
E Bolto	-	5,000,000	-	5,000,000	-	5,000,000
P van der Made	-	-	-	-	-	-
N Rinaldi	130,000	4,000,000	(130,000)	4,000,000	-	4,000,000
A Osseiran	-	2,000,000	-	2,000,000	-	2,000,000
R Mitro [(1)]	-	-	-	-	-	-
P Cook	-	-	-	-	-	-
P Wall	-	-	-	-	-	-
Other Key Management Personnel						
A Mankar	-	-	-	-	-	-
Total	130,000	11,000,000	(130,000)	11,000,000	-	11,000,000

(1) Mr Mitro was issued 6,250,000 vested options on 10 September 2015 as a shareholder of BrainChip Inc. He ceased to be a KMP on 3 October 2015.

REMUNERATION REPORT (Audited) (Continued)

8. Equity Instruments Disclosure (continued)

Performance Rights held by Key Management Personnel (including nominees)

The table below discloses the number of Performance Rights held by KMPs that were granted and vested during the year. All of the Performance Rights were issued as part of the Acquisition and not as remuneration. No performance rights lapsed during the year and no Performance Rights were issued during the prior year.

	Balance at beginning of period 1 January 2015	Acquired	Exercised[2]	Other	Balance at end of period 31 December 2015	Not vested and not exercisable	Vested and exercisable
Directors – BrainChip Holdings							
E Bolto	-	-	-	-	-	-	-
P van der Made [1]	-	61,200,000	-	(7,200,000)	54,000,000	-	54,000,000
N Rinaldi	-	-	-	-	-	-	-
A Osseiran	-	3,600,000	(1,800,000)	-	1,800,000	-	1,800,000
R Mitro [3]	-	40,800,000	(9,000,000)	(31,800,000)	-	-	-
P Cook	-	-	-	-	-	-	-
P Wall	-	-	-	-	-	-	-
Other Key Management Personnel							
A Mankar	-	69,000,000	(34,500,000)	-	34,500,000	-	34,500,000
Total	-	174,600,000	(45,300,000)	(39,000,000)	90,300,000	-	90,300,000

(1) Mr van der Made was entitled to receive 61,200,000 Performance Rights as a shareholder of BrainChip Inc. however he allocated 7,200,000 Performance Rights to a pool available for distribution to current and future employees and therefore received only 54,000,000 Performance Rights. The Performance Rights will revert to him if they are not issued by 30 June 2018 as explained in note 20(e).

(2) Class A Performance Rights and Class B Performance Rights were exercised and converted to shares in the year ended 31 December 2015.

(3) Mr Mitro was entitled to receive 40,800,000 Performance Rights as a shareholder of BrainChip Inc. however he allocated 4,800,000 Performance Rights to a pool available for distribution to current and future employees and therefore received only 36,000,000 Performance Rights. The Performance Rights will revert to him if they are not issued by 30 June 2018 as explained in note 20(e). Mr Mitro ceased to be a Director on 3 October 2015.

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

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

9. Other transactions and balances with Key Management Personnel

Director fees were payable to Dr Osseiran as at 31 December 2015 totalled US$11,492.

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

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

On 1 January 2014 Mr van der Made received 4,500,000 shares in BrainChip Inc. valued at US$19,562 as reimbursement of development costs incurred and the assignment to BrainChip Inc. of patent "8250011 Autonomous Learning Dynamic Artificial Neural Computing Device and Brain Inspired System" filed with the United States Patent and Trademark Office. The execution of the assignment of the patent was completed 23 July 2015.

REMUNERATION REPORT (Audited) (Continued)

9. Other transactions and balances with Key Management Personnel (continued)

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

- Accounting, secretarial and administrative services were provided to BrainChip Holdings totalling A$127,747 (2014: A$133,270) up to 10 September 2015; and
- BrainChip Holdings entered into a secured convertible loan agreement with Metals X Limited for A$250,000, interest bearing at 12% and maturing in October 2015, as announced on the ASX 1 April 2015. The loan, plus interest of A$13,233, was extinguished via the conversion to 13,161,644 shares on 24 August 2015.

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 28, from Ernst & Young.

NON-AUDIT SERVICES

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

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

	2015 US$	2014 US$
Tax compliance services	9,314	23,457

Signed in accordance with a resolution of the Directors.

Eric (Mick) Bolto

Chairman

Perth, 31 March 2016

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 Limited

As lead auditor for the audit of BrainChip Holdings Limited for the financial year ended 31 December 2015, 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 Limited and the entities it controlled during the financial year.

Ernst Young

Ernst & Young

P Teale
Partner
31 March 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2015

	Note	31 December 2015 $US	31 December 2014 $US
Interest revenue	5(a)	6,863	4
Other income	5(b)	42,560	-
		49,423	4
Administration and other expenses	6	(1,749,699)	(357,971)
Share based payment expense	23	(1,939,902)	-
Interest expense		(43,957)	-
Write off of deferred exploration and evaluation expenditure	14	(64,038)	-
Listing fee expense on acquisition of BrainChip	29(c)	(23,611,942)	-
Loss from continuing operations before income tax		(27,360,115)	(357,967)
Income tax expense	7	-	-
Loss from continuing operations after income tax		(27,360,115)	(357,967)
Loss from discontinued operations after tax		-	-
Net loss for the period		(27,360,115)	(357,967)
Other comprehensive income / (loss)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		-	-
Other comprehensive loss for the period, net of tax		-	-
Total comprehensive loss for the period, net of tax		(27,360,115)	(357,967)
Loss per share (US cents per share) from continuing operations attributable to ordinary equity holders of the Company			
Basic loss per share (US cents per share)	8	(8.43)	(0.14)
Diluted loss per share (US cents per share)	8	(8.43)	(0.14)

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

Consolidated Statement of Financial Position
As at 31 December 2015

	Note	31 December 2015 $US	31 December 2014 $US
CURRENT ASSETS			
Cash and cash equivalents	10	1,393,869	31,633
Trade and other receivables	11	571,885	-
Other assets	12	62,555	20,277
Total current assets		2,028,309	51,910
NON-CURRENT ASSETS			
Plant and equipment	13	65,381	1,649
Exploration and evaluation expenditure	14	-	-
Intangible assets	15	31,704	38,961
Other assets		6,196	6,196
Total non-current assets		103,281	46,806
TOTAL ASSETS		2,131,590	98,716
CURRENT LIABILITIES			
Trade and other payables	16	354,290	83,688
Employee benefits liabilities	17	40,730	6,606
Notes payable	18	-	346,177
Total current liabilities		395,020	436,471
NON-CURRENT LIABILITIES			
Loans from shareholders	19	-	100
Total non-current liabilities		-	100
TOTAL LIABILITIES		395,020	436,571
NET ASSETS / (LIABILITIES)		1,736,570	(337,855)
EQUITY			
Contributed equity	20	27,266,878	20,112
Share based payments reserve	21	1,939,902	-
Other equity reserve	21	247,872	-
Accumulated losses	22	(27,718,082)	(357,967)
TOTAL EQUITY / (SHAREHOLDERS' DEFICIT)		1,736,570	(337,855)

