# BrainChip Holdings Ltd

***Annual Report 2021***

## Board of Directors

| | |
|---|---|
| **Emmanuel Hernandez** | Non-Executive Director and Chair |
| **Sean Hehir** | Executive Director, Chief Executive Officer |
| **Peter van der Made** | Executive Director, Chief Technical Officer |
| **Geoffrey Carrick** | Non-Executive Director |
| **Antonio J. Viana** | Non-Executive Director |
| **Pia Turcinov** | Non-Executive Director |

## Company Secretary

Kim Clark

## Registered Office

Level 12, 225 George St. Sydney NSW 2000 Australia

Telephone**:** +61 2 9290 9606

Facsimile**:** +61 2 9279 0664

## Postal Address

PO Box 3993, Sydney NSW 2001 Australia

## Website

http://www.brainchipinc.com

## Auditors

**HLB Mann Judd (WA) Partnership**

Level 4, 130 Stirling Street, Perth WA 6000

Telephone: +61 8 9227 7500

## Share Registry

**Boardroom Pty Ltd**

Level 12, 225 George St, Sydney NSW 2000

Telephone: +61 2 9290 9600

Facsimile: +61 2 9290 9664 Online: www.clientonline.com.au

## Securities Exchange

**Australian Securities Exchange Limited**

Exchange Centre, 20 Bridge St, Sydney NSW 2000

**Code:** BRN

**OTCQX Best Market – OTC Markets Groups**

**Codes:** BRCHF, BCHPY

ABN: 64 151 159 812

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# Letter from the Chair



To our valued Shareholders,

Despite multiple global challenges, 2021 has proven to be the most successful year in BrainChip's history on the strength of the Company's many technical and market developments as well as an increase in worldwide interest in Artificial Intelligence ("AI").

Most significantly, it was the year that BrainChip evolved from an R&D company into a company that supplies breakthrough edge AI technology to markets like automotive, transportation, aerospace, healthcare, and industrial IoT.

To this end, we shipped Akida™ development kits to partners, large enterprises in strategic end markets, and Original Equipment Manufacturers ("OEMs") to perform their own internal testing, validation, and product development. In 2021, we evolved our operations to become the world's first commercial producer of neuromorphic AI chips and IP. The Company has achieved meaningful technical advancements in the Akida™ brain-inspired Neuromorphic AI architecture, forged key development partnerships, and has moved into commercial production of chips.

BrainChip has generated design improvements to increase performance, efficiency, and scalability, with additional operating modes for even lower power consumption. Our manufacturing partners Socionext America and Taiwan Semiconductor Manufacturing Company (TSMC) shipped our first production chips, and in April 2021 commenced preparing to manufacture at volume. In addition to this progress in silicon, BrainChip licensed the Akida intellectual property to Application Specific Integrated Circuit (ASIC) industry leader MegaChips to incorporate into next-generation AI devices.

During 2021, ten new international patent applications were filed and four previously filed patents were granted. Two more received an 'allowed' status in the United States and were subsequently granted in early 2022. Over 2022 we expect to increase our patent portfolio significantly.

Mr Louis DiNardo stepped down as CEO in March, and Mr Sean Hehir was appointed as CEO in November, allowing interim CEO Peter van der Made to focus his attention on the ongoing technical development of Akida. Mr van der Made deserves our deepest gratitude for stepping up to manage the business while the Company secured the right candidate to guide BrainChip to full commercialisation of the Akida device IP.

Mr Hehir's track record in building strategic relationships with top global technology providers, and his ability to spearhead companies to major revenue stages, makes him an appropriate leader for this phase of BrainChip's growth. He is supported by two non-executive director appointments, Mr Antonio J. Viana and Ms Pia Turcinov.  Mr Viana is a former ARM President and EVP of Commercial and Global development who joined the board as a non-executive director in June 2021. Ms Turcinov joined the Board in January 2022 bringing her extensive governance and commercial experience to BrainChip, with the ambition of providing valuable guidance to the Company in the coming years.

While we continue to expand the intellectual property around Akida™, the public markets in Australia and the United States have embraced BrainChip.

To capitalise on the interest in AI technology in North America and interest from U.S. investors, BrainChip was accepted to trade on the U.S. OTCQX® Best Market in May 2021. In November, the Company entered the Level 1 American Depositary Receipts (ADR) programme, allowing non-U.S. issuers to trade on a U.S. trading platform, increasing access to North American institutional investors and fund managers. In Australia, the Company was added to the S&P/ASX 300 index, reflecting the increasing recognition of BrainChip in the Australian equity market.

Above all, we remain committed to our mission of Beneficial AI: Smart Home, Smart City, Smart Healthcare, Smart Transportation, and other strategic real-world implementations of Akida neuromorphic processors that will usher in progress across the many facets of our lives.

My thanks for your support of our mission.

Emmanuel Hernandez

Chair

# Directors' Report

The directors submit their report of the consolidated entity, being BrainChip Holdings Ltd ("BrainChip Holdings" or "Company" or "BrainChip") and its controlled entities ("Group" or "Consolidated Entity"), for the year ended 31 December 2021.

## DIRECTORS

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

| | |
|---|---|
| **Emmanuel Hernandez** | Non-Executive Director and Chair |
| **Sean Hehir** | Executive Director, Chief Executive Officer (appointed 29 November 2021) |
| **Peter van der Made** | Executive Director, Chief Technical Officer. Also Interim Chief Executive Officer (15 March 2021 to 29 November 2021) |
| **Geoffrey Carrick** | Non-Executive Director |
| **Antonio J. Viana** | Non-Executive Director (appointed 28 June 2021) |
| **Pia Turcinov** | Non-Executive Director (appointed 4 January 2022) |
| **Louis DiNardo** | Executive Director, Chief Executive Officer (resigned 15 March 2021) |
| **Christa Steele** | Non-Executive Director (resigned 21 May 2021) |

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

**Kim Clark**

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The COVID-19 outbreak and the response of Governments in dealing with the pandemic continues to affect general activity levels within the community, the economy and our business operations. The scale and duration of these developments remain uncertain as at the date of this report. However, whilst there appears to be minimal impact on our business to date, including consideration of key judgements and estimates used in presenting the financial report, there is a possibility of an impact on our future earnings, cash flow and financial condition. It is not possible to estimate the impact of the near-term and longer effects of Governments' varying efforts to combat the outbreak and support businesses. This being the case, we do not consider it practicable to provide a quantitative or qualitative estimate of the potential impact of this outbreak on the Group at this time. The financial statements have been prepared based upon conditions existing at 31 December 2021, including those evidenced by events occurring after that date.

On 28 July 2021, the Company announced the appointment of HLB Mann Judd (WA) Partnership ("HLB") as the auditor of BrainChip, effective until the 2022 Annual General Meeting of the Company where a resolution to appoint HLB as the official auditor will be put to shareholders. The change of auditor has occurred due to the Company reviewing its external audit function.

The Company was pleased to announce the appointment of Mr Sean Hehir as Executive Director and Chief Executive Officer, effective 29 November 2021, following the resignation of Mr Louis DiNardo in March 2021. The Company is very appreciative of the additional efforts of Mr Peter van der Made, who assumed the role of Chief Executive Officer in the intervening period.

During Q4 2021, BrainChip received the first batch of the Akida AKD1000 neuromorphic processor chips from Socionext America, completing functionality and performance testing of the production chips and beginning volume production. This success has allowed the Company to commence taking orders of the Akida development kits from its partners, large enterprises OEMs for their own internal testing and validation. Additionally, BrainChip licensed its Akida IP to major Application Specific Integrated Circuit (ASIC) manufacturer, MegaChips, to help it enhance and grow its technology positioning for next-generation, Edge-based AI solutions.

Late in 2021 and early 2022, BrainChip announced that the US Patents and Trademarks Office had granted key patents to the Company bringing the total number of Akida technology related patents issued to the BrainChip since 2008 to a total of eight. The Company remains focused on pursuing and maintaining patent protection on all current and future developments across multiple global jurisdictions to retain our technological edge over the growing number of competitors in the edge AI space.

**SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS (Continued)**

On 13 October 2021, BrainChip and LDA Capital Limited and LDA Capital LLC ("LDA Capital") announced The Second Amendment to the Put Option Agreement ("POA") (refer to ASX announcements dated 13 August 2020 and 26 October 2020) allowing the deferral of the remaining A$5.3M draw-down obligation ("First Minimum Draw Down Amount") until 28 February 2022, previously due 22 October 2021, while increasing the total LDA commitment under the agreement to A$65M. The Company's minimum draw-down obligation was also increased by A$30M. Refer to Significant Events After Balance Sheet for further comments.

On 3 November 2021, BrainChip announced the launch of its American Depository Receipts (ADR) program. An ADR is a US trading instrument denominated in USD that allows a non-US issuer of securities to trade on a US trading system or exchange. The new ADR, ticker symbol BCHPY, represents forty (40) ASX: BRN shares. As ADRs are issued, BRN shares are accumulated in an ASX-traded custodial account. The intent of this programme is to provide access to US institutional investors who are unable to invest in foreign-listed shares (ASX: BRN), US-listed foreign shares (OTCQX: BRCHF) or in shares below a certain price point. The ADRs are listed on the OTCQX and commenced trading on 4 November 2021. The Company intends to continue exploring opportunities to better access global equity markets.

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

**PRINCIPAL ACTIVITIES**

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

**EMPLOYEES**

The Group employed 63 employees as of 31 December 2021 (2020: 42).

**DIVIDENDS**

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

**REVIEW OF OPERATIONS**

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

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

**Overview**

The Group made a net loss after income tax for the year ended 31 December 2021 of $20,981,309 (2020: $26,822,049). The current year loss included non-cash losses of $1,375,950 resulting from the fair valuation of the LDA financial liabilities (derivatives) recognised due to the agreed pricing mechanism and the put option premium.

Revenues for the year ended 31 December 2021 of $1,588,483 increased 1,215% from $120,829 in 2020. The Company executed a license contract in December 2021 as well as multiple Early Access Programme ("EAP") product sales and engineering support services agreements during the year.

**REVIEW OF OPERATIONS (Continued)**

Total operating expenses for the year ended 31 December 2021 of $21,234,175 increased 89% from $11,242,032 incurred in the year ended 31 December 2020. This increase was attributable to:

1) Research & development (R&D) expenses of $9,133,213 for the current period increased 77%, or $3,980,974 from a year ago. R&D costs comprise employee expense, contractor and other research and development costs, and amortisation of capitalised R&D intangible assets. Movements in R&D costs are summarised as follows:

    a) 41% increase in employee expenses reflecting the expansion of headcount into both Australia (2 additional) and India (5 additional) plus merit increases to staff who supported the achievements of the Company throughout 2020 and 2021, offset by increased credits received or receivable from government authorities; and

    b) recognition of $4,067,000 of third-party pre-development services being the final progressive payments to Socionext related to the fabrication of the Akida™ device (2020: $1,050,000);

2) Selling & marketing (S&M) expenses of $2,486,927 for the current period increased 74%, or $1,060,426 from a year ago. The increase reflects management's focus on the promotion and marketing of product, and the targeting of potential customers through the engagement of external marketing consultants and expansion of the S&M headcount;

3) General & administrative (G&A) expenses of $5,251,834 for the current period increased 63% overall, or $2,024,187 from the same period a year ago as a result of:

    a) the appointment of a new CEO in November 2021 as well as the termination expense of the previous CEO effective from March 2021, plus additional headcount in the administrative team;

    b) an increase in directors fee expense as a result of a full year of fees in 2021 with an additional board member appointed;

    c) increased legal and professional costs supporting employment and selling functions, and

    d) increased listing related expenses as a result of increased shareholder activities during the current year; and

4) Share-based payment expense of $4,362,201 for the current period increased 204%, or $2,926,556 from the same period a year ago. Share-based payments expense is non-cash in nature, and represents the current period vesting expense for options, restricted stock units and performance rights issued to directors, employees and consultants, offset by the value of options that have been forfeited during the year.

**Balance Sheet and Cashflows**

At the end of the year, the Group had consolidated net assets of $18,940,486 (2020: $16,823,878), including cash and cash equivalents of $19,367,069 (2020: $19,136,425).

In Q4 2021, BrainChip received the completed Akida™ advanced neural networking processor installed in two novel development kit formats ready for distribution to EAPs and new customers, resulting in the recognition of $254,571 of inventory.

Expansion of current and future headcount in the California operations prompted the Company to sign a new office lease, resulting in the recognition of a Right-of-Use asset and liability in accordance with AASB 16 valued at $1,605,426, and net cash outflows from investing activities related to the fit out of the office of $265,553.

Cash outflows used in operating activities increased to $14,173,494 (2020: $10,028,976), as noted in the Consolidated Statement of Cash Flows, and reflects the growth of the Company, achieving production of the Akida device and continuing to develop the next generations of the device.

In addition to Cash from Financing Activities from the LDA Capital noted below, the Company received $10,213,621 from the exercise of Long Term Incentive Plan options into issued shares, reflecting the value that has been added to both shareholders and participants as the Company has grown.

*LDA Agreement*

The unlisted options held by LDA Capital at 1 January 2021 and recognised as a derivative liability were fully exercised early in the year. The remeasurement of the derivative liability resulted in a fair value loss of $763,809 and contributed $2,031,235 cash inflows from financing activities.

**REVIEW OF OPERATIONS (Continued)**

On 16 August 2021, the Company issued a Capital Call Notice under the POA to LDA Capital to release the 8,750,000 collateral shares held by LDA Capital which had been recognised as a derivative asset valued at $1,470,275 in the prior year balance sheet. The settlement of this Capital Call Notice resulted in cash inflows from financing activities to BrainChip of $2,775,036 (A$3,853,547), the recognition of fair value loss of $612,141 and the release of the deferred day one gain of $635,049.

On 13 October 2021 BrainChip and LDA Capital Limited and LDA Capital LLC ("LDA Capital") announced The Second Amendment to the Put Option Agreement ("POA") (refer ASX announcements dated 13 August 2020 and 26 October 2020) allowing the deferral of the remaining A$5.3M draw-down obligation ("First Minimum Draw Down Amount") until 28 February 2022, previously due 22 October 2021, while increasing the total LDA commitment under the agreement to A$65M. The Company's minimum draw-down obligation was also increased by A$30M.

**Operational Highlights**

In 2021, BrainChip evolved its operations to become the world's first commercial producer of neuromorphic AI chips and IP. The Company has achieved meaningful technical advancements in the Akida™ brain-inspired Neuromorphic AI architecture, forged key development partnerships, and has moved into commercial production of chips.

Specific highlights throughout the year, as announced to the market, were as follows:

15 March 2021 - the addition to the S&P/ASX 300, an index designed to provide investors with broader exposure in the Australian equity market.

5 April 2021 - the collaboration between the BrainChip Research Institute and precision immunology company Biotome to develop highly accurate antibody tests for infections.

13 April 2021 - the commencement of volume manufacturing following design improvements to increase performance, efficiency, and scalability, with additional operating modes for even lower power consumption than its original design.

13 May 2021 - the commencement of trading on the U.S. OTCQX® Best Market under the symbol BRCHF.

27 June 2021 - the addition of former ARM President and EVP of Commercial and Global development Antonio J. Viana to BrainChip board as a non-executive director.

16 August 2021 - the receipt of the first Akida chips from its manufacturing run from Socionext America at Taiwan Semiconductor Manufacturing Company (TSMC).

26 August 2021 - the inclusion of BrainChip on *EE Times'* elite "Silicon 100" list of global semiconductor technologies.

20 October 2021 - the introduction of two novel Akida development kit formats for partners, large enterprises, and OEMs to begin internal testing and validation.

3 November 2021 - the achievement of Level 1 American Depositary Receipts (ADR) programme via the OTCQX Best Market, enhancing BrainChip's position with investors outside Australia as well as North American institutional investors and fund managers.

8 November 2021 - the conclusion of functionality and performance testing of the AKD1000 production chips, confirming better performance than the original engineering samples.

10 November 2021 - the establishment of new U.S. headquarters in Laguna Hills, California, which houses the development, engineering, sales, finance, and marketing teams in three times the previous space.

14 November 2021 - the appointment of Sean Hehir as new CEO to guide BrainChip towards full commercialisation.

21 November 2021 - the license of Akida IP to MegaChips, a pioneer in the ASIC industry, to incorporate edge AI into MegaChips ASIC solutions service.

**REVIEW OF OPERATIONS (Continued)**

**Risks**

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

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

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

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

Other key risks the Company has identified include:

- Risks of an information technology breach that may result in damage to our intellectual property, damage to our reputation, or litigation and potential liability.
- Risks of international operations exposure that could harm our business, operating results, and financial condition include: changes in local political, economic, regulatory, tax, social, labour conditions and health and safety issues, which may adversely harm our business.
- Risks of competition addressing the Company's markets and customers with advanced products with similar or better performance.