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 2015

	Note	31 December 2015 US$	31 December 2014 US$
CASH FLOWS USED IN OPERATING ACTIVITIES			
Payments to suppliers and employees		(1,855,708)	(304,154)
Interest received		6,863	4
Interest paid		(43,238)	-
Other income		5,579	-
Net cash flows used in operating activities	10	(1,886,504)	(304,150)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Payments for property, plant and equipment		(71,703)	(1,721)
Payments for exploration and evaluation		(64,038)	-
Payments for purchase of patents		(6,342)	(9,323)
Proceeds from sale of mineral licences		134,364	-
Cash acquired on acquisition of BrainChip	29(b)	2,627,240	-
Net cash flows used in investing activities		2,619,521	(11,044)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from the issue of shares		118	550
Loans from BrainChip Holdings prior to Acquisition	29(b)	190,210	-
Loans from shareholders	19	-	100
Loans from shareholders via convertible notes	18	190,000	-
Loans from third parties via convertible notes	18	247,872	346,177
Loans repaid to shareholders		(35,961)	-
Net cash flows used in financing activities		592,239	346,827
Net decrease in cash and cash equivalents		1,325,256	31,633
Net foreign exchange differences		36,980	-
Cash at the beginning of the financial period		31,633	-
Cash and cash equivalents at the end of the period	10	1,393,869	31,633

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 2015

	Contributed equity US$	Options reserve US$	Other equity reserve US$	Accumulated losses US$	Total equity US$
At 1 January 2014	-	-	-	-	-
Loss for the year	-	-	-	(357,967)	(357,967)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	(357,967)	(357,967)
Transactions with owners in their capacity as owners					
Issue of share capital	20,112	-	-	-	20,112
At 31 December 2014	20,112	-	-	(357,967)	(337,855)

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

1. CORPORATE INFORMATION

The annual financial report of BrainChip Holdings Ltd ("the Company") and its controlled entities ("the Consolidated Entity" or "the Group") for the year ended 31 December 2015 was authorised for issue in accordance with a resolution of the Directors on 31 March 2016.

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

The address of the registered office is Level 2, 6 Thelma Street, West Perth, WA 6005, Australia.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis.

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

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 2015, the Group incurred a net loss after tax of US$27,360,115 and a cash outflow from operating activities of US$1,886,504.

At 31 December 2015, the Group had cash and cash equivalents of US$1,393,869 and net assets of US$1,736,570 and a net working capital of US$1,633,289.

The Company has prepared a detailed cash budget showing the need to receive additional funds in order to finance the Group for the next twelve months. This creates an uncertainty that may cast doubt as to whether the Group will continue as a going concern and, therefore, whether it will settle its liabilities and commitments in the normal course of business.

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

- The ability to further vary cash flows depending upon the achievement of certain milestones within the business plan;
- The ability of the Group to obtain funding through various sources, including debt and equity issues, which are currently being investigated by management; and
- the expected receipt of the sale proceeds from the sale of the Madagascar licences which is dependent upon the processing of license transfers by the government of Madagascar.

The Directors have reasonable expectations that they will be able to raise additional funding needed for the Group to continue to execute against its milestones in the medium term. However, cashflows have been adjusted to ensure that the Company can pay its debts as and when they fall due until medium term funding is secured. This may have an impact on the ability of the Company to grow as rapidly as it anticipated but should provide a more sustainable cost base until such funding is obtained.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

Acquisition of BrainChip

On 10 September 2015 BrainChip Holdings (formerly Aziana Limited) completed the legal acquisition of BrainChip Inc. Under the Australian Accounting Standards BrainChip Inc. was deemed to be the accounting acquirer in this transaction. The acquisition has been accounted for as a share based payment by which BrainChip Inc. acquires the net assets and listing status of BrainChip Holdings.

Accordingly, the 2015 consolidated financial statements of BrainChip Holdings were prepared as a continuation of the business and operations of BrainChip Inc. As the deemed acquirer BrainChip Inc. has accounted for the acquisition of BrainChip Holdings from 10 September 2015.

The implications of the acquisition by BrainChip Inc. on the financial statements are as follows:

(i) Statement of comprehensive income

- The 2015 Statement of comprehensive income comprises the total comprehensive income for the 12 months ended 31 December 2015 for BrainChip Inc., and the period from 10 September 2015 until 31 December 2015 for BrainChip Holdings and its controlled entities.
- The comparative information as at 31 December 2014 is the Statement of comprehensive income of BrainChip Inc.

(ii) Statement of financial position

- The 2015 Statement of financial position as at 31 December 2015 represents the combination of BrainChip Inc. and BrainChip Holdings and its controlled entities.
- The comparative information as at 31 December 2014 is the Statement of financial position of BrainChip Inc.

(iii) Statement of changes in equity

- The 2015 Statement of changes in equity comprises:
  - The equity balance of BrainChip Inc. as at the beginning of the financial year (1 January 2015);
  - The total comprehensive income for the financial year and transactions with equity holders, being the 12 months from BrainChip Inc. for the year ended 31 December 2015 and the period from 10 September 2015 until 31 December 2015 for BrainChip Holdings and its controlled entities;
  - The equity balance of the combined BrainChip Inc. and BrainChip Holdings, and its controlled entities, at the end of the financial year, 31 December 2015.
- The comparative information as at 31 December 2014 is the Statement of changes in equity of BrainChip Inc.

(iv) Statement of cash flows

- The 2015 Statement of cash flows comprises:
  - The cash balance of BrainChip Inc. at the beginning of the financial year (1 January 2015);
  - The transactions for the financial year for the 12 months of BrainChip Inc. for the year ended 31 December 2015 and the period from 10 September 2015 until 31 December 2015 for BrainChip Holdings and its controlled entities;
  - The cash balance of the combined BrainChip Inc. and BrainChip Holdings, and its controlled entities, at the end of the financial year, 31 December 2015.
- The comparative information as at 31 December 2014 is the Statement of cash flows of BrainChip Inc.

(b) Statement of compliance and conversion to International Financial Reporting Standards

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.

As explained in Note 2(a) above, following the acquisition of BrainChip, the consolidated financial statements represent the continuation of the business and activities of BrainChip Inc. This financial report is the Consolidated Entity’s first consolidated financial statements prepared in accordance with Australian Accounting Standards (“AASB”) and International Financial Reporting Standards (“IFRS”). Accordingly, in preparing the consolidated financial statements, AASB 1 First-time Adoption of Australian Accounting Standards (“AASB 1”) has been applied. Prior to the adoption of AASB, the Consolidated Entity’s financial statements were prepared in accordance with IFRS for Small and Medium Sized Entities (“SMEs”). As these financial statements are the Consolidated Entity’s first annual financial statements prepared in accordance with AASB, the group considered the transitional exceptions and exemptions in AASB 1 and has updated its accounting policies in line with the requirements of Australian Accounting Standards. In this regard, the accounting policy on research and development costs has changed. Under IFRS for SMEs, research and development costs were recognised as an expense. Under IFRS, research costs are expenses as incurred; development costs are capitalised and amortised, but only when specific recognition criteria are met.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Statement of compliance and conversion to International Financial Reporting Standards

The new accounting policy for research and development costs is set out in Note 2(m). Due to the current stage of development of the technology, the adoption of AASB had no material impact on equity of the consolidated entity at the date of transition to AASB, being 1 January 2014, or at the end of the comparative period, 31 December 2014. Furthermore, the adoption of AASB had no impact on total comprehensive income for the comparative period ended 31 December 2014.

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 2015. The Group has yet to fully assess the impact of these Standards and Interpretations when applied in future periods.

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

Reference	Title	Summary	Application date of standard*	Application date for Group
		Impairment The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. **Hedge accounting** Amendments to AASB 9 (December 2009 & 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E. AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014. AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.		
AASB 2014-4	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)	AASB 116 *Property Plant and Equipment* and AASB 138 *Intangible Assets* both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.	1 January 2016	1 January 2016
AASB 15	Revenue from Contracts with Customers	AASB 15 *Revenue from Contracts with Customers* replaces the existing revenue recognition standards AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related Interpretations (Interpretation *13 Customer Loyalty Programmes*, Interpretation 15 *Agreements for the Construction of Real Estate,* Interpretation 18 *Transfers of Assets from Customers*, Interpretation 131 *Revenue—Barter Transactions Involving Advertising Services* and Interpretation 1042 *Subscriber Acquisition Costs in the Telecommunications Industry*). AASB 15 incorporates the requirements of IFRS 15 *Revenue from Contracts with Customers* issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB). AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps: (a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligations in the contract (c) Step 3: Determine the transaction price (d) Step 4: Allocate the transaction price to the performance obligations in the contract (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation	1 January 2018	1 January 2018

Reference	Title	Summary	Application date of standard*	Application date for Group
		AASB 2015-8 amended the AASB 15 effective date so it is now effective for annual reporting periods commencing on or after 1 January 2018. Early application is permitted. AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.		
AASB 1057	Application of Australian Accounting Standards	This Standard lists the application paragraphs for each other Standard (and Interpretation), grouped where they are the same. Accordingly, paragraphs 5 and 22 respectively specify the application paragraphs for Standards and Interpretations in general. Differing application paragraphs are set out for individual Standards and Interpretations or grouped where possible. The application paragraphs do not affect requirements in other Standards that specify that certain paragraphs apply only to certain types of entities.	1 January 2016	1 January 2016
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle	The subjects of the principal amendments to the Standards are set out below: AASB 5 *Non-current Assets Held for Sale and Discontinued Operations:* • Changes in methods of disposal – where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or vice versa), an entity shall not follow the guidance in paragraphs 27–29 to account for this change. AASB 7 *Financial Instruments: Disclosures:* • Servicing contracts - clarifies how an entity should apply the guidance in paragraph 42C of AASB 7 to a servicing contract to decide whether a servicing contract is 'continuing involvement' for the purposes of applying the disclosure requirements in paragraphs 42E–42H of AASB 7. • Applicability of the amendments to AASB 7 to condensed interim financial statements - clarify that the additional disclosure required by the amendments to AASB 7 *Disclosure–Offsetting Financial Assets and Financial Liabilities* is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with AASB 134 *Interim Financial Reporting* when its inclusion would be required by the requirements of AASB 134. AASB 119 *Employee Benefits*: • Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level. AASB 134 *Interim Financial Reporting:* • Disclosure of information 'elsewhere in the interim financial report' - amends AASB 134 to clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.	1 January 2016	1 January 2016
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	The Standard makes amendments to AASB 101 *Presentation of Financial Statements* arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.	1 January 2016	1 January 2016

Reference	Title	Summary	Application date of standard*	Application date for Group
AASB 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 *Materiality*	The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.	1 July 2015	1 January 2016
AASB 2015-9	Amendments to Australian Accounting Standards – Scope and Application Paragraphs [AASB 8, AASB 133 & AASB 1057]	This Standard inserts scope paragraphs into AASB 8 and AASB 133 in place of application paragraph text in AASB 1057. This is to correct inadvertent removal of these paragraphs during editorial changes made in August 2015. There is no change to the requirements or the applicability of AASB 8 and AASB 133.	1 January 2016	1 January 2016
AASB 16	Leases	The key features of AASB 16 are as follows: **Lessee accounting** • Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. • A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. • Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. • AASB 16 contains disclosure requirements for lessees. **Lessor accounting** • AASB 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. • AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk. IFRS 16 supersedes: (a) IAS 17 Leases; (b) IFRIC 4 Determining whether an Arrangement contains a Lease; (c) SIC-15 Operating Leases—Incentives; and (d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as IFRS 16.	1 January 2019	1 January 2019

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of consolidation

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

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

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

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

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

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

(d) Business Combination

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Business Combination (continued)

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

(f) Foreign currency translation

(i) Functional and presentation currency

The functional currency of each entity within the Consolidated Entity is the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in United States Dollars which is the parent entity's functional and presentation currency.

(ii) Transactions and balances

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

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

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

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

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

(g) 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.

(h) Cash and cash equivalents

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Trade and other receivables

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

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

(j) 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.

(k) Exploration and evaluation expenditure

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

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

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

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

(l) Intangible assets

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Intangible assets (continued)

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

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

(m) Research and development costs

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

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

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. 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 (20 years)	Finite (20 years)
Amortisation method	Amortised on a straight-line basis over the period of the patent	Amortised on a straight-line basis over the period of expected future sales from the related project
Internally generated or acquired	Acquired	Internally generated

(n) Trade and other payables

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

(o) Convertible notes

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Provisions

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

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

(q) 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.