## SIGNIFICANT EVENTS AFTER THE BALANCE DATE

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

Ms Pia Turcinov was appointed as Non-Executive Director on 4 January 2022.

The Company issued 6,000,000 ordinary shares to the Trustee of the 2018 Long Term Incentive Plan, and 125,000 ordinary shares upon the vesting of restricted stock units.

LTIP participants exercised 5,044,024 options since 1 January 2022 and to the date of this report, contributing A$1,112,493 cash inflows to the Company. 12,500 restricted stock units have also vested since the start of 2022.

On 14 January 2022, BrainChip submitted a capital call notice to LDA Capital in accordance with the POA to subscribe for up to 15M shares with these shares issued on that date. The purpose of this capital call notice was primarily to satisfy the Company's obligation under The First Minimum Drawdown Amount to draw a minimum of A$5.3M no later than 28 February 2022, as well as to ensure the Company will meet the liquidity requirements necessary to execute the business plan. On 18 February 2022, the capital call notice was settled resulting in the Company receiving A$22,397,636.

The Company also received notification from the US Patent and Trademark Office of the approval of various patents and trademarks, as result of the Company's efforts to secure and protect BrainChip's intellectual rights. The Company's patent portfolio comprises eight (8) patents granted in the US and one (1) patent granted in China, with a further 22 international patent applications pending in the US, Europe, Canada, Japan, Korea, Australia, Brazil, Mexico and Israel.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

## ENVIRONMENTAL REGULATION AND PERFORMANCE

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

## SECURITIES ON ISSUE

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

| | |
|---|---|
| Ordinary shares | 1,714,362,144 |
| Options over ordinary shares | 88,497,447 |
| Restricted stock units | 7,172,500 |
| Performance rights | 265,000 |

## SHARE OPTIONS

As at the date of this report, there were 89,046,447 unissued ordinary shares under options (93,791,471 at the reporting date). Refer to the remuneration report for further details of the options outstanding for Key Management Personnel ("KMP").

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

During the financial year 68,248,529 options were exercised, 1,295,000 options were forfeited, 50,000 options lapsed and 1,500,000 options expired. A further 5,044,024 options were exercised, and 250,000 options were forfeited, after the year and to the date of this report.

## RESTRICTED STOCK UNITS

There were 7,172,500 Restricted Stock Units ("RSU") on issue at the reporting date and the date of this report. 2,000,000 RSUs were converted during the year. Subsequent to the year end 12,500 RSUs were converted and 75,000 RSUs were cancelled.

## PERFORMANCE RIGHTS

There were 265,000 Performance Rights ("PR") on issue at the reporting date and at the date of this report.

## CORPORATE GOVERNANCE

The directors of the Group support and adhere to the principles of corporate governance, recognising the need for the highest standard of corporate behaviour and accountability. Please refer to the 2021 Corporate Governance Statement dated 22 February 2022 released to the ASX and posted on the Company website which outlines the Group's approach to corporate governance and sets out the key charters and policies of the Group.

## INFORMATION ON DIRECTORS

### Names, qualifications, experience and special responsibilities

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

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

His professional resume includes key roles with some of Silicon Valley's largest and most successful technology companies including National Semiconductor (acquired by Texas Instruments in 2012), Cypress Semiconductor (acquired by Infineon in 2020), ON Semiconductor (NASDAQ: ON), Enovix Corporation (NASDAQ: ENVX) and Ouster Inc (NASDAQ: OUST). Mr Hernandez served in various finance capacities at National Semi between 1976-1993, then joined Cypress Semi as Chief Financial Officer ("CFO") between 1993-2004. Mr Hernandez then joined SunPower Corp where he served as CFO between 2005-2008. Mr Hernandez's executive successes have led him to be a highly sought-after operating consultant and board member including serving as an operating Partner at Khosla Ventures, a prominent Silicon Valley venture capital firm.

Mr Hernandez's public company directorships are noted below. His board service also includes Aruba Networks, (enterprise networking) acquired by Hewlett Packard Enterprise in 2015, EnStorage, Inc., (flow battery/storage technology) and Soraa, Inc., (LED and laser technology).

Mr Hernandez resigned from the Company's Remuneration & Nomination Committee and Audit & Governance Committees effective 7 January 2022.

*Other listed directorships in the past 3 years:*

- Enovix Corporation: Non-executive director and Audit Committee Chair – July 2021 to present
- Ouster, Inc: Audit Committee Chair – Non-executive director - Feb 2021 to present
- ON Semiconductor Corp.: Audit Committee Chair/member – 20 November 2002 to present
- Rodgers Silicon Valley Acquisition Corp: CFO and Executive director – 2 December 2020 to July 2021.

**Sean Hehir –** Executive Director and Chief Executive Officer (Appointed 29 November 2021)

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

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

*Other listed directorships in the past 3 years:* Nil.

**INFORMATION ON DIRECTORS (Continued)**

**Names, qualifications, experience and special responsibilities (continued)**

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

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

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

*Other listed directorships in the past 3 years:* Nil.

**Geoffrey Carrick –** Non-Executive Director (Appointed 23 November 2020)

Mr Carrick held the position of Head of Corporate Finance at Shaw and Partners Limited from March 2016 through July 2019 and Head of Equity Capital Markets at Commonwealth Bank from 2012 – 2015. From 1999 through 2011 Mr Carrick was Division Director of Equity Capital Markets at Macquarie Capital.

Mr Carrick currently serves as Executive Chairman of VCF Capital Partners Pty Limited and Non-Executive Director of Global Study Partners Holdings Pty Limited. Mr Carrick is a graduate of the University of Sydney B.Ec, LLB.

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

*Other listed directorships in the past 3 years:* Nil.

**Antonio J. Viana –** Non-Executive Director (Appointed 28 June 2021)

Since 1999, Mr Viana previously held several leadership positions with ARM Holdings, the global leader in semiconductor IP, most notably as the Global Director of the ARM Foundry Program and President of Commercial and Global Development. He was appointed to the ARM executive team as Executive VP of worldwide sales in 2008. At the beginning of 2013, his executive duties were expanded to include all of commercial and global development.

Mr Viana has also worked with Hughes Aircraft, Silicon Graphics, Encore Industries and was Senior VP of worldwide sales at Tensilica Inc. Most recently, Mr Viana served as the Executive Chairman of QuantalRF AG, an emerging Swiss RF semiconductor company developing transformative RF communication solutions. Mr Viana is also on the board of directors for Arteris Inc, a network-on-chip (NOC) IP company which recently became public through its Oct 2021 IPO.

Mr Viana is a member and Chair of the Company's Remuneration & Nomination Committee, and a member of the Audit & Governance Committee, effective 28 July 2021.

*Other listed directorships in the past 3 years:*

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

**Louis DiNardo, BA –** Executive Director and Chief Executive Officer (Appointed 9 Dec 2016, resigned 15 March 2021)

Mr DiNardo has a strong track record of growing publicly listed and privately owned technology businesses and has worked in venture capital firms where he has successfully backed several emerging technology companies. Mr DiNardo was previously appointed President and Chief Executive Officer (CEO) of Exar Corporation. Before Exar, Mr DiNardo was responsible for investing in and overseeing a portfolio of companies, including programmable logic companies, while he served as a partner at Crosslink Capital from 2008 to 2012 and the Managing Director at Vantage Point Venture Partners from 2007 to 2008.

Mr DiNardo also served as President and Chief Executive Officer, as well as Co-Chair of the Board of Directors, at Xicor Corporation from January of 2001 until NASDAQ-listed Intersil Corp acquired the company in July of 2004. He subsequently held senior executive positions at Intersil.

*Other listed directorships in the past 3 years:* Nil.

**INFORMATION ON DIRECTORS (Continued)**

**Names, qualifications, experience and special responsibilities (continued)**

**Pia Turcinov –** Non-Executive Director (Appointed 4 January 2022)

Pia Turcinov is an experienced non-executive director with over 30 years' commercial and corporate experience across multiple industries, including technology, energy, resources, consumer goods and professional services. With qualifications in law and governance, Ms Turcinov is a seasoned advisor to innovators, managers, corporations and policy makers, with deep knowledge in leveraging and amplifying innovation, commercialisation, Industry 4.0 and the digital economy, and a focus on disruptive technologies and businesses looking to scale and access global markets.

Ms Turcinov is a strong supporter of the business case for diversity, equity and inclusion and manages a portfolio career serving as a board member on several organisations, including Chair, WA AustCyber Innovation Hub, and non-executive director of Centre of Decommissioning Australia (Dec 2021 – present) and Ex Planta Pty Ltd (May 2021 – present). Ms. Turcinov is also a board member of East Metropolitan Health Service (July 2020 – present), Western Australian Land Information Authority (Jan 2020 – present), and Quality Audit and Risk Committee, Edit Cowan University (Sep 2021 – present). Ms Turcinov is a co-founder and director of VentureX HQ (an educational network for women entrepreneurs and investors), and the immediate past Chair and current Ambassador for Women in Technology WA.

Ms Turcinov was awarded the Excellence in Gender Equity Promotion Award by the United Nations Association of Australia (WA Division) Inc in 2018 for her work in this sphere. Ms Turcinov holds a Bachelor of Arts Degree (German) and Bachelor of Laws LLB Degree from the University of New South Wales, a Graduate Diploma of Legal Studies from the University of Technology Sydney and is a Graduate of the Australian Institute of Company Directors.

Ms Turcinov is a member of the Company's Remuneration & Nomination Committee and Audit & Governance Committee, effective 7 January 2022.

*Other listed directorships in the past 3 years:* Nil

**Christa Steele –** Non-Executive Director (Appointed 14 September 2020, resigned 21 May 2021)

Ms Steele was a partner and board member of FIG Partners, a full-service boutique investment bank, until its sale in April 2019. Prior to this date, Ms Steele spent two decades in senior level positions within the financial services industry where she led the execution of strategic initiatives, streamlined operations, implemented technology, led digital transformation, underwrote, structured and managed retail and commercial credit functions, grew new markets and oversaw M&A activity.

Ms Steele currently serves as Director of Recology, Tanimura & Antle, and BALCO Holdings, as well as the listed corporations noted below. Ms Steele received her Bachelor Degree from California State University and Master's Degree from the University of Southern California.

Ms Steele was a member of the Company's Remuneration & Nomination Committee and Audit & Governance Committee, effective from 2 October 2020, and Audit & Governance Committee Chair from 1 January 2021, until her resignation from the Company.

*Other listed directorships in the past 3 years:*

- Non-Executive Director of OLG Bancorp (NYSE: OFG) (May 2018 – October 2020).

**COMPANY SECRETARY**

**Kim Clark** (Appointed 1 Dec 2018)

Ms. Clark is an experienced business professional with 21 years' experience in the Banking and Finance industries and 6 years as a Company Secretary (in-house) of an ASX300 company. Her experience includes debt and capital raising, risk management, mergers and acquisitions, compliance and governance. Ms. Clark currently acts as Company Secretary to various ASX listed and unlisted companies in Australia and is the Head of Corporate Services for Boardroom Pty Limited's Queensland office, a position she has held since April 2013.

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

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

| Director | Fully Paid Ordinary Shares | Options over Ordinary Shares |
|---|---|---|
| E Hernandez | - | 8,000,000 |
| S Hehir | - | - |
| P van der Made | 160,305,508 | - |
| G Carrick | - | 2,500,000 |
| A Viana | - | - |
| P Turcinov | - | - |
| **Total** | **160,305,508** | **10,500,000** |

## DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director was as follows:

| | Directors Meetings | | Audit & Governance Committee Meetings (1) | | Remuneration & Nomination Committee Meetings (1) | |
|---|---|---|---|---|---|---|
| | Eligible to attend | Attended | Eligible to attend | Attended | Eligible to attend | Attended |
| E Hernandez | 11 | 11 | 6 | 6 | 3 | 3 |
| S Hehir | - | - | n/a | n/a | n/a | n/a |
| P van der Made | 11 | 11 | n/a | n/a | n/a | n/a |
| G Carrick | 11 | 11 | 6 | 6 | 3 | 3 |
| A Viana | 6 | 6 | 3 | 3 | 2 | 2 |
| L DiNardo | 1 | 1 | - | - | - | - |
| C Steele | 4 | 4 | 3 | 3 | - | - |

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

### Committee Memberships

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

| Audit & Governance Committee | Remuneration & Nomination Committee |
|---|---|
| G Carrick (appointed 1 January 2021; appointed Chair 25 May 2021) | A Viana - Chair (appointed 28 July 2021) |
| E Hernandez | E Hernandez |
| A Viana (appointed 28 July 2021) | G Carrick (appointed 1 January 2021; appointed Chair 1 January 2021 to 28 July 2021) |
| C Steele ( appointed Chair 1 January 2021, resigned 21 May 2021) | C Steele ( resigned 21 May 2021) |

Subsequent to the end of the year, Mr Hernandez resigned from, and Ms Turcinov was appointed to the Audit & Governance, and Remuneration & Nomination Committees, effective 7 January 2022.

**REMUNERATION REPORT (Audited)**

This remuneration report for the year ended 31 December 2021 outlines the remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* ("the Act") and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report is presented under the following sections:

1. Introduction
2. Remuneration governance
3. Non-executive Director remuneration arrangements
4. Executive remuneration arrangements
5. Options and performance rights granted as part of remuneration
6. Company performance and the link to remuneration
7. Executive contractual arrangements
8. Equity instruments disclosures
9. Other transactions and balances with Key Management Personnel ("KMP")

**1. Introduction**

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

For the purposes of this Remuneration Report, the term 'executive' includes the executive directors and senior executives of the Parent and the Group.

Details of KMP of the Group are set out below:

**Key Management Personnel**

| Name | Position | Date of appointment | Date of resignation |
|---|---|---|---|
| **Directors** | | | |
| E Hernandez | Non-Executive Director | 7 July 2017 | - |
| S Hehir | Executive Director & Chief Executive Officer | 29 November 2021 | - |
| P van der Made | Executive Director & Chief Technical Officer | 10 September 2015 | - |
| G Carrick | Non-Executive Director | 23 November 2020 | - |
| A Viana | Non-Executive Director | 28 June 2021 | - |
| L DiNardo | Executive Director & Chief Executive Officer | 30 September 2016 | 15 March 2021 |
| C Steele | Non-Executive Director | 14 September 2020 | 21 May 2021 |
| **Other Key Management Personnel** | | | |
| A Mankar | Chief Development Officer | 1 October 2014 | - |
| K Scarince | Chief Financial Officer | 11 March 2019 | - |
| R Telson | Vice President of Worldwide Sales | 10 August 2020 | - |

**REMUNERATION REPORT (Audited) (Continued)**

**2. Remuneration governance**

***Remuneration & Nomination Committee***

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

***Remuneration approval process***

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

***Remuneration Strategy***

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

- Alignment with Shareholder Interests. The Group's current use of equity as part of its remuneration structure enhances alignment between executives' interests with those of our shareholders. Achievement of the Group's objectives are aimed at creating shareholder value, thus directly benefiting executives and non-executive directors as well.
- Pay for Performance. The Group did not implement a cash bonus or variable remuneration programme in respect of 2021, acknowledging that achieving or exceeding expected results and performance will be a necessary condition for our executives to realise targeted levels of remuneration, particularly with respect to variable pay and long-term incentives. However, cash bonus and variable remuneration are awarded to KMPs subject to Board approval. The Renumeration and Nomination Committee is currently preparing a new bonus structure and details of this plan will be released once approved and implemented.
- Market or Peer Company Comparison. The Company's remuneration programme must be competitive with those of our peer companies in order to attract and retain our executives and employees. As a general rule, we target the market median (50th percentile) though we may deviate, up or down, from the median from time to time due to a variety of factors. As part of a formal review of its renumeration programmes, the Renumeration & Nomination Committee will be proposing a new renumeration structure in 2022 which will cover employees and non-executive directors. The new packages were developed by Brainchip in consultation with specialist third party compensation consultants. Further details will be provided once approved by the Board and implemented.
- Retention. The Company's remuneration programme is designed to attract and retain highly talented individuals critical to our success by providing programmes with retentive features. The Group's current use of equity, which is an acceptable methodology internationally, as part of its remuneration structure includes performance and/or time-based vesting in order to retain our executives and employees. Achieving our objectives should lead to creation of shareholder value which in turn would benefit executives and non-executive directors as their equity grants vest over time. Vested shares do not have value until exercise prices are exceeded, thereby raising shareholder value over time. The Renumeration and Nomination Committee, based on advice and input from specialist third party compensation consultants, will be recommending an improved structure in the 2022 year. This new structure will focus both on being competitive with respect to talent recruitment, as well as, providing the appropriate incentive for superior performance and execution.
- Separate Remuneration Structures. The structure of executive and non-executive directors' remuneration is separate and distinct.