(r) Share-based payment transactions

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

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Share-based payment transactions (continued)

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

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

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

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

(s) Employee benefits

(i) Wages, salaries, annual leave and sick leave

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

(ii) Long service leave

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

(iii) Superannuation

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

(t) Income tax

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Income tax (continued)

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

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

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

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

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

(u) Other taxes

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

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

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

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

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

(v) Earnings per share

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

(i) Significant accounting estimates and assumptions

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

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

- **Share-based payment transactions**

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

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

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

- **Recoverability of Madagascan receivables**

  The future recoverability of the receivables balance that relates to the sale of various mineral licenses in Madagascar is dependent on the transfer of the licenses to the purchasers. The Company has registered sales contracts with authorities in Madagascar and has received significant deposits with the remaining balances due upon license transfer by the mines department of Madagascar (Bureau du Cadastre Minier de Madagascar “BCMM”). The BCMM has only returned to normal operation following democratic elections in 2013 and the appointment of a Prime Minister and cabinet in February 2014. Prior to this the BCMM was not operational and had not dealt with any mineral licence matters since 2009 following a popular uprising that forced out the elected government. While the BCMM is currently operational, progress is slow as it deals with four years of backlog transactions. The Company believes that whilst progress is slow there are currently no reasons to believe that its transfers will not be processed and the outstanding balances will be received within the next 12 months.

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

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Overview

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

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

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

Credit risk

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

Presently, the Group undertakes technology development activities in the USA. At the reporting date there were no significant concentrations of credit risk.

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

As the Group operates primarily in technology development, it does not have trade receivables. The Group has other receivables related to the sale of mineral assets in Madagascar, the receipt of which is dependent upon the processing of license transfers by the Madagascar titles office. There is risk that this receivable may not be recovered however the Group does not consider this to be likely.

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	
		2015	**2014**
	Note	**US$**	**US$**
Cash and cash equivalents	10	1,393,869	31,633
Other receivables	11	571,885	-

Liquidity risk

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

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

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	Contractual cash flows	6 mths or less	6-12 mths	1-5 years	5+ years
	US$	US$	US$	US$	US$	US$
31 December 2015						
Trade and other payables	354,290	354,290	354,290	-	-	-
	354,290	354,290	354,290	-	-	-
31 December 2014						
Trade and other payables	83,688	83,688	65,522	18,166	-	-
	83,688	83,688	65,522	18,166	-	-

Market risk

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

Foreign currency risk

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

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

	2015			2014		
	AUD	Ariary	Total	AUD	Ariary	Total
Cash	61,427	4,589	66,016	-	-	-
	61,427	4,589	66,016	-	-	-

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk

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

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

Profile

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

	Carrying amount	
	2015	**2014**
	US$	**US$**
Cash and cash equivalents		
Cash at bank and on hand	21,888	31,633
Short term deposits	36,495	-
	58,383	31,633

A change of 100 basis points in interest rates would have increased or decreased the Consolidated Entity's equity and post-tax profits by $500 (2014: $Nil). This analysis assumes that all other variables remain constant.

Fair values

Fair values versus carrying amounts

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

(i) Other receivables, trade and other payables

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

Capital Management

Capital managed by the Board includes contributed equity, which was $27,266,878 at 31 December 2015 (2014: $20,112). 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 shareholder equity, accumulated losses and reserves.

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

During the financial year ending 31 December 2015, management did not pay a dividend and does not expect to pay a dividend in the foreseeable future.

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

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

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

5. REVENUE

		2015 US$	2014 US$
(a)	**Revenue**		
	Interest received - other corporations	6,863	4
(b)	**Other income**		
	Other income – oil & gas royalty income	5,580	-
	Foreign exchange gain	36,980	-
	Total Other income	42,560	-

6. EXPENSES

Administration and other expenses

	2015 US$	2014 US$
Depreciation and amortisation		
Amortisation of intangible assets	1,347	2,175
Depreciation of plant & equipment	12,808	72
	14,155	2,247
Director fees and employee benefits expense		
Director fees and executive salaries	613,911	45,582
Wages and salaries	548,314	100,624
Total employee benefits	1,162,225	146,206
Administration and other expenses		
Legal and professional fees	414,645	105,487
Travel and accommodation expenses	84,936	91,095
Administration expenses	73,738	12,936
Total administration and other expenses	573,319	209,518
Total administration and other expenses	1,749,699	357,971

7. INCOME TAX

	Consolidated 2015 US$	Consolidated 2014 US$
(a) Major components of income tax expense		
Consolidated income statement		
Current income tax:		
Current income tax expense/(benefit)	-	-
Tax losses previously not recognised	-	-
Deferred tax asset not recognised	-	-
Income tax (benefit)/expense reported in the statement of comprehensive income	**-**	**-**
(b) Amounts charged or credited directly to equity		
Current income tax related to items charged or credited directly to equity	-	-
Deferred income tax related to items charged or credited directly to equity	-	-
Income tax (benefit)/expense reported in equity	**-**	**-**

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

	2015	2014
Accounting loss before tax	27,360,115	357,967
At statutory income tax rate of 30% (2014: 30%)	(8,208,035)	(107,390)
Non-deductible (income) / expenses	7,699,799	-
Deductible capital raising items	(52,477)	-
Effect of lower/(higher) taxation rates of foreign subsidiaries	281,700	(35,797)
Unrecognised tax losses and deferred income tax	279,013	143,187
Income tax expense/(benefit) reported in statement of comprehensive income	-	-
Effective income tax rate	0%	0%

(d) Deferred tax relates to the following:

	Consolidated Statement of financial position		Consolidated Statement of comprehensive income	
	2015	**2014**	**2015**	**2014**
Accrued expenses	20,744	-	20,744	-
Tax losses	401,456	143,187	258,269	-
Not recognised	(422,200)	(143,187)	(279,013)	-
Net deferred tax liability	-	-		
Deferred tax income/ (expense)			-	-

(e) Unrecognised losses

At 31 December 2015, there are unrecognised losses of $5,259,296 for the Consolidated Entity (2014: $143,187).

8. LOSS PER SHARE

	2015 US$	2014 US$
Net loss attributable to ordinary equity holders	(27,360,115)	(357,967)
Net loss attributable to ordinary shareholders for diluted earnings per share	(27,360,115)	(357,967)
Basic and diluted loss per share (US cents per share)	(8.43)	(0.14)
Weighted average number of ordinary shares for basic loss per share	324,371,513	255,850,219
Effect of the dilution of share options and performance rights [1] [2]	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	324,371,513	255,850,219

[1] At 31 December 2015, the Company had on issue 28,050,000 (2014: nil) share options that are excluded from the calculation of diluted loss per share for the current period, because they were anti-dilutive as their inclusion reduced the loss per share.

[2] At 31 December 2015, the Company had on issue 122,000,000 (2014: nil) performance rights that are excluded from the calculation of diluted loss per share for the current period, because they were anti-dilutive as their inclusion reduced the loss per share.

9. 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.