**REMUNERATION REPORT (Audited) (Continued)**

## 2. Remuneration governance (continued)

### *Remuneration Strategy (continued)*

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

### *Adoption of 2020 Remuneration Report*

At the Annual General Meeting of Shareholders on 26 May 2021, some 36.12% of shareholders voted against the adoption of the Company's Remuneration Report, mainly due to concerns regarding the issue of equity instruments to Directors and Executives without performance hurdles. Since that time, the Remuneration Committee has continued to review the approach taken to the Company's overall remuneration, and its appropriateness to the Company's circumstances. The Renumeration and Nominating Committee will be recommending significant changes to the Company's compensation schemes to put the Company in a better position to recruit and retain talent.

## 3. Non-executive director remuneration arrangements

### *Remuneration Policy*

The Board seeks to set aggregate remuneration for non-executive directors at a level which provides the Company with the ability to attract and retain directors of the highest calibre, highest ethical standards and broad experience, whilst incurring a cost which is competitive.

The Company's constitution and the ASX listing rules specify that the non-executive director fee pool shall be determined from time to time by a general meeting. The last determination was at the Company's 2018 Annual General Meeting, held on 10 May 2018, where shareholders approved an aggregate fee pool of A$600,000 per year.

### *Structure*

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

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

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

## 4. Executive remuneration arrangements

### *Remuneration Policy*

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

### *Structure*

Remuneration consists of the following key elements:

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

**REMUNERATION REPORT (Audited) (Continued)**

**4. Executive remuneration arrangements (continued)**

***Fixed Remuneration***

The fixed pay element of the Company's remuneration programme for executives are designed to attract and retain top talent in a competitive environment, taking into consideration the role, responsibilities, capabilities and experience of individual executives. In 2021, executives received fixed base salaries and their contracts did not include any guaranteed base pay increases. Fixed remuneration is reviewed annually by the Board. This process consists of a review of the Company's results, individual performance, relevant comparative remuneration internally and externally.

***Variable Remuneration***

*Variable commissions*

*A contract for a sales and marketing executive includes variable commissions of up to 30% of the annual base salary, contingent upon meeting agreed performance objectives.*

*Cash Bonuses*

Some executive contracts include a provision for cash bonuses on such terms and conditions as may be determined from time to time by the Board. The Remuneration & Nomination Committee has no current plans to recommend a formal bonus programme until the Company achieves substantial Akida-related commercialisation progress, however, in 2021 discretionary cash bonuses were awarded to long serving KMP executives for their contribution towards progressing the AKIDA device.

*2018 and 2015 Long Term Incentive Plan (LTIP).*

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

The Group does not currently grant equity to executives on an annual basis however it does re-fresh annually as applicable. The market internationally incentivises executives with annual and refresh scenarios. The Remuneration & Nomination Committee will monitor the remuneration programme of the Group, particularly from a retention standpoint, but has no current plans to recommend significant changes to our remuneration programme until the Company achieves substantial Akida-related commercialisation progress.

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

The objective of the 2018 LTIP is to attract and retain key employees and consultants. It is considered that the LTIP, through the issue of shares, share options, restricted stock units and performance rights ("*LTIP equity instruments*"), will provide eligible participants with the opportunity to participate in the future growth of the Company. Share options offered under the LTIP must be offered at no more than a nominal value and under terms to be determined by the Board from time to time. It is not the intention of the Company to apply for quotation of any of the share options which are issued under the LTIP.

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

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

**REMUNERATION REPORT (Audited) (Continued)**

## 5. Options and performance rights granted as part of remuneration

### (a) Options and performance rights linked to performance criteria

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

In 2016 and 2017, options over ordinary shares in the Company were provided as remuneration with linked performance conditions to Mr Lou DiNardo, who resigned on 15 March 2021. Below is a table of the status of these options at his date of resignation:

| | Year | Options held at date of resignation | Options vested during 2021 | Options exercised during 2021 | Options forfeited during 2021 | Options lapsed during 2021 | Grant Date | End of Vesting Period | Fair value per option ^ | Total Fair Value | Exercise price per option | Expiry date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Number | Number | Number | Number | Number | | | US$ | US$ | US$ | |
| L DiNardo | 2016 | 21,000,000 | - | - | - | - | 28/09/2016 | 30/09/2021 | $0.064 | 1,334,151 | $0.172 | 30/09/2021 |
| L DiNardo | 2017 | 4,500,000 | - | - | - | 1,500,000 | 16/02/2017 | 30/09/2021 | $0.175 | 1,050,104 | $0.173 | 30/09/2021 |

No options over ordinary shares or performance rights with performance criteria attached were issued during 2018 to 2021 and there are no unsatisfied performance criteria at year end.

**REMUNERATION REPORT (Audited) (Continued)**

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

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

No Restricted Stock Units or Performance Rights over ordinary shares in the Company were provided as remuneration to KMPs during the financial year.

In the prior years, options have been issued to KMP with no performance criteria other than a service condition of between 1 to 10 years vesting period in tranches of varying time periods from the date of issue of the options to encourage the retention of staff.

Options over ordinary shares in the Company held by Mr DiNardo upon his resignation on 15 March 2021 are detailed in the table below:

| | Year | Options held at date of resignation | Options vested during 2021 | Options exercised during 2021 | Options forfeited during 2021 | Options lapsed during 2021 | Grant Date | End of Vesting Period | Fair value per option ^ | Total Fair Value | Exercise price per option | Expiry date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Number | Number | Number | Number | Number | | | US$ | US$ | US$ | |
| L DiNardo | 2016 | 23,000,000 | - | - | - | - | 28/09/2016 | 30/09/2020 | $0.064 | 1,461,607 | $0.172 | 30/09/2021 |
| L DiNardo | 2019 | 7,500,000 | - | - | - | - | 30/05/2019 | 30/05/2019 | $0.104 | 780,000 | $0.100 | 30/05/2029 |

Options over ordinary shares in the Company held by all other KMPs at year end are listed below:

| | Year | Options awarded during the year | Options vested during 2021 | Options exercised during 2021 | Options forfeited during 2021 | Options lapsed during 2021 | Grant Date | End of Vesting Period | Fair value per option ^ | Total Fair Value | Exercise price per option | Expiry date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Number | Number | Number | Number | Number | | | US$ | US$ | US$ | |
| E Hernandez | 2017 | - | 2,000,000 | - | - | - | 7/07/2017 | 07/07/2020 | $0.106 | 209,581 | $0.125 | 07/07/2024 |
| K Scarince | 2019 | - | 2,500,000 | - | - | - | 11/03/2019 | 11/03/2023 | $0.038 | 381,370 | $0.047 | 11/03/2029 |
| K Scarince | 2019 | - | 2,500,000 | - | - | - | 11/03/2019 | 11/03/2023 | $0.038 | 381,370 | $0.047 | 11/03/2029 |
| R Telson | 2020 | - | 3,500,000 | - | - | - | 17/08/2020 | 17/08/2024 | $0.112 | $1,563,831 | $0.144 | 17/08/2030 |
| G Carrick | 2021 | 2,500,000 | 625,000 | - | - | - | 27/05/2021 | 23/11/2024 | $0.395 | 987,736 | $0.279 | 27/05/2031 |

^ For details on valuation of the options issued in the current year, including models and assumptions used, please refer to Note 26.

**REMUNERATION REPORT (Audited) (Continued)**

### 6. Company performance and the link to remuneration

The actual remuneration earned by executives and non-executive directors during 2021 is set out in section 7 of this report. Shareholders can see the remuneration earned and the value ascribed to share-based payments which were vesting during the year. These share-based payment values were calculated at the date of grant using the Black Scholes model and the costs are expensed over the vesting period.

Remuneration in the form of share-based payments awarded to executives included service conditions and therefore in recognition of the service provided. However as noted in section 5 of this report, Mr DiNardo was awarded options in 2016 and 2017 that were subject to specific performance criteria.

The adoption of BrainChip's 2018 LTIP gave the Board the ability to add performance criteria as appropriate to the specific terms as and when options or performance rights are offered to participants. The granting of options and performance rights is undertaken in order to secure services and encourage retention and, is a performance incentive which allows executives to share the rewards of the success of the Company.

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

| | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| Net loss after tax US$ million | 20.98 | 26.82 | 11.31 | 16.52 | 13.77 |
| Closing share price AUD | $0.680 | $0.430 | $0.047 | $0.105 | $0.185 |
| Closing share price USD | $0.494 | $0.331 | $0.033 | $0.074 | $0.144 |
| Loss per share (US cents) | 1.22 | 1.76 | 0.95 | 1.64 | 1.59 |
| Net tangible assets US cents per share | 1.10 | 0.90 | 0.49 | 0.68 | 1.77 |

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

**REMUNERATION REPORT (Audited) (Continued)**

## 7. Executive contractual arrangements

Details for executive contractual arrangements for KMP are detailed below:

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

| | |
|---|---|
| Name | Peter van der Made |
| Title | Chief Technical Officer and Executive Director |
| Term of agreement | Open agreement with no fixed term |
| Details | Effective 1 July 2021, salary package of A$470,392 ($325,000 equivalent) inclusive of superannuation and employee benefits, practices, policies and programmes provided by BrainChip Research Institute Pty Ltd ("BRIPL").<br>Prior to 1 July 2021, salary package was awarded of A$437,000.<br>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). Mr van der Made received a bonus of A$66,667 ($50,000) during the year in recognition of his efforts as Interim Chief Executive Officer. |
| Termination | Terminated without cause or notice by either himself or BRIPL by giving 4 weeks' notice. Termination without notice is applicable if there is serious misconduct or other specific clauses of the contract have been breached.<br><br>Mr van der Made is entitled to 12 months' severance pay upon termination by BRIPL. at any time without cause. The amount is payable over 12 months from the date of termination. |

| | |
|---|---|
| Name | Anil Mankar |
| Title | Chief Development Officer |
| Term of agreement | Open agreement with no fixed term |
| Details | Base fee of $375,000 effective 1 July 2021 (previously $325,000) plus benefits under health and welfare benefit plans, practices, policies and programmes provided by BrainChip Inc.<br>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 received a cash bonus of $75,000 during the year. |
| Termination | Terminated at any time with or without cause or notice by either himself or BrainChip Inc. Mr Mankar is entitled to 24 months' severance pay upon termination by BrainChip Inc. at any time without cause. The amount is payable over 24 months from the date of termination. |

**REMUNERATION REPORT (Audited) (Continued)**

**7. Executive contractual arrangements (continued)**

| | |
|---|---|
| Name | Ken Scarince |
| Title | Chief Financial Officer |
| Term of agreement | Open agreement with no fixed term |
| Details | Base fee of $325,000 effective 1 July 2021 (previously $300,000) plus benefits under health and welfare benefit plans, practices, policies and programmes provided by BrainChip Inc.<br>Mr Scarince will be entitled to a cash bonus on such terms and conditions as determined from time to time by the Board (Annual Bonus). The Annual Bonus may be an amount up to fifty percent (50%) of the base salary in effect at the end of any fiscal year. Mr Scarince received a cash bonus of $65,000 during the year. |
| Termination | Terminated at any time with or without cause or notice by either himself or BrainChip Inc. Mr Scarince is entitled to 12 months' severance pay upon termination by BrainChip Inc. at any time without cause. The amount is payable over 12 months from the date of termination. |

| | |
|---|---|
| Name | Robert Telson |
| Title | Vice President of Worldwide Sales |
| Term of agreement | Open agreement with no fixed term |
| Details | Base fee of $250,000 effective 1 July 2021 (previously $225,000), plus a variable component of $100,000 per year, of which the first six months component is guaranteed; plus benefits under health and welfare benefit plans, practices, policies and programmes provided by BrainChip Inc.<br>Mr Telson will be entitled to a cash bonus on such terms and conditions as determined from time to time by the Board (Annual Bonus). The Annual Bonus may be an amount up to fifty percent (50%) of the base salary in effect at the end of any fiscal year. No bonuses have been paid to date. |
| Termination | Terminated at any time with or without cause or notice by either himself or BrainChip Inc. |

| | |
|---|---|
| Name | Louis DiNardo (ceased 15 March 2021) |
| Title | Chief Executive Officer and Executive Director |
| Term of agreement | Open agreement with no fixed term |
| Details | Base fee of $400,000 plus benefits under health and welfare benefit plans, practices, policies and programmes provided by BrainChip Inc. |
| Termination | Terminated at any time with or without cause or notice by either himself or BrainChip Inc. Mr DiNardo is entitled to 12 months' severance pay upon termination by BrainChip Inc. at any time without cause. The amount is payable over 12 months from the date of termination. |

There are no other formalised KMP employment agreements.

**REMUNERATION REPORT (Audited) (Continued)**

**7. Executive contractual arrangements (continued)**

**Remuneration of KMP**

| 2021 | Short Term | | Post-Employment | Share-based Payment [6] | Termin-ation | Total | Perform-ance related |
|---|---|---|---|---|---|---|---|
| | Salary and Fees | Annual leave | Super-annuation | Equity Instruments | | | |
| | US$ | US$ | US$ | US$ | US$ | US$ | % |
| **Non-Executive Directors** | | | | | | | |
| E Hernandez | 125,231 | - | - | 28,532 | - | 153,763 | - |
| A Viana [1] | 44,632 | - | - | - | - | 44,632 | - |
| G Carrick | 97,290 | | - | 542,250 | - | 639,540 | - |
| C Steele [2] | 40,046 | - | - | - | - | 40,046 | - |
| **Executive Directors** | | | | | | | |
| S Hehir [3] | 41,511 | 3,078 | 563 | - | - | 45,152 | - |
| P van der Made [5] | 369,069 | 28,260 | 10,197 | - | - | 407,526 | 12% |
| L DiNardo [4] | 84,558 | - | - | 79,866 | 400,000 | 564,424 | 14% |
| **Other Key Management Personnel** | | | | | | | |
| A Mankar [5] | 439,161 | - | 8,700 | - | - | 447,861 | 17% |
| K Scarince [5] | 384,185 | 25,011 | 7,875 | 197,229 | - | 614,300 | 11% |
| R Telson | 407,095 | 19,239 | 8,700 | 732,537 | - | 1,167,571 | 13% |
| **Totals** | **2,032,778** | **75,588** | **36,035** | **1,580,414** | **400,000** | **4,124,815** | |

(1) Mr Viana was appointed Non-Executive Director on 28 June 2021

(2) Ms Steele was resigned as Non-Executive Director on 21 May 2021.

(3) Mr Hehir was appointed Executive Director and Chief Executive Officer on 29 November 2021.

(4) Mr DiNardo resigned as Executive Director and Chief Executive Officer on 15 March 2021.

(5) Mr van der Made was awarded a bonus of $50,000 during the year in recognition of his services as acting interim CEO during the year. Mr Mankar and Mr Scarince received a cash bonus of $75,000 and $65,000, respectively, in recognition of their contribution to the commercialisation of the Akida chip. No other bonuses were awarded to KMPs during the year.

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

**REMUNERATION REPORT (Audited) (Continued)**

### 7. Executive contractual arrangements (continued)

**Remuneration of KMP**

| 2020 | Short Term | | Post-Employment | Share-based Payment [10] | Termin-ation | Total | Perform-ance related |
|---|---|---|---|---|---|---|---|
| | Salary and Fees | Annual leave | Super-annuation | Equity Instruments | | | |
| | US$ | US$ | US$ | US$ | US$ | US$ | % |
| **Non-Executive Directors** | | | | | | | |
| E Hernandez [1] | 86,811 | - | - | 92,735 | - | 179,546 | - |
| S Liebeskind [2] | 96,235 | - | - | - | - | 96,235 | - |
| C Steele [3] | 22,856 | - | - | - | - | 22,856 | - |
| G Carrick [4] | 7,290 | - | - | - | - | 7,290 | - |
| A Osseiran [5] | 5,639 | - | - | 6,828 | - | 12,467 | - |
| **Executive Directors** | | | | | | | |
| L DiNardo | 406,482 | 5,089 | - | 296,958 | - | 708,529 | 32% |
| P van der Made [6] | 303,753 | 22,886 | 13,908 | - | - | 340,547 | - |
| **Other Key Management Personnel** | | | | | | | |
| A Mankar [7] | 348,041 | 11,827 | 8,550 | - | - | 368,418 | 7% |
| K Scarince | 289,815 | 23,254 | 5,313 | 279,002 | - | 597,384 | - |
| R Telson [8] | 122,252 | 6,923 | 2,031 | 326,122 | - | 457,328 | - |
| R Levinson [9] | 177,751 | 12,959 | - | (84,696) | 80,830 | 186,844 | - |
| **Totals** | **1,866,925** | **82,938** | **29,802** | **916,949** | **80,830** | **2,977,444** | |

(1) Mr Hernandez agreed to forgo Chair fees totalling $31,252 (A$45,000) during the period from 1 January to 30 September 2020 whilst he was appointed Interim Chair.

(2) Mr Liebeskind agreed to defer the payment of director fees during the period from 1 January to 30 September 2020. An amount of $9,051 (A$11,750) was payable to Mr Liebeskind at 31 December 2020. He resigned as a Non-Executive director effective 31 December 2020.

(3) Ms Steele was appointed Non-Executive Director on 14 September 2020.

(4) Mr Carrick was appointed Non-Executive Director on 23 November 2020.

(5) Mr Osseiran resigned as Non-Executive Director on 29 January 2020.

(6) Mr van der Made was appointed Executive Director on 29 January 2020.

(7) Mr Mankar was awarded a bonus of $25,000 during the year in recognition of his contribution to the development of the Akida chip. No other bonuses were awarded to KMPs during the year.

(8) Mr Telson became a KMP upon his employment effective from 10 August 2020.

(9) Mr Levinson resigned effective 22 July 2020.

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

**REMUNERATION REPORT (Audited) (Continued)**

## 8. Equity Instruments Disclosure

### Shareholdings of KMP (including nominees)

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

| | Balance held at 1 January 2021 | Acquired / Disposed | Shares issued as remuneration | Net change other [2] | Balance held at 31 December 2021 |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| E Hernandez | - | - | - | - | - |
| S Hehir | - | - | - | - | - |
| P van der Made | 176,305,508 | (16,000,000) | - | - | 160,305,508 |
| A Viana | - | - | - | - | - |
| G Carrick | - | - | - | - | - |
| L DiNardo | 11,779,362 | - | - | (11,779,362) | - |
| C Steele | - | - | - | - | - |
| **Other KMPs** | | | | | |
| A Mankar [1] | 115,589,833 | (15,000,000) | - | - | 100,589,833 |
| K Scarince [3] | - | 22,100 | - | - | 22,100 |
| R Telson | - | - | - | - | - |
| **Total** | 303,674,703 | (30,977,900) | - | (11,779,362) | 260,917,441 |

(1) 100,589,833 fully paid ordinary shares are held by Merrill Lynch (Australia) Nominees Pty Ltd on behalf of Mr Mankar.

(2) Mr DiNardo ceased being a KMP on 15 March 2021.

(3) Mr Scarince holds 100 BRCHF shares and 300 BCHPY (ADR) shares (which represent 40 BRN shares) on the US stock markets.

### Options holdings of Key Management Personnel (including nominees)

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

| | Balance at beginning of period 1 January 2021 | Granted as remuner-ation | Exercised | Net change other [1] | Balance at end of period 31 December 2021 | Vested and not exercise-able | Vested and exercisable |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| E Hernandez | 8,000,000 | - | - | - | 8,000,000 | - | 8,000,000 |
| S Hehir | - | - | - | - | - | - | - |
| P van der Made | - | - | - | - | - | - | - |
| A Viana | - | - | - | - | - | - | - |
| G Carrick | - | 2,500,000 | - | - | 2,500,000 | - | 625,000 |
| L DiNardo [1] | 57,500,000 | - | - | (57,500,000) | - | - | - |
| C Steele | - | - | - | - | - | - | - |
| **Other KMPs** | | | | | | | |
| A Mankar | - | - | - | - | - | - | - |
| K Scarince | 24,000,000 | - | - | - | 24,000,000 | - | 11,875,000 |
| R Telson | 14,000,000 | - | - | - | 14,000,000 | - | 3,500,000 |
| **Total** | 103,500,000 | 2,500,000 | - | (57,500,000) | 48,500,000 | - | 24,000,000 |

(1) Mr DiNardo ceased being a KMP on 15 March 2021.

**REMUNERATION REPORT (Audited) (Continued)**

**9. Other transactions and balances with KMP**

Mr Antonio J. Viana entered into an agreement with BrainChip Inc on 1 November 2021 to provide business development consultancy services on a rolling 6-month period, renewed up to four years. The consideration agreed by Mr Viana and the Company valued at $6,000 per month is to be satisfied by the issue of 1 million RSUs, subject to shareholder approval, vesting 25% annually upon the anniversary of the agreement. If shareholder approval is not received at the 2022 AGM, the offer of payment in the form of RSU will be withdrawn.

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

**End of Audited Remuneration Report.**

**INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS**

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

**INDEMNIFICATION OF AUDITORS**

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

**AUDITOR INDEPENDENCE**

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

**NON-AUDIT SERVICES**

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

Signed in accordance with a resolution of the Directors.

**Emmanuel Hernandez**
Chair
California, U.S.A., 22 February 2022

HLB MANN JUDD
ADVISORY AND ACCOUNTING

**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of the consolidated financial report of BrainChip Holdings Limited for the year ended 31 December 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

**Perth, Western Australia**
**23 February 2022**

**B G McVeigh**
**Partner**

hlb.com.au

**HLB Mann Judd (WA Partnership) ABN 22 193 232 714**
Level 4, 130 Stirling Street, Perth WA 6000 / PO Box 8124 Perth BC WA 6849
**T:** +61 (0)8 9227 7500 **E:** mailbox@hlbwa.com.au

# Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2021

| | Note | 31 December 2021 US$ | 31 December 2020 US$ |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue from contracts with customers | 5 | 1,588,483 | 120,829 |
| Cost of goods sold | | (287,172) | (48,616) |
| **Gross profit** | | 1,301,311 | 72,213 |
| Other income | 6(a) | 413,335 | - |
| Research & development expenses | 7(a) | (9,133,213) | (5,152,239) |
| Selling & marketing expenses | 7(b) | (2,486,927) | (1,426,501) |
| General & administrative expenses | 7(c) | (5,251,834) | (3,227,647) |
| Share-based payment expense | 26(a) | (4,362,201) | (1,435,645) |
| **Operating Loss** | | (19,519,529) | (11,169,819) |
| Finance income | 8(a) | 95,674 | 27,453 |
| Finance expense | 8(b) | (28,918) | (5,541,909) |
| Fair value loss through profit and loss | 8(c) | (1,375,950) | (10,137,774) |
| **Loss from continuing operations before income tax** | | (20, 828,723) | (26,822,049) |
| Income tax expense | 10(c) | (152,586) | - |
| **Net loss for the year** | | (20,981,309) | (26,822,049) |
| **Other comprehensive income/(loss)** | | | |
| *Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):* | | | |
| Remeasurement losses on defined benefit plans | | (23,359) | (24,364) |
| *Items that may be reclassified subsequently to profit or loss (net of tax):* | | | |
| Exchange differences on translation of foreign operations | | 17,888 | 42,137 |
| **Other comprehensive income for the year, net of tax** | | (5,471) | 17,773 |
| **Total comprehensive loss for the year, net of tax** | | (20,986,780) | (26,804,276) |
| | | **US cents per share** | **US cents per share** |
| **Loss per share attributable to ordinary equity holders of the Company** | | | |
| Basic loss per share | 11 | (1.22) | (1.76) |
| Diluted loss per share | 11 | (1.22) | (1.76) |

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

# Consolidated Statement of Financial Position
# As at 31 December 2021



| | Note | 31 December 2021 US$ | 31 December 2020 * US$ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 12 | 19,367,069 | 19,136,425 |
| Trade and other receivables | 13 | 909,405 | 907,680 |
| Financial asset | 20 | - | 1,470,275 |
| Inventory | | 254,571 | 54,399 |
| Other assets | | 355,077 | 127,791 |
| **Total current assets** | | 20,886,122 | 21,696,570 |
| | | | |
| **NON-CURRENT ASSETS** | | | |
| Right-of-use assets | 14 | 1,600,028 | 98,056 |
| Plant and equipment | 15 | 375,812 | 149,316 |
| Intangible assets | 16 | 739,713 | 805,184 |
| Other assets | | 182,474 | 40,311 |
| **Total non-current assets** | | 2,898,027 | 1,092,867 |
| **TOTAL ASSETS** | | 23,784,149 | 22,789,437 |
| | | | |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 17 | 1,300,985 | 927,271 |
| Deferred revenue | | 937,579 | 13,441 |
| Financial liabilities | 20 | 42,881 | 3,500,434 |
| Lease liabilities | 19 | 200,943 | 51,136 |
| Employee benefits liabilities | 18 | 559,313 | 420,156 |
| Other | | - | 635,049 |
| **Total current liabilities** | | 3,041,701 | 5,547,487 |
| | | | |
| **NON-CURRENT LIABILITIES** | | | |
| Financial liabilities | 20 | 172,107 | 166,116 |
| Lease liabilities | 19 | 1,432,835 | 48,088 |
| Defined benefit plan | 21 | 197,020 | 203,868 |
| **Total non-current liabilities** | | 1,801,962 | 418,072 |
| **TOTAL LIABILITIES** | | 4,843,663 | 5,965,559 |
| | | | |
| **NET ASSETS** | | 18,940,486 | 16,823,878 |
| | | | |
| **EQUITY** | | | |
| Contributed equity | 23(a) | 117,483,072 | 98,741,885 |
| Share-based payments reserve | 24 | 24,216,710 | 19,854,509 |
| Foreign currency translation reserve | 24 | 132,828 | 114,940 |
| Other equity reserve | 24 | 247,872 | 247,872 |
| Accumulated losses | 25 | (123,139,996) | (102,135,328) |
| **TOTAL EQUITY** | | 18, 940,486 | 16,823,878 |

* Restated as a result of a correction of error (note 33)

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

# Consolidated Statement of Cash Flows
# For the year ended 31 December 2021

| | Note | 31 December 2021 US$ | 31 December 2020 US$ |
|---|---|---|---|
| **CASH FLOWS USED IN OPERATING ACTIVITIES** | | | |
| Receipts from customers | | 2,528,912 | 55,207 |
| Payments to suppliers and employees | | (17,384,978) | (10,544,627) |
| Interest received | | 32,050 | 27,453 |
| Interest paid | | (15,414) | (4,214) |
| Grants and R&D credits received from third parties | | 665,937 | 437,205 |
| Net cash flows used in operating activities | 12 | (14,173,494) | (10,028,976) |
| **CASH FLOWS USED IN INVESTING ACTIVITIES** | | | |
| Payments for property, plant and equipment | | (265,553) | (44,241) |
| Net cash flows used in investing activities | | (265,553) | (44,241) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Receipts from the issue of shares | | - | 1,989,896 |
| Payment of share issue costs | | (54,149) | (214,823) |
| Receipts from the exercise of unlisted options | | 10,213,621 | 3,381,641 |
| Subscription proceeds received under the LDA Capital put | 20(c) | 2,577,001 | 7,536,236 |
| Receipts from the exercise of unlisted options – LDA Capital | 20(c) | 2,031,235 | 7,570,156 |
| Proceeds from the reduction of collateral share holdings | 13(a) | - | 910,971 |
| Payment of Convertible Securities costs | 20(c) | - | (2,833) |
| Proceeds from loans from third parties | 20(b) | - | 412,300 |
| Payment to reduce lease liabilities | 19 | (78,507) | (106,984) |
| Net cash flows generated from financing activities | | 14,689,201 | 21,476,560 |
| Net increase in cash and cash equivalents | | 250,155 | 11,403,343 |
| Net foreign exchange differences | | (19,511) | 110,904 |
| Cash at the beginning of the financial period | | 19,136,425 | 7,622,178 |
| Cash and cash equivalents at the end of the period | 12 | 19,367,069 | 19,136,425 |

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

# Consolidated Statement of Changes in Equity
## For the year ended 31 December 2021



| | Contributed equity US$ | Share-based payment reserve US$ | Other reserves US$ | Foreign currency reserve US$ | Accumulated losses (1) US$ | Total equity US$ |
|---|---|---|---|---|---|---|
| **At 1 January 2020** | 64,740,268 | 18,418,864 | 247,872 | 72,803 | (75,288,915) | 8,190,892 |
| Loss for the year | - | - | - | - | (20,926,309) | (20,926,309) |
| Other comprehensive loss | - | - | - | 42,137 | (24,364) | 17,773 |
| **Total comprehensive loss for the period** | - | - | - | 42,137 | (20,950,673) | (26,804,276) |
| Issue of share capital | 32,781,966 | - | - | - | - | 32,781,966 |
| Converted treasury shares | 1,463,743 | - | - | - | - | 1,463,743 |
| Share issue costs | (244,092) | - | - | - | - | (244,092) |
| Share-based payment – Note 26(a) | - | 1,435,645 | - | - | - | 1,435,645 |
| **At 31 December 2020** | 98,741,885 | 19,854,509 | 247,872 | 114,940 | (102,135,328) | 16,823,878 |

| | Contributed equity US$ | Share-based payment reserve US$ | Other reserves US$ | Foreign currency reserve US$ | Accumulated losses (1) US$ | Total equity US$ |
|---|---|---|---|---|---|---|
| **At 1 January 2021** | 98,741,885 | 19,854,509 | 247,872 | 114,940 | (102,135,328) | 16,823,878 |
| Loss for the year | - | - | - | - | (20,981,309) | (20,956,309) |
| Other comprehensive loss | - | - | - | 17,888 | (23,359) | (5,471) |
| **Total comprehensive loss for the period** | - | - | - | 17,888 | (21,004,668) | (20,986,780) |
| Issue of share capital | 8,612,594 | - | - | - | - | 8,612,594 |
| Converted treasury shares | 10,184,063 | - | - | - | - | 10,184,063 |
| Share issue costs | (55,470) | - | - | - | - | (55,470) |
| Share-based payment – Note 26(a) | - | 4,362,201 | - | - | - | 4,362,201 |
| **At 31 December 2021** | 117,483,072 | 24,216,710 | 247,872 | 132,828 | (123,139,996) | 18,940,486 |

(1) Restated as a result of a correction of error (note 33)

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

## 1. CORPORATE INFORMATION

The annual financial report of BrainChip Holdings Ltd ("Company") and its controlled entities ("Consolidated Entity" or "Group") for the year ended 31 December 2021 was authorised for issue in accordance with a resolution of the Directors on 22 February 2022, California, U.S.A.

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis except for certain financial assets and liabilities that have been measured at fair value.

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

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

**New standards, interpretation and amendments adopted by the Group**

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

**New Accounting Standards and Interpretations not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 31 December 2021. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

### (c) Basis of consolidation

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

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

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

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

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

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

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

**(d) Foreign currency translation**

***(i) Functional and presentation currency***

The functional currency of each entity within the Group is the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in United States Dollars which is the parent entity's functional and presentation currency. The United States Dollar is also the functional currency of all subsidiaries in the Group except for BrainChip SAS which has a functional currency of Euros, BrainChip Research Institute Pty Ltd with a functional currency of AUD and BrainChip Systems India Private Limited which has a functional currency of Indian Rupee.

***(ii) Transactions and balances***

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

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

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

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

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

**(e) Operating segments**

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

**(f) Cash and cash equivalents**

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

For the purposes of the Statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**(g) Trade and other receivables**

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

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

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

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

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

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

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

***i) Financial assets***

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

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

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

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

*Gains and losses on initial recognition.*

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

*Subsequent measurement*

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

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

*Financial assets at amortised cost (debt instruments)*

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

*Financial assets at fair value through OCI (debt instruments)*

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

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

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

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

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

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

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

*Financial assets at fair value through profit or loss*

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

*Derecognition*

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

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

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

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

*Impairment*

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

- Disclosures for significant assumptions Note 3,
- Trade receivables Note 13.

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

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

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

***ii) Financial liabilities***

*Initial recognition and measurement*

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

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

*Subsequent measurement*

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

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

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

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

***ii) Financial liabilities (continued)***

*Financial liabilities at fair value through profit or loss*

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

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

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

*Financial liabilities at amortised cost (loans and borrowings)*

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

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

*Derecognition*

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

***iii) Offsetting of financial instruments***

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

**(i) Property, plant and equipment**

Plant and equipment is stated at historical cost less accumulated depreciation.

Capital work-in-progress is stated at cost and comprises all costs directly attributable to bringing the assets under construction ready to their intended use. Capital work-in-progress is transferred to property, plant and equipment at cost on completion.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset which ranges between 3 and 25 years.

*Derecognition*

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

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

**(j) Intangible assets**

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

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

**(j) Intangible assets (continued)**

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

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

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

**(k) Research and development costs**

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

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

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in profit and loss. During the period of development, the asset is tested for impairment annually.

*Patents and licences*

The Group made upfront payments to purchase patents and licences. The patents have been granted for a period of 20 years by the relevant government agency with the option of renewal at the end of this period.

A summary of the policies applied to the Group's intangible assets is, as follows:

| | PATENTS | DEVELOPMENT COSTS |
|---|---|---|
| USEFUL LIFE | Finite (5 - 20 years) | Finite (5 - 20 years) |
| AMORTISATION METHOD | Amortised on a straight-line basis over the period of the patent | Amortised on a straight-line basis over the period of expected future sales from the related project |

**(l) Trade and other payables**

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

**(m) Provisions**

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (n) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### (o) Share-based payment transactions

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

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

The cost of these equity-settled transactions to employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a Black Scholes model, further details of which are given in Note 26.