10. CASH AND CASH EQUIVALENTS

	2015 US$	2014 US$
Cash at bank and in hand	1,393,869	31,633
Total	1,393,869	31,633
Reconciliation of the net loss after tax to net cash flows from operations		
Loss after tax	(27,360,115)	(357,967)
Non-cash adjustment to reconcile loss before tax to net cash flows:		
Depreciation	12,808	72
Amortisation	1,347	2,175
Share based payments	1,939,902	-
Listing fee expense	23,611,942	-
Exploration and evaluation expenditure written off	64,038	-
Foreign exchange gain	(36,980)	-
Interest expense extinguished by the issue of shares	718	-
Working capital adjustments:		
Increase in prepayments	(31,995)	(20,277)
Increase in other assets	-	(6,196)
Increase in employee provisions	13,688	6,606
(Decrease)/Increase in trade and other payables	(101,857)	71,437
Net cash used in operating activities	(1,886,504)	(304,150)

11. TRADE AND OTHER RECEIVABLES

	2015 US$	2014 US$
CURRENT		
Other receivables [1]	571,885	-
	571,885	-

[1] Of this balance $559,100 relates to the mineral licences sold within Madagascar. The timing of receipt of the receivable is dependent upon the Madagascar mining titles office processing the licence transfers which were delayed due to governing elections. It is expected the amount will be received in 2016.

12. OTHER ASSETS

	2015 US$	2014 US$
CURRENT		
Prepayments	62,555	20,277

13. PLANT & EQUIPMENT

	2015	2014
Plant and equipment		
At cost	106,140	1,721
Accumulated depreciation	(40,759)	(72)
Total plant and equipment	65,381	1,649

Movement in plant and equipment

	2015	2014
At 1 January net of accumulated depreciation	1,649	-
Additions	71,703	1,721
WDV of plant and equipment from Acquisition	4,805	-
Depreciation charge for the year	(12,808)	(72)
Foreign exchange movements	32	-
At 31 December net of accumulated depreciation	65,381	1,649

14. EXPLORATION AND EVALUATION EXPENDITURE

	2015 US$	2014 US$
Exploration and evaluation costs carried forward in respect of mining areas of interest		
Net carrying amount at cost	-	-
Movement in exploration and evaluation expenditure		
At 1 January	-	-
Additions	64,038	-
Exploration and evaluation expenditure written off	(64,038)	-
Foreign exchange movements	-	-
At 31 December	-	-

The Company declared its intention to divest itself of all exploration assets prior to the Acquisition. Accordingly, exploration and evaluation expenditure incurred during the year of $64,038 (2014: $Nil) was immediately written off to the Statement of comprehensive income.

15. INTANGIBLE ASSETS

	2015 US$	2014 US$
At cost – patents with definite useful life	35,227	41,136
Accumulated amortisation	(3,523)	(2,175)
Total intangible assets	31,704	38,961
Movement in intangible assets		
At 1 January	38,961	-
Additions	6,342	41,136
Adjustment to opening balance – credit from vendor	(12,252)	-
Amortisation	(1,347)	(2,175)
At 31 December	31,704	38,961

The patents acquired during the year have been granted for a minimum of 20 years by the relevant government agency. As at 31 December 2015, the Group considered indicators of impairment of these assets and no adjustment was deemed necessary.

16. TRADE AND OTHER PAYABLES

	2015 US$	2014 US$
CURRENT		
Trade creditors	354,290	83,688
	354,290	83,688

17. EMPLOYEE BENEFITS LIABILITIES

	2015 US$	2014 US$
CURRENT		
Provision for annual leave	40,730	6,606
	40,730	6,606

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

18. NOTES PAYABLE

	2015 US$	2014 US$
CURRENT		
Convertible notes payable (1)	-	346,177
	-	346,177
Reconciliation of convertible notes payable		
Opening balance	346,177	-
Convertible notes issued to shareholder (2)	190,000	100,000
Convertible notes issued to other parties (3)	247,872	246,177
Interest on convertible notes issued to other parties	6,126	-
BrainChip Inc. shares issued to extinguish convertible note liability immediately prior to Acquisition	(536,892)	-
BrainChip Holdings shares issued to extinguish convertible note liability immediately prior to Acquisition	(247,872)	-
Interest paid to other party convertible noteholders	(5,411)	-
Closing balance	-	346,177

(1) The 2014 balance was reclassified in the current financial period and has been reclassified from non-current to current liability as the convertible notes had a maturity date of less than 12 months from 31 December 2014.

(2) Convertible notes were issued to Mr Mitro in exchange for cash in the amounts of US$50,000 on 3 January 2014, US$50,000 on 13 June 2014, and US$190,000 on 2 January 2015. Interest was payable on the convertible notes at 4% pa. These notes and accrued interest were extinguished through the issue of BrainChip Inc. shares on 10 September 2015.

(3) During September 2014 BrainChip Inc. issued convertible notes to third parties in the amount of A$300,000 (US$246,177). The convertible notes accrued interest at the rate of the USA Applicable Federal Rate. The total liability was extinguished via the issue of BrainChip Inc. shares on 10 September 2015. During August 2015, BrainChip Inc. issued convertible notes to third parties in the amount of A$350,000 (US$247,872). The notes accrued a minimum of two months interest at 15% pa which was subsequently paid after the Acquisition. The principal liability of US$247,872 was extinguished through the issue of BrainChip Holdings shares on 10 September 2015.

19. LOANS FROM SHAREHOLDERS

	2015 US$	2014 US$
NON-CURRENT		
Loans from shareholders	-	100
	-	100

20. CONTRIBUTED EQUITY

	2015 US$	2014 US$
(a) Ordinary Shares		
Issued and fully paid	27,266,878	20,112

(b) Movements in ordinary shares on issue

	Number	US$
At 1 January 2014	-	-
Issue of shares	10,000,000	1,000
Paid in capital for patents costs	-	19,112
At 31 December 2014	10,000,000	20,112
At 1 January 2015	10,000,000	20,112
Conversion of R Mitro Convertible Loan (1)	749,354	290,000
Conversion of 2014 Convertible Loans other (1)	620,155	246,893
Issue of shares to Nerona Pte. Ltd	1,182,429	118
Elimination of all BrainChip Inc. shares on acquisition of BrainChip Holdings Ltd (1)	(12,551,938)	-
Existing shares of BrainChip Holdings at Acquisition	248,269,752	-
Acquisition of BrainChip Inc. (1)	353,605,500	26,709,755
Conversion of Performance Rights (2)	69,000,000	-
At 31 December 2015	670,875,252	27,266,878

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

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

(c) Terms and conditions of contributed equity

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder meetings. In the event of winding up the Company the holders are entitled to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

(d) Performance Rights on issue

Performance Rights on issue at 31 December 2015 are as follows:

Class A Performance Rights	13,500,000
Class B Performance Rights	13,500,000
Class C Performance Rights	48,500,000
Class D Performance Rights	46,500,000
	122,000,000

20. CONTRIBUTED EQUITY (continued)

(e) Performance Rights movements

	Opening balance 1 January 2015	Acquisition Consideration	Converted	Unallocated	**Closing balance 31 December 2015**
Class A Perf Rights (1)	-	49,500,000	36,000,000 (2)	-	13,500,000
Class B Perf Rights (1)	-	49,500,000	33,000,000 (3)	3,000,000	13,500,000
Class C Perf Rights (1)	-	49,500,000	-	1,000,000	48,500,000
Class D Perf Rights (1)	-	49,500,000	-	3,000,000	46,500,000
	-	198,000,000	69,000,000	7,000,000	122,000,000

(1) 198,000,000 Performance Rights were approved by shareholders on 30 July 2015 to be allocated to the shareholders of BrainChip Inc. as part consideration for the Acquisition. Of this amount 186,000,000 Performance Rights were issued on 10 September 2015 to BrainChip Inc. shareholders.