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

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

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

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

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

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

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

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

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

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

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

**(p) Employee benefits**

*(i) Wages, salaries and annual leave*

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

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

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

*(ii) Superannuation*

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

*(iii) Defined benefit plan*

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

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

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

**(q) Revenue from contracts with customers**

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

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

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

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

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

**(r) Government grants**

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as a credit on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

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

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

**(s) Income tax**

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

Deferred income tax is provided for using the full liability, balance sheet method.
Deferred income tax liabilities are recognised for all taxable temporary differences, except:

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

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

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

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

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.
Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

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

**(t) Other taxes**

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

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

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (u) Earnings per share

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

- **Revenue from contracts with customers**

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

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

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

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

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

- **Share-based payment transactions**

  The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a Black Scholes model, using the assumptions as discussed in Note 26. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities in the next annual reporting period but may impact expenses and equity.

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

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

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

- **Development costs**

  The Group capitalises development costs for a project in accordance with the accounting policy. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. At 31 December 2021, the carrying amount of capitalised development costs was $Nil (2020: $Nil).

- **Defined benefit plans**

  The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These includes the determination of the discount rate, future salary growth, mortality rates and employee turnover rate. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Further details about defined benefit plans are provided in Note 21.

- **Fair value measurement of financial instruments**

  When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the monte carlo model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. See Note 20 for further disclosure.

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

## 4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### Overview

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

Other than derivatives associated with the Put Option Premium and Convertible Securities in the prior year described in Note 20, the Group does not use any form of derivatives as it is not at a level of exposure that requires the use of derivatives to hedge its exposure. Exposure limits are reviewed by management on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

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

### Credit risk

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

Presently, the Group undertakes technology development activities in the USA, Australia, India and France and is exposed to credit risk from its operating activities (primarily trade and other receivables).

*Cash and cash equivalents and investment securities*

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

*Trade and other receivables*

The Group operates primarily in technology development and has trade receivables. There is risk that these receivables may not be recovered however the Group does not consider this to be likely. The Group reviews the collectability of trade and other receivables on an ongoing basis and measures the expected credit loss at each reporting date (see Note 13).

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

### Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

| | | **Carrying amount** | |
|---|---|---|---|
| | | **2021** | **2020** |
| | **Note** | **US$** | **US$** |
| Cash and cash equivalents | 12 | 19,367,069 | 19,136,425 |
| Trade and other receivables | 13 | 909,405 | 907,680 |
| Financial asset | 20 | - | 1,470,275 |

### Liquidity risk

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

The Group manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual cash flows. The Group entered into a Put Option Agreement in 2020 and 2021 resulting in cash inflows to the Group.

**4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**

**Liquidity risk (continued)**

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

| | Carrying amount US$ | Contractual cash flows US$ | 6 mths or less US$ | 6-12 mths US$ | 1-5 years US$ |
|---|---|---|---|---|---|
| **31 December 2021** | | | | | |
| Trade and other payables | 1,300,985 | 1,300,985 | 1,300,985 | - | - |
| Financial liabilities | 81,886 | 81,886 | - | - | 81,886 |
| Lease liabilities | 1,633,778 | 1,894,531 | 66,309 | 119,784 | 1,663,928 |
| | 3,016,650 | 3,277,403 | 1,367,295 | 119,784 | 1,745,814 |
| **31 December 2020** | | | | | |
| Trade and other payables | 927,271 | 927,271 | 927,271 | - | - |
| Financial liabilities (1) | 486,794 | 501,086 | - | 332,193 | 168,893 |
| Lease liabilities | 99,224 | 100,909 | 26,324 | 26,324 | 48,261 |
| | 1,513,289 | 1,529,266 | 953,595 | 358,517 | 217,154 |

(1) The LDA Capital derivative liability (see Note 20(c)) has been excluded from the above table. The unlisted options are equity settled and cash inflows are received when the options are exercised.

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Group is not exposed to material market risk at period end.

**Foreign currency risk**

The Group is exposed to fluctuations in foreign currencies arising from the purchase of goods and services in currencies other than the transacting entity's functional currency. The legal parent, BrainChip Holdings, holds cash balances in AUD. As a result of this, the Group's statement of financial position can be affected by movements in the USD/AUD exchange rate when translating to the USD functional currency.

In respect of other monetary assets and liabilities denominated in foreign currencies (AUD), the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group is exposed to foreign currency risk on the derivative liability recognised in the balance sheet.

**Equity price risk**

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

**Interest rate risk**

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

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

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

## 4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Fair values

*Fair values versus carrying amounts*

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

(i) Cash and short-term deposits, trade and other receivables, trade and other payables and current financial liabilities are short term in nature. As a result, the fair value of these instruments is considered to approximate its fair value.

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

(iii) The LDA derivative asset and derivative liability are carried at fair value (see Notes 20(c) and 23(e)).

### Capital Management

Capital managed by the Board includes contributed equity totalling $117,483,072 and other equity reserves of $247,872 at 31 December 2021 (2020: $98,741,885 and $247,872 respectively). When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity. Managed capital is disclosed on the face of the Statement of financial position and comprises contributed equity and reserves.

Management may adjust the capital structure to fund the continued development of the Company's pioneering AI technology and keep the Company operational. As the market is constantly changing, management may issue new shares or sell assets to raise cash, change the amount of dividends to be paid to shareholders (if at all) or return capital to shareholders.

During the financial year ending 31 December 2021, management did not pay a dividend and does not expect to pay a dividend in the foreseeable future (31 December 2020: Nil).

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

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

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

## 5. REVENUE FROM CONTRACTS WITH CUSTOMERS

| | 2021<br>US$ | 2020<br>US$ |
|---|---|---|
| **(a) Types of good and services** | | |
| Product revenue | 196,208 | 30,005 |
| License revenue | 825,000 | - |
| Development service revenue | 567,275 | 90,824 |
| Total revenue from contracts with customers | 1,588,483 | 120,829 |

| | 2021<br>US$ | 2020<br>US$ |
|---|---|---|
| **(b) Timing of revenue recognition** | | |
| Services transferred over time | 567,275 | 90,824 |
| Sale of product and license transferred at a point in time | 1,021,208 | 30,005 |
| Total revenue | 1,588,483 | 120,829 |

## 6. OTHER INCOME

| | 2021<br>US$ | 2020<br>US$ |
|---|---|---|
| **(a) Forgiveness of borrowings** | | |
| Forgiveness of borrowings – refer note 20(b) | 413,335 | - |
| Total other income | 413,335 | - |

## 7. EXPENSES

| | 2021 US$ | 2020 US$ |
|---|---|---|
| **(a) Research & development expenses** | | |
| Employee expenses | 5,155,050 | 3,651,420 |
| Government grants received [1] | (763,361) | (720,617) |
| Debt forgiveness of financial liability – refer Note 20(a) | - | (151,388) |
| Third party development services | 4,067,000 | 1,525,000 |
| Other contractor fees | 124 | 403,651 |
| Amortisation of intangible assets | 65,471 | 65,471 |
| Depreciation | 3,176 | - |
| Software lease and hardware expenses | 207,630 | 108,671 |
| Patent application fees | 116,875 | 38,802 |
| Other expenses | 281,248 | 231,228 |
| Total research & development expenses | 9,133,213 | 5,152,239 |
| **(b) Selling & marketing expenses** | | |
| Employee expenses | 1,736,284 | 762,265 |
| Contractor fees | - | 315,824 |
| Promotional advertising | 477,883 | 224,442 |
| Other expenses | 272,760 | 123,970 |
| Total selling & marketing expenses | 2,486,927 | 1,426,501 |
| **(c) General and administration expenses** | | |
| Employee expenses | 2,826,450 | 1,696,515 |
| Legal and professional fees | 985,154 | 482,250 |
| Corporate and listing fees | 586,552 | 457,252 |
| Travel and accommodation expenses | 22,935 | 40,733 |
| Depreciation of plant & equipment | 77,412 | 79,878 |
| Depreciation of right of use assets | 97,918 | 102,564 |
| Office rent | 99,026 | 67,817 |
| Software lease and hardware expense | 285,380 | 150,791 |
| Other | 271,007 | 149,847 |
| Total general & administrative expenses | 5,251,834 | 3,227,647 |

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

## 8. FINANCE INCOME AND FINANCE EXPENSE

| | 2021 US$ | 2020 US$ |
|---|---|---|
| **(a) Finance income** | | |
| Interest received | 95,674 | 27,453 |
| Total finance income | 95,674 | 27,453 |
| **(b) Finance expense** | | |
| Amortisation of day one loss on LDA Capital put option premium | - | 5,085,464 |
| Convertible Securities interest expense | - | 268,522 |
| Other interest expense | 28,918 | 14,764 |
| Foreign exchange loss | - | 173,159 |
| Total finance expense | 28,918 | 5,541,909 |
| **(c) Fair value gain/(loss) through profit and loss** | | |
| Gain from financial assets and liabilities measured at fair value through the profit or loss – Borrowings - refer to Note 20(b) | - | (14,292) |
| Net loss from financial liabilities measured at fair value through the profit and loss – Convertible securities | - | 137,525 |
| Net loss from liabilities measured at fair value through the profit and loss – LDA unlisted options (refer Note 20(c)) | 1,375,950 | 10,014,541 |
| | 1,375,950 | 10,137,774 |

## 9. DIVIDENDS PAID AND PROPOSED

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

## 10. INCOME TAX

| | 2021 US$ | 2020 US$ |
|---|---|---|
| **(a) Major components of income tax expense** | | |
| **Consolidated income statement** | | |
| *Current income tax:* | | |
| Current income tax expense/(benefit) | 152,586 | - |
| Tax losses previously not recognised | - | - |
| *Deferred tax asset not recognised* | - | - |
| **Income tax (benefit)/expense reported in the statement of comprehensive income** | 152,586 | - |
| **(b) Amounts charged or credited directly to equity** | | |
| *Current income tax related to items charged or credited directly to equity* | - | - |
| *Deferred income tax related to items charged or credited directly to equity* | - | - |
| **Income tax (benefit)/expense reported in equity** | **-** | **-** |

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

| | 2021 US$ | 2020 US$ |
|---|---|---|
| Accounting loss before tax | 20,828,723 | 26,822,049 |
| At statutory income tax rate of 25% (2020: 26%) | (5,207,181) | (6,973,733) |
| Foreign provision | 152,586 | - |
| Non-deductible expenses | (3,031,666) | 6,603,121 |
| Effect of lower/(higher) taxation rates of foreign subsidiaries | 335,018 | (654,498) |
| Other | (209,115) | (648,208) |
| Unrecognised tax losses and deferred income tax assets | 8,112,944 | 1,673,318 |
| Income tax expense/(benefit) reported in statement of profit or loss and other comprehensive income | 152,586 | - |
| Effective income tax rate | 0.73% | 0% |

**(d) Deferred tax relates to the following:**

| | Consolidated Statement of financial position | |
|---|---|---|
| | 2021 | 2020 |
| Accrued expenses | 152,991 | 102,404 |
| Tax losses | 20,229,016 | 12,251,465 |
| Share-based compensation | 3,479,705 | 3,375,034 |
| Intangible assets | 26,725 | 23,744 |
| Other | 1,837 | 38,935 |
| Not recognised | (23,890,274) | (15,791,582) |
| **Net deferred tax liability** | - | - |
| **Deferred tax income/(expense)** | - | - |

**(e) Unrecognised losses**

At 31 December 2021, there are unrecognised deferred taxes on losses of $20,229,016 (tax effected) (2020: $12,251,465 (tax effected)), and other temporary differences of $3,661,258 (2020: $3,540,117) for the Group.

## 11. LOSS PER SHARE

| | 2021<br>US$ | 2020<br>US$ |
|---|---|---|
| Net loss attributable to ordinary shareholders for basic and diluted earnings per share | (20,981,309) | (26,822,049) |
| | **US cents per share** | **US cents per share** |
| Basic and diluted loss per share | (1.22) | (1.76) |
| | **Number** | **Number** |
| Weighted average number of ordinary shares for basic loss per share [2] | 1,719,177,338 | 1,527,522,665 |
| Effect of the dilution of share options and performance rights [1] | - | - |
| Weighted average number of ordinary shares adjusted for the effect of dilution | 1,719,177,338 | 1,527,522,665 |

[1] At 31 December 2021, the Company had on issue 93,871,471 share options (2020: 167,290,556), 7,472,500 restricted stock units (2020: 4,462,500) and 265,000 performance rights (2020: 25,000) that are excluded from the calculation of diluted loss per share for the current period as they are considered anti-dilutive.

[3] Weighted average number of ordinary shares has been adjusted as a result of rights issue to institutional and sophisticated investors for all periods:
- to 31 December 2017 by a factor of approximately 1.02, effective November 2017;
- to 31 December 2019 by a factor of approximately 1.01, effective July 2019;
- to 31 December 2020 by a factor of approximately 1.02, effective August 2020.

## 12. CASH AND CASH EQUIVALENTS

| | 2021 US$ | 2020 US$ |
|---|---|---|
| Cash at bank and in hand | 19,323,732 | 19,096,796 |
| Term deposits | 43,337 | 39,629 |
| Total | 19,367,069 | 19,136,425 |
| **Reconciliation of the net loss after tax to net cash flows from operations** | | |
| Loss after tax | (20,981,309) | (26,822,049) |
| *Non-cash adjustment to reconcile loss before tax to net cash flows:* | | |
| Depreciation | 178,507 | 182,439 |
| Amortisation | 65,471 | 65,474 |
| Debt forgiven on financial liabilities | (413,335) | (151,388) |
| Share-based payments | 4,362,201 | 1,435,645 |
| Amortisation of day one loss on LDA Capital put option premium | - | 5,085,464 |
| Loss/(gain) from financial liabilities measured at fair value through the profit or loss | 1,375,950 | 10,137,774 |
| Interest expense | 13,503 | 268,522 |
| Foreign exchange loss/(gain) - unrealised | 257,214 | (139,249) |
| *Working capital adjustments:* | | |
| Decrease/(Increase) in trade and other receivables | 625,811 | (435,040) |
| Increase in inventory | (200,173) | (38,378) |
| (Increase)/Decrease in prepayments | (227,286) | 7,744 |
| Decrease in other assets | (142,164) | (5,510) |
| Increase in financial liabilities | 133,102 | - |
| Increase in deferred revenue | 167,533 | 13,441 |
| Increase in interest payable | - | 10,551 |
| (Decrease)/Increase in defined benefits plan | (22,724) | 23,463 |
| Increase in employee provisions | 136,332 | 139,355 |
| Increase in trade and other payables | 497,873 | 192,766 |
| **Net cash flows used in operating activities** | (14,173,494) | (10,028,976) |

## 13. TRADE AND OTHER RECEIVABLES

| | 2021 US$ | 2020 US$ |
|---|---|---|
| *Current* | | |
| Trade receivables [1] | 98,136 | 97,716 |
| Research tax credit | 774,830 | 721,655 |
| Other receivables | 36,438 | 88,309 |
| | 909,405 | 907,680 |

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

## 14. RIGHT-OF-USE ASSETS

| | 2021 US$ | 2020 US$ |
|---|---|---|
| Cost | 1,746,977 | 153,479 |
| Accumulated depreciation | (146,949) | (55,423) |
| **Net carrying amount** | 1,600,028 | 98,056 |
| ***Movement in Right-of-Use Assets:*** | | |
| At 1 January | 98,056 | 191,460 |
| Additions | 1,605,426 | - |
| Written down value of ROU asset disposed | - | (55,191) |
| Depreciation | (97,918) | (47,373) |
| Foreign exchange movements | (5,536) | 9,160 |
| At 31 December | 1,600,028 | 98,056 |

## 15. PLANT & EQUIPMENT

| | 2021 US$ | 2020 US$ |
|---|---|---|
| Plant and equipment – Gross carrying value at cost | 796,373 | 561,659 |
| Accumulated depreciation | (420,561) | (412,343) |
| **Net carrying amount** | 375,812 | 149,316 |
| ***Movement in plant and equipment*** | | |
| At 1 January | 149,316 | 178,883 |
| Additions | 309,028 | 47,587 |
| Depreciation charge for the year | (80,588) | (79,875) |
| Net foreign exchange movements | (1,944) | 2,721 |
| At 31 December | 375,812 | 149,316 |

## 16. INTANGIBLE ASSETS AND GOODWILL

| | | 2021 US$ | 2020 US$ * |
|---|---|---|---|
| | Patents and licenses (a) | 739,713 | 805,184 |
| | Goodwill | - | - |
| | | 739,713 | 805,184 |
| **(a)** | Patents and licenses with finite useful life – at cost | 1,040,807 | 1,116,851 |
| | Accumulated amortisation | (301,094) | (311,667) |
| | | 739,713 | 805,184 |
| | **Movement in patents and licenses** | | |
| | At 1 January | 805,184 | 870,655 |
| | Amortisation | (65,471) | (65,471) |
| | At 31 December | 739,713 | 805,184 |

As at 31 December 2021, the Group considered indicators of impairment of these assets and determined that there was none.

* Restated as a result of a correction of error (note 33)

## 17. TRADE AND OTHER PAYABLES

| | 2021<br>US$ | 2020<br>US$ |
|---|---|---|
| *Current* | | |
| Trade creditors and accruals | 1,165,757 | 693,320 |
| LDA Capital commitment fee payable - refer Note 20(c) | - | 223,400 |
| Interest payable on borrowings | - | 10,551 |
| Income tax payable to foreign authorities | 135,228 | - |
| | 1,300,985 | 927,271 |

## 18 EMPLOYEE BENEFITS LIABILITIES

| | | |
|---|---|---|
| Annual leave liability | 559,313 | 420,156 |
| | 559,313 | 420,156 |

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

## 19. LEASE LIABILITIES

| | | |
|---|---|---|
| Current | 200,943 | 51,136 |
| Non-current | 1,432,835 | 48,088 |
| | 1,633,778 | 99,224 |
| ***Movement in lease liabilities*** | | |
| Opening balance | 99,224 | 193,053 |
| Additions | 1,605,426 | - |
| Reduction in lease liabilities | (63,093) | (106,984) |
| Foreign exchange movements | (7,779) | 13,155 |
| | 1,633,778 | 99,224 |

## 20. FINANCIAL ASSETS AND LIABILITIES

| | 2021<br>US$ | 2020<br>US$ |
|---|---|---|
| *Financial assets - Current* | | |
| Derivative asset - put option premium (c) | - | 1,470,275 |
| *Total Financial assets* | - | 1,470,275 |
| *Financial liabilities - Current* | | |
| | 42,881 | - |
| Borrowings (b) | - | 320,678 |
| Derivative liabilities – LDA unlisted options (c) | - | 3,179,756 |
| | 42,881 | 3,500,434 |
| *Financial liabilities - Non-Current* | | |
| Advances from third parties (a) | 172,107 | 88,786 |
| Borrowings (b) | - | 77,330 |
| | 172,107 | 166,116 |
| *Total Financial liabilities* | 214,988 | 3,666,550 |

## 20. FINANCIAL ASSETS AND LIABILITIES (continued)

### (a) Advance from third parties

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

| ***Movement in advances from third parties*** | **2021 US$** | **2020 US$** |
|---|---|---|
| As at 1 January | 88,786 | 222,667 |
| Grant received during period | 133,101 | - |
| Forgiveness of financial liability | - | (151,388) |
| Foreign exchange | (6,899) | 17,507 |
| As at 31 December | 214,988 | 88,786 |

### (b) Borrowings

In May 2021, the Company received confirmation from the U.S. Small Business Administration, “SBA”, of forgiveness of the Payroll Protection Program loan of $412,300 which was received in the prior year as U.S. financial relief from the COVID-19 emergency.

| ***Movement in borrowings*** | **202 US$** | **2020 US$** |
|---|---|---|
| As at 1 January | 398,008 | - |
| Financial liability with First Republic Bank | - | 412,300 |
| Interest payable | 15,327 | - |
| Forgiveness of borrowings | (413,335) | - |
| Grant revenue recognised in profit and loss | (14,292) | (14,292) |
| As at 31 December | - | 398,008 |
| | | |
| Borrowings – current | - | 320,678 |
| Borrowings – non-current | - | 77,330 |
| | - | 398,008 |

### (c) LDA Capital Agreement

On 13 August 2020, the Company announced it had entered into a Put Option Agreement (POA) with LDA Capital to provide the Company with up to A$29 million in committed equity capital over the next 12 months which may be extended by the parties for a further 12 months. The Company controlled the timing and maximum amount of the draw down under this facility subject only to the minimum draw down commitment of A$10 million with in the first 12 months.

The POA was amended effective 22 October 2020, noting that BrainChip had fulfilled its obligation under the original agreement, and that LDA Capital had chosen to increase the available funding to A$45 million along with an increase in BrainChip’s minimum draw down commitment to A$20million, inclusive of any funds received under the first capital call notice issued prior to the amendment.

The POA was further amended on 12 October 2021 (Second Amendment Deed) to extend the due date of the minimum A$20million to 28 February 2022 and introduced a second minimum draw-down of A$15million between 1 March 2022 and 31 December 2022, as well as a third minimum draw-down of A$15millon to be drawn down between 1 January 2023 and 31 December 2023.

The effect of the key terms as described below gave rise to a derivative liability and derivative asset held at fair value through profit and loss in the prior year, which has been reversed in the current year.

***Key terms and conditions – prior year***

(i) In accordance with the POA, as part consideration, in 2020 the Company issued 75,000,000 unlisted options to LDA Capital comprising 37,500,000 unlisted options exercisable at A$0.15 and 37,500,000 unlisted options exercisable at A$0.20, expiring on 13 August 2023. These options were valued at $5,806,040 using a Black Scholes model and classified as derivative liabilities. Refer Note 23(e) for the valuation inputs.

(ii) On 19 August 2020, the Company issued a call notice to LDA Capital (a Put Option) and subsequently, on 24 August 2020, issued LDA Capital with 35,000,000 shares for no consideration (“Collateral Shares”) which LDA Capital was entitled to sell on-market (subject to certain terms). Any unused Collateral Shares were to be adjusted or used for subsequent calls, brought back by the Company or transferred to a trustee or nominee of the Company. LDA Capital held 8,750,000 Collateral shares at 31 December 2020 listed as Treasury shares (Note 23(c)).

## 20. FINANCIAL ASSETS AND LIABILITIES (continued)

***Key terms and conditions – prior year continued***

(iii) The issue price of the shares under the purchased put option was calculated as 90% of the higher of the average VWAP of shares in the 30- trading day period after the issue of a call notice, and the minimum price notified to LDA Capital by the Company upon exercise of the put option. The VWAP calculation and the number of subscription shares are subject to adjustment as a result of certain events occurring including trading volumes falling below an agreed threshold level or a material adverse event occurring in relation to the Company.

(iv) The Company was liable for a commitment fee of A$580,000, comprising A$290,000 due and payable at the closing of the Company's first capital call and the remaining A$290,000 due and payable at closing of the second capital call. The commitment fee may be paid in shares at the Company's discretion. The outstanding commitment fee translated to $223,400 at year end and is recognised in Trade and other payables.

(v) The Company is also liable for a failure fee payable if the Company does not meet the agreed minimum draw down commitment within 12 months of the date of the POA. The failure fee has been accounted for as a deferred option premium on the committed portion of the put option.

***Key terms and conditions – current year***

(vi) In accordance with the Second Amendment Deed, the issue price of the shares under the second and third draw down periods are priced at 91.5% of the higher of the average VWAP and the minimum acceptable price with a failure fee of 10% of the minimum draw down commitment.

***Recognition and reduction in put option premium and derivative liability***

On entering the POA in the prior year, the Company recognised the purchased put option as a derivative asset with a fair value of $1,153,781.

At the end of 2020, the Company recognised a derivative liability related to the remaining 13,145,556 unlisted options issued to LDA Capital as part consideration. These unlisted options were exercised by mid-January 2021, resulting in the recognition of a loss of $763,809 after the remeasurement to fair value though profit and loss of the derivative liability and cash inflows of $2,031,236.

On 16 August 2021, a Second Capital Call Notice was issued to LDA Capital for the remaining 8,750,000 Collateral Shares. The shares were subject to a pricing period of ten trading days, as agreed by BrainChip and LDA Capital resulting in cash inflows to the Company of $2,577,001. The outstanding commitment fee liability was settled in cash after deduction of legal fees of A$15,000, and the remaining failure fee was eliminated.

Please also refer to subsequent events Note 28.

| ***Movement in LDA financial asset*** | **2021 US$** | **2020 US$** |
|---|---|---|
| As at 1 January | 1,470,275 | - |
| Derivative asset – put option premium recognised at inception | - | 1,153,781 |
| Fair value movement in financial asset -put option premium | (612,141) | (9,295) |
| Release of derivative assets on settlement | (137,240) | (413,583) |
| Revaluation of the put option premium | (635,049) | 635,049 |
| Foreign exchange movements | (85,845) | 104,323 |
| As at 31 December | - | 1,470,275 |

| ***Movement in LDA derivative liabilities*** | **2021 US$** | **2020 US$** |
|---|---|---|
| As at 1 January | 3,179,756 | - |
| Derivative liability recognised at inception | - | 5,800,734 |
| Re-measurement to fair value through profit or loss | 763,809 | 10,014,541 |
| Fair value of options exercised at each exercise date | (3,943,566) | (12,641,387) |
| Foreign exchange movements | - | 5,868 |
| As at 31 December | - | 3,179,756 |

## 21. DEFINED BENEFIT PLAN

| | 2021 US$ | 2020 US$ |
|---|---|---|
| Net employee defined benefit liabilities | 197,020 | 203,868 |

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

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

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

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

### (a) Movement in net defined benefit liability

| | 2021 US$ | 2020 US$ |
|---|---|---|
| At 1 January | 203,868 | 141,415 |
| *Included in profit or loss* | | |
| Current services costs | 31,931 | 23,463 |
| Finance costs | 915 | 932 |
| *Included in OCI* | | |
| Actuarial losses/(gains) | (23,426) | 24,364 |
| Foreign exchange movement | (16,268) | 13,694 |
| At 31 December | 197,020 | 203,868 |

### (b) Defined benefit obligation

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

| | 2021 | 2020 |
|---|---|---|
| Discount rate | 1.0% | 0.4% |
| Future salary growth | 1.5% | 1.5% |
| Retirement at employee's initiative | 45.0% | 45.0% |
| Turnover rate (weighted average) | 1.8% | 1.0% |

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

### (c) Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

| | Increase US$ | Decrease US$ |
|---|---|---|
| Discount rate (+/-1% movement) | 34,479 | (26,937) |
| Future salary growth (+/-1.0 % movement) | (27,231) | 34,042 |

Although the analysis does not take account of the full distribution of cashflows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

## 22. FINANCIAL ASSETS & LIABILITIES

**(a)** Set out below is an overview of financial assets (other than cash and short term deposits) and financial liabilities held by the Group as at 31 December 2020:

| | 2021 US$ | 2020 US$ |
|---|---|---|
| ***Financial assets at amortised cost*** | | |
| Trade and other receivables | 909,405 | 907,680 |
| ***Financial assets at fair value through profit or loss*** | | |
| Derivative asset – put option premium | - | 1,470,275 |
| Total financial assets | 909,405 | 2,377,955 |
| | | |
| *Current* | 909,405 | 2,377,955 |
| Total financial assets | 909,405 | 2,377,955 |
| | | |
| ***Financial liabilities at amortised cost*** | | |
| Trade and other payables | 1,300,985 | 927,271 |
| Financial liabilities | | |
| - Advances from third parties | 214,988 | 88,786 |
| - Borrowings | - | 398,008 |
| - Deferred gain | - | 635,049 |
| | | |
| ***Financial liabilities at fair value through profit & loss*** | | |
| Financial liabilities | | |
| - Derivative liabilities (LDA unlisted options) | - | 3,179,756 |
| Total financial liabilities | 1,515,973 | 5,228,870 |
| | | |
| *Current* | 1,343,866 | 5,062,754 |
| *Non-current* | 172,107 | 166,116 |
| Total financial liabilities | 1,515,973 | 5,228,870 |

**(b)** The following table provides the fair value measurement hierarchy of the Group's financial assets and liabilities:

| | | Fair value measurement using: | | |
|---|---|---|---|---|
| | Total | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| **As at 31 December 2021** | US$ | US$ | US$ | US$ |
| **Financial assets measured at fair value** | | | | |
| Derivative asset - put option premium | - | | | - |
| | - | - | - | - |
| **Financial liabilities measured at fair value** | | | | |
| Derivative liabilities – LDA Capital | - | - | - | - |
| | - | - | - | - |
| **As at 31 December 2020** | | | | |
| **Financial assets measured at fair value** | | | | |
| Derivative asset - put option premium [(1)] | 1,470,275 | | | 1,470,275 |
| | 1,470,275 | - | - | 1,470,275 |
| **Financial liabilities measured at fair value** | | | | |
| Derivative liabilities – LDA Capital | 3,179,756 | - | 3,179,756 | - |
| | 3,179,756 | - | 3,179,756 | - |

There were no transfers between Level 1, Level 2 and Level 3 during 2020 and 2019.

(1) The fair value of the derivative asset on recognition of the put option premium was determined in the prior year using a market based approach with a 15% market placement discount by an independent expert.

**(c)** Changes in liabilities arising from financing activities are disclosed within individual notes.

## 23. CONTRIBUTED EQUITY

| | 2021 US$ | 2020 US$ |
|---|---|---|
| **(a) Ordinary Shares** | | |
| Issued and fully paid | 117,483,072 | 98,741,885 |

**(b) Movements in ordinary shares on issue**

| | Number | US$ |
|---|---|---|
| At 1 January 2020 | 1,337,375,664 | 64,740,268 |
| Shares issued on conversion of Convertible Securities | 30,734,684 | 1,264,737 |
| Treasury shares disposed by CST Capital Pty Ltd | - | 22,395 |
| Issue of shares | 103,958,000 | 1,989,897 |
| Issue of shares to the Trustee of the BrainChip LTIP | 20,000,000 | - |
| Issue of collateral shares under LDA Capital put option premium - refer Note 20(c) | 35,000,000 | - |
| Shares allocated on exercise of LDA Capital put option premium - refer Note 20(c) (2) | 26,250,000 | 7,327,638 |
| Collateral shares offset against subscription shares | (26,250,000) | - |
| Shares allotted on exercise of LDA Capital options - refer Note 20(c) | 61,854,444 | 20,211,543 |
| Shares issued on conversion of CST options | 21,868,796 | 1,845,133 |
| Shares issued on conversion of RSUs | 3,000,000 | - |
| Shares issued on conversion of options | 2,800,000 | 143,016 |
| Treasury shares issued on conversion of options | - | 1,441,348 |
| Share issue costs incurred | - | (244,090) |
| At 31 December 2020 | 1,616,591,588 | 98,741,885 |
| | | |
| At 1 January 2021 | 1,616,591,588 | 98,741,885 |
| Issue of shares to the Trustee of the BrainChip LTIP | 63,500,000 | - |
| Shares allotted on exercise of LDA Capital options - refer Note 20(c) | 13,145,556 | 5,974,801 |
| Shares allocated on exercise of LDA Capital put option premium - refer Note 20(c) (2) | - | 2,637,795 |
| Treasury shares issued on conversion of options | - | 10,184,061 |
| Share issue costs incurred | - | (55,470) |
| At 31 December 2021 | 1,693,237,144 | 117,483,072 |

| (1) *LDA Capital cash reconciliation:* | 2021 US$ | 2020 US$ |
|---|---|---|
| Cash received on settlement | 2,577,001 | 7,536,236 |
| Commitment fee released | 208,836 | 207,341 |
| Release of derivative assets on settlement | (137,240) | (413,583) |
| Other | (10,802) | (2,356) |
| Value of shares allocated on exercise of LDA Capital put option premium | 2,637,795 | 7,327,638 |

**23. CONTRIBUTED EQUITY (continued)**

**(c) Treasury shares**

| | 2021 Number | 2020 Number |
|---|---|---|
| Fully paid shares issued to LDA Capital Pty Ltd | - | 8,750,000 |
| Fully paid shares issued to Trustee of Long Term Incentive Plan ("LTIP") | 2,721,471 | 9,495,000 |
| | 2,721,471 | 18,245,000 |
| *Movements in Treasury shares* | | |
| At 1 January | 18,245,000 | 868,490 |
| Shares issued to Trust from BrainChip Holdings Ltd [1] | 63,500,000 | 20,000,000 |
| Shares disposed by CST Capital Pty Ltd | - | (418,490) |
| Shares issued by Trustee of the LTIP on conversion of Performance Rights | (25,000) | - |
| Shares Issued on exercise of share options | (68,248,529) | (10,155,000) |
| Shares Issued on conversion of RSU | (2,000,000) | (800,000) |
| Shares issued to LDA Capital as collateral shares – refer Note 20(c) | - | 35,000,000 |
| Shares disposed of by LDA Capital and offset against subscription shares – refer Note 20(c) | (8,750,000) | (26,250,000) |
| At 31 December | 2,721,471 | 18,245,000 |

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

**(d) Terms and conditions of contributed equity**

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

**(e) Options on issue**

Unissued ordinary shares of the Company under option at 31 December 2021 are as follows:

| Type | Expiry Date | Exercise Price (US$) | 31 December 2021 Number | 31 December 2020 Number |
|---|---|---|---|---|
| *Options issued to LDA Capital* | | | | |
| Unlisted *[1]* | 13/08/2023 | 0.143 | - | 13,145,556 |
| *Options issued as share-based payments* | | | | |
| Unlisted – LTIP refer Note 26(b) | Various | Various | 93,871,471 | 154,145,000 |
| **Total** | | | 93,871,471 | 167,290,556 |

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

*(1) Options issues to LDA Capital in accordance with POA - 2020*

In the prior year the Company issued 75,000,000 unlisted options, expiring on 13 August 2023, to LDA Capital in accordance with the LDA Put Option Agreement. LDA Capital exercised the remaining 13,145,556 options at \$0.143 (A\$0.20) in January 2021.