The remaining 12,000,000 Performance Rights were set aside to be issued to current and future employees at the Board's discretion. Any Performance Rights not issued by 30 June 2018 are to be issued to Peter van der Made (60%) and Robert F. Mitro Trust (40%), subject to obtaining all required regulatory and shareholder approvals. Subsequent to the Acquisition and prior to year-end, 3,000,000 Class A Performance Rights and 2,000,000 Class C Performance Rights were issued to employees on 10 September 2015 and 21 December 2015 respectively (refer Note 23(b)). 3,000,000 Class B Performance Rights, 1,000,000 Class C Performance Rights and 3,000,000 Class D Performance Rights were unallocated at 31 December 2015.

(2) 36,000,000 Class A Performance Rights were converted to shares in BrainChip Holdings immediately upon issue (10 September 2015) as attainment of Milestone 1 was achieved as announced to the ASX on 13 May 2015.

(3) 33,000,000 Class B Performance Rights were converted to shares in BrainChip Holdings on attainment of Milestone 2 on 20 November 2015.

The Performance Rights have the following milestones attached to them:

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

20. CONTRIBUTED EQUITY (continued)

(f) Options on issue

Unissued ordinary shares of the Company under option at 31 December 2015 are as follows:

Type	Expiry Date	Exercise Price (US$)	Number of options
Options issued as part consideration as part of the Acquisition			
Unlisted [(1)]	10/09/2019	0.112	6,250,000
Options issued to Directors and employees (refer Note 23)			
Unlisted [(2)]	30/11/2018	0.161	11,000,000
Unlisted [(3)]	21/12/2020	0.258	250,000
Unlisted [(4)]	21/12/2020	0.172	10,550,000
Total			28,050,000

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

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

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

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

(4) The 10,550,000 unlisted options issued to employees and consultants vest equally over a 4 year period and, after vesting, are exercisable before 21 December 2020.

21. RESERVES

	Share based payment reserve	Other equity reserve	Total
CONSOLIDATED	**US$**	**US$**	**US$**
At 1 January 2014	-	-	-
Movement	-	-	-
At 31 December 2014	-	-	-
At 1 January 2015	-	-	-
Share based payments	1,939,902	-	1,939,902
Shares issued to extinguish Group convertible notes	-	247,872	247,872
At 31 December 2015	1,939,902	247,872	2,187,774

Nature and purpose of reserves

Share based payment reserve

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

Other equity reserve

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

22. ACCUMULATED LOSSES

	2015 US$	2014 US$
At 1 January	(357,967)	-
Net loss in current period attributable to members of the Company	(27,360,115)	(357,967)
At 31 December	(27,718,082)	(357,967)

23.	SHARE-BASED PAYMENTS	2015 US$	2014 US$
(a)	**Recognised share-based payment expenses**		
	Performance Rights issued to employees	681,324	-
	Options issued to directors, employees and contractors	1,258,578	-
		1,939,902	-

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

Terms of the PRP and LTIP were included in the Notice of General Meeting 30 June 2015 lodged with ASX.

Terms of the DOOP were included in the Prospectus dated 10 December 2015 lodged with ASX.

(b) Performance Rights issued to employees

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

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

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

The following issues of Performance Rights to employees were completed since the date of the Acquisition and up to 31 December 2015:

3,000,000 Class A Performance Rights issued and converted to shares on 10 September 2015, approved by shareholders on 30 July 2015 at the share price of US$0.11; and
2,000,000 Class C Performance Rights issued on 21 December 2015, at a grant date fair value of US$0.17 per right.

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

	Opening balance 1 January 2015	Issued during the year	Converted during the year	Closing balance 31 December 2015
Class A Perf Rights	-	3,000,000	3,000,000	-
Class B Perf Rights	-	-	-	-
Class C Perf Rights	-	2,000,000	-	2,000,000
Class D Perf Rights	-	-	-	-
	-	5,000,000	3,000,000	2,000,000

(c) Summary of options granted under the Long Term Incentive Plan

Unissued ordinary shares of the Company under option at 31 December 2015 are as follows:

Type	Grant Date	Expiry Date	Exercise Price (US$)	Number of options	Vested at year end
Unlisted (1)	4/12/2015	30/11/2018	0.161	11,000,000	11,000,000
Unlisted (2)	4/12/2015	21/12/2020	0.258	250,000	-
Unlisted (3)	4/12/2015	21/12/2020	0.172	10,550,000	-
Total				21,800,000	11,000,000

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

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

(3) 10,550,000 unlisted options exercisable at A$0.24 per share before 21 December 2020 issued on 21 December 2015 pursuant to the Company's Long Term Incentive Plan as approved by shareholders on 30 July 2015 to employees and consultants.

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

23. SHARE-BASED PAYMENTS (continued)

(d) Movements during the year

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

	2015 Number	2015 WAEP (US$)	2014 Number	2014 WAEP (US$)
Outstanding at 1 January	-	-	-	-
Granted during the year	21,800,000	0.168	-	-
Forfeited during the year	-	-	-	-
Lapsed during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at 31 December	21,800,000	0.168	-	-
Exercisable (vested and unrestricted) at 31 December	11,000,000		-	

The weighted average remaining contractual life for the share options outstanding at 31 December 2015 is 3.94 years (2014: Nil).

The weighted average fair value of options granted during the year was US$0.12 (2014: Nil)

The range of exercise prices for options outstanding at the end of the year was US$0.16 to US$0.26

(e) Options pricing model

The fair value of the equity-settled share options granted under the LTIP and DOOP is estimated as at the date of grant using a Black Scholes Option Pricing model.