**23. CONTRIBUTED EQUITY (continued)**

*(1) Options issued to LDA Capital in accordance with POA – 2020 (continued)*

Refer to Note 20 for further details of the arrangement. The fair value of the equity-settled share options granted in accordance with the POA is estimated as at the date of the agreement using a Black Scholes Option Pricing model applying the following inputs:

*Valuation inputs at inception:*

| Number of options | Fair value at measurement date US$ | Share price at Contract Date | | Exercise price | | Expected Volatility (%) | Risk-free interest rate (%) | Expected life of options in years |
|---|---|---|---|---|---|---|---|---|
| | | A$ | US$ | A$ | US$ | | | |
| 37,500,000 | 0.081 | 0.175 | 0.125 | 0.150 | 0.108 | 100 | 0.26 | 3 |
| 37,500,000 | 0.074 | 0.175 | 0.125 | 0.20 | 0.143 | 100 | 0.26 | 3 |

**(f) Performance Rights on issue**

| Type | 31 December 2021 Number | 31 December 2020 Number |
|---|---|---|
| Unlisted – refer Note 26(e) | 265,000 | 25,000 |
| **Total** | 265,000 | 25,000 |
| | | |
| **Movement in Performance Rights** | | |
| 1 January | 25,000 | - |
| Issue during the period | 265,000 | 25,000 |
| Converted during the period | (25,000) | - |
| 31 December | 265,000 | 25,000 |

**(g) Restricted Stock Units (RSUs) on issue**

Unissued ordinary shares of the Company under restricted stock units at 31 December 2020 are as follows:

| Type | 31 December 2021 Number | 31 December 2020 Number |
|---|---|---|
| Unlisted – refer Note 26(g) | 7,485,000 | 4,462,500 |
| **Total** | 7,485,000 | 4,462,500 |
| | | |
| **Movement in RSUs** | | |
| 1 January | 4,462,500 | 5,800,000 |
| Issue during the period | 5,022,500 | 2,462,500 |
| Converted during the period | (2,000,000) | (3,800,000) |
| 31 December | 7,485,000 | 4,462,500 |

## 24. RESERVES

| CONSOLIDATED | Foreign currency translation reserve<br>US$ | Share- based payment reserve<br>US$ | Other equity reserve<br>US$ | Total<br>US$ |
|---|---|---|---|---|
| **At 1 January 2020** | 72,803 | 18,418,864 | 247,872 | 18,739,539 |
| Share-based payments | - | 1,435,645 | - | 1,435,645 |
| Translation of foreign operations | 42,137 | - | - | 42,137 |
| **At 31 December 2020** | 114,940 | 19,854,509 | 247,872 | 20,217,321 |
| | | | | |
| **At 1 January 2021** | 114,940 | 19,854,509 | 247,872 | 20,217,321 |
| Share-based payments | - | 4,362,201 | - | 4,362,201 |
| Translation of foreign operations | 17,888 | - | - | 17,888 |
| **At 31 December 2021** | 132,828 | 24,216,710 | 247,872 | 24,597,410 |

**Nature and purpose of reserves**

*Share-based payment reserve*

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

*Other equity reserve*

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

*Foreign currency translation reserve*

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

## 25. ACCUMULATED LOSSES

| | 2021<br>US$ | 2021<br>US$ * |
|---|---|---|
| At 1 January | (102,135,328) | (75,288,915) |
| Re-measurement losses on defined benefit plans | (23,359) | (24,364) |
| Net loss in current period attributable to members of the Company | (20,981,309) | (26,822,049) |
| At 31 December | (123,139,996) | (102,135,328) |

* Restated as a result of a correction of error (note 33)

## 26. SHARE-BASED PAYMENTS

| | 2021 US$ | 2020 US$ |
|---|---|---|
| **(a) Recognised share-based payment expenses** | | |
| Options issued to LTIP members and third parties | 4,010,586 | 1,251,815 |
| Performance Rights issued to LTIP members and consultants | 14,841 | 2,020 |
| Restricted stock units issued to LTIP members | 336,774 | 181,810 |
| **Total share-based payment expense** | 4,362,201 | 1,415,645 |

The 2018 Long Term Incentive Plan (LTIP) was adopted by shareholders in May 2018. The Company has Options that were issued under the 2015 LTIP current at the time of offer however all new equity awards post May 2018 have been issued under the 2018 LTIP. The 2015 Performance Rights Plan and the 2015 Directors & Officers Option Plan have been terminated as all equity instruments issued under these plans have been exercised or expired.

*2018 and 2015 Long Term Incentive Plan*
The objective of the LTIP is to attract and retain key employees and consultants. It is considered that the LTIP, through the issue of equity instruments, will provide selected employees and consultants with opportunity to participate in the future growth of the Company. Equity instruments offered under the LTIP must be offered at no more than a nominal value and under terms to be determined by the Board from time to time. It is not the intention of the Company to apply for quotation of any of the equity instruments which are issued under the LTIP.

### (b) Share Options granted as share-based payments

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

| | 2021 Number | 2021 WAEP (US$) | 2020 Number | 2020 WAEP (US$) |
|---|---|---|---|---|
| Outstanding at 1 January | 154,145,000 | 0.138 | 175,068,796 | 0.115 |
| Granted during the period | 10,740,000 | 0.333 | 29,525,000 | 0.167 |
| Exercised during the period | (68,248,529) | (0.152) | (34,823,796) | (0.096) |
| Forfeited during the period | (1,295,000) | (0.216) | (15,625,000) | (0.048) |
| Lapsed during the period | (50,000) | (0.148) | - | - |
| Expired during the period | (1,500,000) | (0.172) | - | - |
| Outstanding at the end of the period | 93,791,471 | 0.148 | 154,145,000 | 0.138 |
| Exercisable (vested and unrestricted) at the end of the period | 48,254,804 | 0.126 | 90,665,833 | 0.143 |

The weighted average remaining contractual life for the share options outstanding at 31 December 2021 is 7.047 years (2020: 5.374 years).
The weighted average fair value of options granted during the year was $0.385 (2020: $0. 104)
The range of exercise prices for options outstanding at the end of the year was $0.031 to $0.464 (2020: $0.031 to $0.262).

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

## 26. SHARE-BASED PAYMENTS (continued)

### (c) Options granted under the Long Term Incentive Plan

Unissued ordinary shares of the Company under option at 31 December 2021 are as follows:

| Grant Type | Grant Date | Expiry Date | Exercise Price (US$) | Number at 1 January | Granted during the year | Exercised during year | Forfeited during year | Lapsed / Expired during year | Number at 31 December | Vested at year end |
|---|---|---|---|---|---|---|---|---|---|---|
| LTIP (1) | 22/01/2016 | 01/02/2021 | 0.165 | 1,125,000 | - | (1,125,000) | - | - | - | - |
| LTIP (2) | 28/09/2016 | 30/09/2021 | 0.172 | 50,000,000 | - | (49,500,000) | - | (1,500,000) | - | - |
| LTIP (1) | 8/07/2016 | 10/10/2021 | 0.113 | 3,400,000 | - | (3,400,000) | - | - | - | - |
| LTIP (1) | 7/10/2016 | 10/10/2021 | 0.205 | 2,000,000 | - | (2,000,000) | - | - | - | - |
| LTIP (1) | 27/01/2017 | 16/02/2022 | 0.242 | 100,000 | - | - | - | - | 100,000 | 100,000 |
| LTIP (3) | 30/01/2017 | 16/02/2022 | 0.185 | 3,000,000 | - | (300,000) | - | - | 2,700,000 | 2,700,000 |
| LTIP (3) | 30/01/2017 | 31/12/2022 | 0.185 | 3,000,000 | - | - | - | - | 3,000,000 | 3,000,000 |
| AGM 2017 (4) | 31/05/2017 | 31/01/2023 | 0.138 | 2,000,000 | - | - | - | - | 2,000,000 | 2,000,000 |
| AGM 2017 (4) | 31/05/2017 | 31/01/2024 | 0.138 | 2,000,000 | - | - | - | - | 2,000,000 | 2,000,000 |
| AGM 2017 (5) | 31/05/2017 | 01/02/2023 | 0.182 | 1,250,000 | - | (250,000) | - | - | 1,000,000 | 1,000,000 |
| AGM 2017 (5) | 31/05/2017 | 01/02/2024 | 0.182 | 1,750,000 | - | (150,000) | - | - | 1,600,000 | 1,600,000 |
| AGM 2017 (5) | 31/05/2017 | 01/02/2025 | 0.182 | 1,750,000 | - | - | - | - | 1,750,000 | 1,750,000 |
| AGM 2017 (5) | 31/05/2017 | 01/02/2026 | 0.182 | 1,750,000 | - | - | (750,000) | - | 1,000,000 | 1,000,000 |
| LTIP (6) | 7/07/2017 | 7/07/2023 | 0.125 | 2,000,000 | - | - | - | - | 2,000,000 | 2,000,000 |
| LTIP (6) | 7/07/2017 | 7/07/2024 | 0.125 | 2,000,000 | - | - | - | - | 2,000,000 | 2,000,000 |
| LTIP (6) | 7/07/2017 | 7/07/2025 | 0.125 | 2,000,000 | - | - | - | - | 2,000,000 | 2,000,000 |
| LTIP (6) | 7/07/2017 | 7/07/2026 | 0.125 | 2,000,000 | - | - | - | - | 2,000,000 | 2,000,000 |
| LTIP (1) | 28/11/2017 | 14/12/2022 | 0.136 | 345,000 | - | - | - | - | 345,000 | 345,000 |
| LTIP (1) | 28/11/2017 | 14/12/2022 | 0.141 | 300,000 | - | - | - | - | 300,000 | 300,000 |
| LTIP (1) | 28/11/2017 | 14/12/2022 | 0.148 | 400,000 | - | (150,000) | - | (50,000) | 200,000 | 200,000 |
| LTIP (1) | 1/12/2017 | 14/12/2022 | 0.140 | 100,000 | - | - | - | - | 100,000 | 100,000 |
| LTIP (7) | 5/03/2018 | 13/03/2028 | 0.147 | 4,450,000 | - | (1,500,000) | - | - | 2,950,000 | 2,912,500 |
| LTIP (1) | 5/03/2018 | 13/03/2028 | 0.171 | 200,000 | - | - | - | - | 200,000 | 200,000 |
| LTIP (1) | 30/04/2018 | 08/06/2028 | 0.136 | 500,000 | - | (56,862) | - | - | 443,138 | 318,138 |
| LTIP (1) | 30/04/2018 | 08/06/2028 | 0.117 | 1,000,000 | - | - | - | - | 1,000,000 | 750,000 |
| LTIP (1) | 16/06/2018 | 16/06/2028 | 0.105 | 450,000 | - | - | - | - | 450,000 | 300,000 |
| LTIP (1) | 19/11/2018 | 5/10/2028 | 0.103 | 200,000 | - | (100,000) | - | - | 100,000 | - |
| LTIP (8) | 11/03/2019 | 13/03/2029 | 0.047 | 20,000,000 | - | - | - | - | 20,000,000 | 11,875,000 |
| LTIP (9) | 18/03/2019 | 18/03/2029 | 0.042 | 3,200,000 | - | (2,800,000) | - | - | 400,000 | 400,000 |
| AGM 2019 (10) | 30/05/2019 | 30/05/2029 | 0.069 | 7,500,000 | - | (7,500,000) | - | - | - | - |
| LTIP (1) | 13/06/2019 | 30/05/2029 | 0.037 | 3,850,000 | - | - | - | - | 3,850,000 | - |
| LTIP (1) | 23/09/2019 | 23/09/2029 | 0.031 | 500,000 | - | (250,000) | - | - | 250,000 | - |
| LTIP (11) | 23/09/2019 | 23/09/2029 | 0.035 | 500,000 | - | (166,667) | - | - | 333,333 | 104,166 |
| LTIP (12) | 10/8/2020 | 06/08/2030 | 0.125 | 8,300,000 | - | - | - | - | 8,300,000 | - |
| LTIP (1) | 26/8/2020 | 17/08/2030 | 0.144 | 14,000,000 | - | - | - | - | 14,000,000 | 3,500,000 |
| LTIP (1) | 7/10/2020 | 07/10/2030 | 0.250 | 600,000 | - | - | - | - | 600,000 | 150,000 |
| LTIP (1) | 3/12/2020 | 03/12/2030 | 0.256 | 3,225,000 | - | - | (525,000) | - | 2,700,000 | 675,000 |
| LTIP (1) | 07/12/2020 | 07/12/2030 | 0.262 | 2,900,000 | - | - | - | - | 2,900,000 | 725,000 |
| LTIP (1) | 21/12/2020 | 21/12/2030 | 0.244 | 500,000 | - | - | - | - | 500,000 | 125,000 |
| LTIP (1) | 09/04/2021 | 09/04/2031 | 0.446 | - | 280,000 | - | - | - | 280,000 | - |
| LTIP (1) | 09/04/2021 | 09/04/2031 | 0.411 | - | 3,900,000 | - | - | - | 3,900,000 | - |
| LTIP (1) | 04/06/2021 | 04/06/2031 | 0.460 | - | 1,000,000 | - | - | - | 1,000,000 | - |
| LTIP (1) | 23/06/2021 | 23/06/2031 | 0.464 | - | 1,000,000 | - | - | - | 1,000,000 | - |
| LTIP (13) | 23/11/2020 | 27/05/2031 | 0.279 | - | 2,500,000 | - | - | - | 2,500,000 | 625,000 |
| LTIP (14) | 15/07/2021 | 02/08/2031 | 0.000 | - | 1,500,000 | - | - | - | 1,500,000 | 1,500,000 |
| LTIP (1) | 10/08/2021 | 10/08/2031 | 0.400 | - | 560,000 | - | (20,000) | - | 540,000 | - |
| | | | | 154,145,000 | 10,740,000 | (68,248,529) | (2,795,000) | (1,550,000) | 93,791,471 | 48,254,804 |

**26. SHARE-BASED PAYMENTS (continued)**

(1) Options issued to employees and consultants which vest equally over a 4-year period on each anniversary of the grant date.
(2) 50,000,000 unlisted options were with an expiry date of 30 September 2021. 23,000,000 options vest equally over a 4-year period. 27,000,000 options vest equally over a 4-year period after attainment of specific performance criteria.
(3) 6,000,000 unlisted options issued to consultants on 16 February 2017. 50% of these options vested immediately and expire on 16 February 2022. 50% vested on 31 December 2017 and expire on 31 December 2022.
(4) 4,000,000 unlisted vested options held by a previous Director of the Company.
(5) 7,000,000 unlisted options were issued to Directors, of which 25% of the options vest on each anniversary date of the offer date (1 February 2017) and expire five years from each vesting date.
(6) 8,000,000 unlisted options were issued to Directors of which 25% of the options vest on each anniversary date of the offer date (7 July 2017) expire five years from each vesting date.
(7) 4,450,000 unlisted options issued to employees on 13 March 2018 and expiring on 13 March 2028 with the following vesting terms: 1,200,000 vest 5 July 2021; 800,000 vest 7 October 2021; 1,500,000 vest 9 December 2019; 800,000 vest 15 January 2021; 150,000 vesting equally over a 4-year period from 5 March 2018.
(8) 7,500,000 options vest on the first anniversary of the grant date, with 1/36th monthly thereafter; 2,500,000 options will vest each anniversary of the grant date.
(9) 7,500,000 options vest on the first anniversary of the grant date, with 1/36th monthly thereafter; 3,000,000 options will vest each anniversary of the grant date.
(10) 7,500,000 options vest immediately.
(11) 25% vests on the first anniversary of the grant date, with 1/36th monthly thereafter.
(12) Options vest on the 4th anniversary of the grant date.
(13) 2,500,000 unlisted options were issued to a Director, of which 25% of the options vest on each anniversary date of the offer date (23 November 2020) and expire 27 May 2031.
(14) 1,500,000 unlisted options were issued to an ex-Director providing consulting services during 2021 with no exercise price. 50% vest on 2 August 2021 and 50% vest 31 December 2021.