The following table lists the inputs to the models used for the valuation of options as at 31 December 2015:

	Non-Executive Directors Options	Consultant Options	Employees/ consultants Options
Number of options issued	11,000,000	250,000	10,550,000
Fair values at measurement date US$	0.11	0.12	0.13
Share price at Grant Date US$	0.17	0.17	0.17
Exercise price US$	0.16	0.26	0.17
Expected volatility	2.72	2.72	2.72
Dividend yield	-	-	-
Risk-free interest rate (%)	2%	2%	2%
Expected life of options in years	3.0	5.0	5.0

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

24. COMMITMENTS

(a) Operating lease commitments - Company as lessee

	2015 US$	2014 US$
Office lease	45,650	41,330
	45,650	41,330

(b) Exploration commitments

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

	2015 US$	2014 US$
Within one year	28,605	-
	28,605	-

25. CONTINGENT ASSETS AND LIABILITIES

The Consolidated Entity had no contingent assets or liabilities at 31 December 2015 (31 December 2014: $Nil).

26. EVENTS AFTER THE BALANCE SHEET DATE

On 1 February 2016, the Company announced it had signed a strategic joint development and marketing agreement with Applied Brain Research (ABR), a provider of an integrated technology software platform focused on building unified Artificial Intelligence (AI) systems.

On 18 February 2016, in a major advancement to its existing and patented SNAP (Spiking Neuron Adaptive Processor) technology, the Company announced that its research and development team had completed development of a unique Autonomous Feature Extraction (“AFE”) system. Utilizing the hyper-speed SNAP neural processor, the AFE system is able to process and learn complex and overlapping real-world digital features, and has been used on a range of input patterns and shapes.

On 23 February 2016 the Company announced that it had achieved a further significant advancement of its artificial intelligence technology with completion of the development of an Autonomous Visual Feature Extraction system (AVFE), an advancement of the AFE system. The AVFE system was developed and interfaced with a Dynamic Vision Sensor (DVS) which is an artificial retina.

On 15 March 2016 the Company announced the achievement of Milestone 3 by achieving the development and release of a Client / Server Interface Tool to its autonomously learning SNAP technology, ahead of schedule and within budget.

27. AUDITOR'S REMUNERATION

	2015 US$	2014 US$
Amounts received or due to be receivable by Ernst & Young (Australia) for:		
An audit or review of the financial reports of the entity	35,105	-
	35,105	-
Amounts received or due and receivable by non-Ernst & Young audit firms for:		
An audit or review of the financial report of the entity	15,500	-
	15,500	-

28. OPERATING SEGMENTS

For management purposes, the Group is organised into one main operating segment, being the technological development of designs that can be licensed to original equipment manufacturers and semiconductor manufacturers of Chips based on Artificial Neural Networks.

All of the Group’s activities 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 does not derive revenue from any one of its investments held.

The Group has the following non-current assets from each geographic location, from where its investing activities are managed.

Non-current assets	**2015 US$**	**2014 US$**
USA	101,255	46,806
Australia	2,027	-
	103,282	46,806

29. ACQUISITION OF BRAINCHIP

Acquisition of BrainChip

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

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

The purchase consideration is summarised as follows:

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

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

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

(a) Purchase consideration

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

(b) Fair value of assets acquired and liabilities assumed

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

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

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

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

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

30. RELATED PARTY DISCLOSURES

(a) Subsidiaries

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

Name	Country of incorporation	Beneficial interest 2015	Beneficial interest 2014
BrainChip Inc. [(1)]	USA	100%	-
AZK Merger Subsidiary Inc. [(2)]	USA	-	-
Aziana Exploration Corporation	British Virgin Islands	100%	100%
Eternal Resources Pty Ltd	Australia	100%	100%
Subsidiary companies of Aziana Exploration Corporation			
Blue Sky Corporation	Mauritius	100%	100%
Indian Ocean Minerals Investment Corporation	Mauritius	100%	100%
Subsidiary companies of Blue Sky Corporation			
Laka Minerals SARL [(3)]	Madagascar	100%	100%
Tanety Lava SARL [(4)]	Madagascar	100%	100%
Tanety Zina SARL [(5)]	Madagascar	100%	100%
Subsidiary companies of Indian Ocean Minerals Investment Corporation			
Esama Minerals SARL	Madagascar	100%	100%
Subsidiary companies of Eternal Resources Limited			
Eternal Resources (USA) Incorporated	USA	100%	100%
Subsidiary companies of Eternal Resources (USA) Incorporated			
Eternal Resources (USA) LLC	USA	100%	100%

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

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

[(3)] *2% interest is held on trust on behalf of AEC by General Manager (Rija Raherimandimby = 2%)*

[(4)] *1% interest is held on trust on behalf of AEC by General Manager (Rija Raherimandimby = 1%)*

[(5)] *1% interest is held on trust on behalf of AEC by General Manager (Rija Raherimandimby = 1%)*

(b) Ultimate legal parent

BrainChip Holdings Ltd is the ultimate parent entity.

30. RELATED PARTY DISCLOSURES (continued)

(c) Key Management Personnel compensation

Refer to the Remuneration Report contained in the Directors' Report for detailed remunerations disclosures of payments to each member of the Group's Key Management Personnel for the year ended 31 December 2015.

Total remuneration paid to KMP of the Group during the year are as follows:	Consolidated Entity	
	2015	2014
	US$	US$
Short-term employee benefits [1]	602,012	146,206
Termination benefit [2]	216,330	-
Share-based payment	1,205,750	-
	2,024,092	146,206

(1) Director fees were payable to Dr Osseiran as at 31 December 2015 totalling US$11,492.

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

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

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

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

On 1 January 2014 Mr van der Made received 4,500,000 shares in BrainChip Inc. valued at US$19,562 as reimbursement of development costs incurred and the assignment to BrainChip Inc. of patent "8250011 Autonomous Learning Dynamic Artificial Neural Computing Device and Brain Inspired System" filed with the United States Patent and Trademark Office The execution of the assignment of the patent was completed 23 July 2015.

(d) Transactions with other related parties

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

- Accounting, secretarial and administrative services were provided to BrainChip Holdings totalling A$127,747 (2014: A$133,270) up to 10 September 2015.
- BrainChip Holdings entered into a secured convertible loan agreement with Metals X Limited for A$250,000, interest bearing at 12% and maturing in October 2015, as announced on the ASX 1 April 2015. The loan, plus interest of A$13,233, was extinguished via the conversion of 13,161,644 shares on 24 August 2015.

(e) Loans to/from related parties

There were no outstanding loans arising to or from related parties (31December 2014: $Nil)

31. PARENT ENTITY INFORMATION

	2015 US$	2014 US$
Information relating to BrainChip Holdings		
Current assets	111,132	499,922
Non-current assets	1,727,306	10,744,683
Current liabilities	(101,868)	(109,397)
Non-current liabilities	-	-
Net assets	1,736,570	11,135,208
Issued capital	54,531,922	16,672,006
Other contributed equity	2,025,617	-
Accumulated losses	(77,694,188)	(3,886,454)
Share based payment reserve	21,784,534	-
Option premium reserve	480,731	660,114
Foreign currency translation reserve	858,982	(2,310,458)
Other reserves	(251,028)	-
Total shareholders' equity	1,736,570	11,135,208
Net loss of the parent entity [1]	72,674,632	678,860
Total comprehensive income of the parent entity	69,505,192	-

[1] At the reporting date investments and loans receivable from controlled entities at cost totalled US$43,072,198 and US$6,577,764 respectively. An impairment of US$47,924,683 was recognised for the year ended 31 December 2015 against the loans receivable of US$6,577,764, and the investments of $41,346,919.

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

Contingent liabilities of the parent entity
Nil

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

Director's Declaration

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

In the opinion of the Directors:

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

(i) giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 31 December 2015 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 2015.

On behalf of the Board.

Eric (Mick) Bolto

Chairman

Perth, 31 March 2016

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 Limited

Report on the financial report

We have audited the accompanying financial report of BrainChip Holdings Limited, which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

PT:JH:BRAINCHIP:003

Building a better working world

Opinion

In our opinion:

a. the financial report of BrainChip Holdings Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 to the financial report which describes the principal conditions that raise doubt about the consolidated entity's ability to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2015. 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.

Opinion

In our opinion, the Remuneration Report of BrainChip Holdings Limited for the year ended 31 December 2015, complies with section 300A of the *Corporations Act 2001*.

Ernst Young

Ernst & Young

P Teale
Partner
Perth
31 March 2016

Security Holder Information as at 29 February 2016

(a) Top 20 Quoted Shareholders	%	Number of shares
Peter AJ van der Made	18.90%	126,805,508
Robert F Mitro <Robert F Mitro Living Trust>	15.23%	102,202,500
Anil S & Meena A Mankar <Mankar Family Trust>	13.70%	91,885,000
Metals X Ltd	7.76%	52,085,595
Nerona Pte Ltd	6.12%	41,055,500
D'YQuem Inv Ltd	1.84%	12,364,387
Paul G Hunter	1.69%	11,350,000
Cristina M Mitro	1.49%	10,000,000
Velia Mitro	1.49%	10,000,000
Citicorp Nominees Pty Ltd	1.22%	8,172,085
Crossfield Intech Nominees Pty Ltd <Liebeskind Family Super Fund>	1.12%	7,538,500
A & Moi Osseiran <Osseiran Family Account>	1.12%	7,538,500
BNP Paribus Nominees Pty Ltd	1.07%	7,196,000
Neil R Rinaldi	0.68%	4,582,500
Petroleum Management International Pty Ltd	0.60%	4,000,000
P & R Sheth <Sheth Family Account>	0.56%	3,769,250
JP Morgan Nominees Australia Pty Ltd	0.47%	3,119,898
Antony Page	0.45%	3,000,000
Roberto Crisafio <Sangreal Family Account>	0.45%	3,000,000
Bin Lui	0.37%	2,500,000
Total	**76.33%**	**512,165,223**

(b) Distribution of quoted ordinary shares

Size of parcel	Number of share holders	Number of shares
1 to 1,000	68	18,860
1,001 to 5,000	546	1,736,636
5,001 to 10,000	435	3,549,072
10,001 to 100,000	1,200	43,976,878
100,001 to 25,000,000	315	621,593,806
Total	**2,564**	**670,875,252**

(c) Number of holders with less than a marketable parcel of ordinary shares	195	232,983

(d) Substantial Shareholders	%	Number of shares
Peter AJ van der Made	18.90%	126,805,508
Robert F Mitro <Robert F Mitro Living Trust>	15.23%	102,202,500
Anil S & Meena A Mankar <Mankar Family Trust>	13.70%	91,885,000
APAC Resources Limited & related body corporates (1)	8.83%	59,281,595
Nerona Pte Ltd	6.12%	41,055,500

(1) APAC has a direct holding of 7,196,000 and 52,085,595 indirectly through its interest in Metals X Ltd.

(e) Voting Rights

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

Ordinary fully paid shares

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

Options

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

Performance Rights

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

(f) Unquoted Equity Securities

Number of Options	Exercise Price A$	Expiry Date	Number holders
6,250,000	15.7 cents	10/09/2019	1
11,000,000	22.5 cents	30/11/2018	3
10,550,000	24.0 cents	21/12/2020	7
250,000	36.0 cents	21/12/2020	1
1,500,000	23.0 cents	01/02/2021	1

Number of Performance Rights	Class	Milestone	Number holders
13,500,000	Class A	Refer note 20(e)	1
13,500,000	Class B	Refer note 20(e)	1
49,000,000	Class C	Refer note 20(e)	9
46,500,000	Class D	Refer note 20(e)	7

(g) Statement pursuant to ASX Listing Rule 4.10.19

From re-instatement to quotation on ASX on 22 September 2015 to 31 December 2015 the Company used the cash and assets in a form readily convertible to cash that it had at the time of re-admission to ASX in a way consistent with its business objectives.

Summary of Mining Tenements

Madagascar

Permit Holder	*Permit Number*	*No. of Squares (0.391km2)*	*Issue Date*	*Aziana's Interest*
Tanety Lava Sarl	20231*	128	26/07/2006	100%
Tanety Lava Sarl	20232*	16	26/07/2006	100%
Tanety Zina Sarl	20796	256	19/07/2006	100%
Tanety Lava Sarl	21577*	288	14/09/2007	100%
Tanety Lava Sarl	21589*	48	18/01/2007	100%
Tanety Zina Sarl	21736*	256	18/01/2007	100%
Tanety Lava Sarl	21743*	304	14/09/2007	100%
Esama Minerals Sarl	25071	64	30/04/2008	100%
Esama Minerals Sarl	25072	16	30/04/2008	100%
Esama Minerals Sarl	25073	160	30/04/2008	100%
Esama Minerals Sarl	25074	16	30/04/2008	100%
Esama Minerals Sarl	25075	16	30/04/2008	100%
Esama Minerals Sarl	25076	32	30/04/2008	100%
Tanety Lava Sarl	26218	256	16/10/2007	100%
Tanety Lava Sarl	26232*	48	20/09/2007	100%
Tanety Lava Sarl	26234*	32	20/09/2007	100%
Tanety Lava Sarl	26438*	16	11/02/2008	100%
Tanety Lava Sarl	26669*	16	11/02/2008	100%
Tanety Lava Sarl	28034*	16	26/10/2007	100%
Esama Minerals Sarl	39670	24	30/06/2011	100%
Esama Minerals Sarl	39671	24	30/06/2011	100%
Tanety Lava Sarl	39046*	176	26/07/2006	100%
Tanety Lava Sarl	39047*	32	26/07/2006	100%
Tanety Lava Sarl	39669	32	4/11/2015	100%

* Sold pending licence transfer