**(d) Options pricing model**

*(1) Options issued under LTIP - 2021*

The fair value of the equity-settled share options granted under the LTIP is estimated as at the date of the offer of the grant using a Black Scholes Option Pricing model. The following table lists the inputs to the models used for the valuation of options during the year ended 31 December 2021:

| | Number of options | Fair value at measurement date US$ | Share price at Grant Date US$ | Exercise price US$ | Expected volatility (%) | Risk-free interest rate (%) | Expected life of options in years |
|---|---|---|---|---|---|---|---|
| | 280,000 | 0.378 | 0.423 | 0.446 | 100.0 | 1.74 | 10.0 |
| | 3,900,000 | 0.378 | 0.412 | 0.446 | 100.0 | 1.74 | 10.0 |
| Employees | 1,000,000 | 0.415 | 0.463 | 0.467 | 100.0 | 1.69 | 10.0 |
| | 1,000,000 | 0.405 | 0.453 | 0.464 | 100.0 | 1.68 | 10.0 |
| | 560.000 | 0.357 | 0.400 | 0.400 | 100.0 | 1.20 | 10.0 |
| Director | 2,500,000 | 0.395 | 0.428 | 0.280 | 100.0 | 1.72 | 10.0 |
| Consultant | 1,500,000 | 0.362 | 0.362 | 0.000 | 100.0 | 1.29 | 10.1 |

**26. SHARE-BASED PAYMENTS (continued)**

*(2) Options issued under LTIP - 2020*

The following table lists the inputs to the models used for the valuation of options during the year ended 31 December 2020:

| | Number of options | Fair value at measurement date US$ | Share price at Grant Date US$ | Exercise price US$ | Expected volatility (%) | Risk-free interest rate (%) | Expected life of options in years |
|---|---|---|---|---|---|---|---|
| | 8,300,000 | 0.079 | 0.089 | 0.089 | 100.0 | 0.89 | 10.0 |
| | 14,000,000 | 0.122 | 0.215 | 0.145 [(1)] | 100.0 | 0.90 | 10.0 |
| | 600,000 | 0.301 | 0.338 | 0.338 | 100.0 | 0.90 | 10.0 |
| Employees | 3,225,000 | 0.242 | 0.271 | 0.271 | 100.0 | 0.96 | 10.0 |
| | 2,900,000 | 0.235 | 0.264 | 0.264 | 100.0 | 0.91 | 10.0 |
| | 500,000 | 0.235 | 0.264 | 0.264 | 100.0 | 0.91 | 10.0 |
| | 500,000 | 0.028 | 0.032 | 0.035 | 95.3 | 1.00 | 10.0 |

[(1)] Options were originally granted on 10 August 2020 with a fair value of $0.112 per option. These options were modified on 11 September 2020 resulting in an incremental FV of $0.01 per option which has been added to options fair value.

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

**(e) Performance Rights granted as share-based payments**

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

| | Number 2021 | Number 2021 |
|---|---|---|
| At 1 January | 25,000 | - |
| Issued during the year | 265,000 | 25,000 |
| Converted during the year | (25,000) | - |
| At 31 December | 265,000 | 25,000 |

**(f) Performance rights valuation model**

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

| | | Number of performance rights | Grant date | Fair value at the date of offer of the grant US$ |
|---|---|---|---|---|
| 2021: | Employees | 265,000 | 10/08/2021 | 0.396 |
| 2020: | Consultants | 25,000 | 18/11/2020 | 0.264 |

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

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

| | Number 2021 | Number 2021 |
|---|---|---|
| At 1 January | 4,462,500 | 2,000,000 |
| Issued during the year | 5,022,500 | 2,462,500 |
| Converted during the year | (2,000,000) | - |
| At 31 December | 7,485,000 | 4,462,500 |

**26. SHARE-BASED PAYMENTS (continued)**

**(h) Restricted Stock Units valuation model**

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

| | | Number of RSUs granted | Grant date | Fair value at the date of offer of grant. US$ |
|---|---|---|---|---|
| 2021 | | | | |
| | Consultant | 125,000 | 10/08/2021 | 0.354 |
| | Employees | 1,205,000 | 10/08/2021 | 0.396 |
| | Employees | 3,580,000 | 16/11/2021 | 0.396 |
| 2020 | | | | |
| | Consultant | 12,500 | 03/12/2020 | 0.264 |
| | Employees | 2,100,000 | 10/08/2020 | 0.089 |
| | Employees | 350,000 | 21/12/2020 | 0.264 |

## 27. CONTINGENT ASSETS AND LIABILITIES

The Group had no contingent assets or liabilities at 31 December 2021 (31 December 2020: $Nil).

## 28. EVENTS AFTER THE BALANCE SHEET DATE

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

Ms Pia Turcinov was appointed as Non-Executive Director on 4 January 2022.

The Company issued 15,000,000 ordinary shares to the Trustee of the 2018 Long Term Incentive Plan, and 125,000 ordinary shares upon the vesting of restricted stock units.

LTIP participants exercised 5,044,024 options since 1 January 2022 and to the date of this report, contributing A$1,112,493 cash inflows to the Company. 12,500 restricted stock units also vested since the start of 2022.

On 14 January 2022, BrainChip submitted a capital call notice to LDA Capital in accordance with the POA to subscribe for up to 15M shares. The purpose of this capital call notice was primarily to satisfy the Company's obligation under The First Minimum Drawdown Amount to draw a minimum of A$5.3M no later than 28 February 2022, as well as to ensure the Company will meet the liquidity requirements necessary to execute the business plan. On 18 February 2022, the capital call notice was settled resulting in the Company receiving A$22,397,636.

The Company also received notification from the US Patent and Trademark Office of various patents and trademarks, as result of the Company's efforts to protect BrainChip's intellectual rights. The Company's patent portfolio comprises eight (8) patents granted in the US and one (1) patent granted in China, with a further 22 international patent applications pending in the US, Europe, Canada, Japan, Korea, Australia, Brazil, Mexico and Israel.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

## 29. AUDITOR'S REMUNERATION

| | 2021 US$ | 2020 US$ |
|---|---|---|
| *Amounts received or due to be receivable by HLB Mann Judd (WA Partnership) (appointed 28 May 2021) for:* | | |
| An audit or review of the financial reports of the entity | 54,320 | - |
| | 54,320 | |
| *Amounts received or due to be receivable by Ernst & Young (Australia) (resigned 28 May 2021) for:* | | |
| An audit or review of the financial reports of the entity | 42,990 | 107,593 |
| | 42,990 | 107,593 |
| *Amounts received or due and receivable by non-HLB Mann Judd (WA Partnership) or non-Ernst & Young audit firms for:* | | |
| An audit or review of the financial report of the entity | 10,781 | 9,851 |
| | 10,781 | 9,851 |

## 30. OPERATING SEGMENTS

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

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

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

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

| | 2021 US$ | 2020 US$ |
|---|---|---|
| **Revenue from external customers** | | |
| North America | 1,418,152 | 100,000 |
| Oceania | 11,208 | - |
| Europe, Middle East & Asia (EMEA) | 159,122 | 20,829 |
| Revenue from continuing operations | 1,588,483 | 120,829 |

Customers representing more than 10% of revenues in the current year amounted to $1,025,000 (2020: $80,000) comprising USA based customer comprising product and development service revenue.
In the prior year 10% of revenues comprised Customer A: $50,000 of development service revenue; and USA based Customer B: $20,000 of development service revenue and $10,000 product revenue.

| | 2021 US$ | 2020 US$ * |
|---|---|---|
| **Non-current assets** | | |
| North America | 2,652,000 | 945,494 |
| Oceania | 23,710 | - |
| EMEA | 222,317 | 147,373 |
| | 2,898,027 | 1,092,867 |

* Restated as a result of a correction of error (note 33)

## 31. RELATED PARTY DISCLOSURES

### (a) Ultimate parent

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

### (b) Subsidiaries

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

| Name | Country of incorporation | Beneficial interest 2021 | Beneficial interest 2020 |
|---|---|---|---|
| **Subsidiary companies of BrainChip Holdings Ltd** | | | |
| BrainChip Inc. (1) | USA | 100% | 100% |
| BrainChip Research Institute Pty Ltd | Australia | 100% | 100% |
| **Subsidiary companies of BrainChip Inc.** | | | |
| BrainChip SAS | France | 100% | 100% |
| BrainChip Systems India Private Limited (2) | India | 100% | 100% |

(1) BrainChip Holdings Ltd holds 100% of the shares of BrainChip Inc. effective from 10 September 2015.
(2) BrainChip Holdings Ltd holds 1%, and BrainChip Inc. holds 99%, of the shares of BrainChip Systems India Private Limited, effective from 22 July 2020.

### (c) Other entities

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

| Name | Country of registration | Beneficial interest 2021 | Beneficial interest 2020 |
|---|---|---|---|
| BrainChip Long Term Incentive Plan Trust (1) | Australia | - | - |

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

### (d) Key Management Personnel compensation

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

| | 2021 US$ | 2020 US$ |
|---|---|---|
| Short-term employee benefits | 2,144,401 | 1,979,665 |
| Termination expense | 400,000 | 80,830 |
| Share-based payment | 1,580,414 | 916,949 |
| | 4,124,815 | 2,977,444 |

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

Mr Antonio J. Viana entered into an agreement with BrainChip Inc on 1 November 2021 to provide business development consultancy services on a rolling 6 month period, renewed up to four years. The consideration agreed by Mr Viana and the Company valued at $6,000 per month is to be satisfied by the issue of 1 million RSUs, subject to shareholder approval, vesting 25% annually upon the anniversary of the agreement. If shareholder approval is not received at the 2022 AGM, the offer of payment in the form of RSU will be withdrawn.

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

### (e) Transactions with other related parties

There were no transactions with other related parties.

### (f) Loans to/from related parties

There were no outstanding loans arising to or from related parties (31 December 2020: $Nil).

## 32. PARENT ENTITY INFORMATION

| | 2021 US$ | 2020 US$ |
|---|---|---|
| **Information relating to BrainChip Holdings Ltd** | | |
| Current assets | 2,428,777 | 3,308,421 |
| Non-current assets | 16,861,489 | 18,164,857 |
| Total assets | 19,290,266 | 21,473,278 |
| Current liabilities | (231,980) | (4,379,393) |
| Non-current liabilities | - | - |
| Total liabilities | (231,980) | (4,379,393) |
| Net assets | 19,058,286 | 17,093,885 |
| Issued capital | 143,180,206 | 123,804,655 |
| Other contributed equity | 2,025,617 | 2,025,617 |
| Accumulated losses | (170,438,582) | (148,350,917) |
| Share-based payment reserve | 44,061,342 | 39,384,827 |
| Option premium reserve | 480,731 | 480,731 |
| Foreign currency translation reserve | - | - |
| Other reserves | (251,028) | (251,028) |
| Total shareholders' equity | 19,058,286 | 17,093,885 |
| Net loss of the parent entity (1) | 22,087,665 | 27,041,026 |
| Total comprehensive loss of the parent entity | 22,087,665 | 27,041,026 |

(1) At the reporting date investments and loans receivable from controlled entities net of provision for impairment totalled $16,861,489 (2020: $19,046,878). Impairment expense of $13,966,916 (2020: $9,370,125) was recognised for the year ended 31 December 2021.

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

## 33. CRITICAL JUDGEMENTS, ESTIMATES AND ERRORS

During the year ended 31 December 2021, the Group reviewed the test of impairment of goodwill and the cash generating units identified by management in prior years. As a consequence, the Company determined that a separate cash generating unit related to the development of BrainChip Studio should have been reported after the acquisition of BrainChip SAS (previously named Spikenet Technology SAS) in 2017. In 2018, management agreed to write down all capitalised costs related to BrainChip Studio and the product was abandoned in 2019. Accordingly, goodwill should have been fully impaired at the end of 2018.

The error has been corrected by restating each of the affected financial statement line items for the prior periods as follows:

| Statement of financial position | Previous amount US$ | 1 January 2020 Increase/ (Decrease) US$ | Restated amount US$ |
|---|---|---|---|
| Intangible assets and goodwill | 1,776,113 | (905,458) | 870,655 |
| Net assets | 9,096,350 | (905,458) | 8,190,892 |
| Accumulated losses | (74,383,457) | (905,458) | (75,288,915) |

The amounts disclosed above are for the Statement of profit or loss and other comprehensive income and the Statement of financial position as at 31 December 2018. The comparative period disclosures were restated for the correction of error in the following notes: note 16, note 25 and note 30.

# Directors' Declaration

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

In the opinion of the Directors:

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

(i) giving a true and fair view of the Company's and the Group's financial position as at 31 December 2021 and of their performance for the year ended on that date; and

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

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

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2021.

On behalf of the Board.

**Emmanuel T. Hernandez**
Chair
California, U.S.A., 22 February 2022

HLB MANN JUDD
ADVISORY AND ACCOUNTING

**INDEPENDENT AUDITOR'S REPORT**
To the members of BrainChip Holdings Limited

**Report on the Audit of the Financial Report**

*Opinion*

We have audited the financial report of BrainChip Holdings Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

a) giving a true and fair view of the Group's financial position as at 31 December 2021 and of its financial performance for the year then ended; and

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

*Basis for opinion*

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

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

*Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

**hlb.com.au**

**HLB Mann Judd (WA Partnership) ABN 22 193 232 714**
Level 4, 130 Stirling Street, Perth WA 6000 / PO Box 8124 Perth BC WA 6849
**T:** +61 (0)8 9227 7500 **E:** mailbox@hlbwa.com.au

| Key Audit Matter | How our audit addressed the key audit matter |
|---|---|
| **Financial Instruments**<br>Refer to Note 20 and 22 | |
| During the period the Group extended the Put Option Agreement with LDA Capital Limited and LDA Captial LLC (together LDA Capital). The details of this extension are outlined at note 20.<br><br>The accounting treatment, classification and valuation of the financial instruments was complex due to the significant judgements involved in identifying and valuing the possible derivative asset and derivative liability to be recognised at the extension and through to balance date.<br><br>Refer to note 2(h) of the financial report for a description of the applied accounting policy. Based on these factors it was determined to be a key audit matter. | Our audit procedures included the following:<br>• Examining the original and extension agreements to understand the key terms and conditions.<br>• Evaluating the Group's accounting treatment of the financial instruments in accordance with the applicable Australian Accounting Standards.<br>• Assessing the Group's valuations of any potential derivatives arising at the date of the extension through to balance date.<br>• Assessing the adequacy of management's expert who was engaged to perform the valuations and assess the accounting treatment.<br>• Vouching the cash received from the exercise of options.<br>• Testing the calculation of the fair value movements on the financial instruments.<br>• Engaging our internal expert to assess the appropriateness of managements treatment of the transaction.<br>• Assessing the adequacy of the presentation and disclosure in Notes 2(h), 20 and 22 to the financial statements, including whether the classification and disclosures were presented in accordance with the applicable Australian Accounting Standards. |

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

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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

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

*Responsibilities of the directors for the financial report*

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

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

*Auditor's responsibilities for the audit of the financial report*

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

**Report on the Remuneration Report**

*Opinion on the Remuneration Report*

We have audited the Remuneration Report included within the directors' report for the year ended 31 December 2021.

In our opinion, the Remuneration Report of BrainChip Holdings Limited for the year ended 31 December 2021 complies with section 300A of the *Corporations Act 2001*.

*Responsibilities*

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

HLB Mann Judd

**HLB Mann Judd**
**Chartered Accountants**

**B G McVeigh**
**Partner**

**Perth, Western Australia**
**23 February 2022**

# Additional Shareholder Information as at 24 January 2022



| (a) Top 20 Shareholders | Number of Shares | % |
|---|---|---|
| MR PETER ADRAIN VAN DER MADE | 160,305,823 | 9.351% |
| MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED | 110,211,503 | 6.429% |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2 | 81,403,828 | 4.748% |
| CITICORP NOMINEES PTY LIMITED | 72,462,089 | 4.227% |
| BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM | 64,407,769 | 3.757% |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 63,052,225 | 3.678% |
| J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 42,750,912 | 2,494% |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <GSCO CUSTOMERS A/C> | 24,983,295 | 1.457% |
| BNP PARIBAS NOMINEES PTY LTD SIX SIS LTD <DRP A/C> | 22,709,487 | 1,325% |
| COMSEC NOMINEES PTY LIMITED | 15,338,940 | 0.895% |
| UBS NOMINEES PTY LTD | 13,169,431 | 0.768% |
| CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C> | 12,803,799 | 0.747% |
| MR LOUIS DINARDO | 11,779,362 | 0.687% |
| LDA CAPITAL LIMITED | 10,000,000 | 0.583% |
| BNP PARIBAS NOMS PTY LTD <DRP> | 9,125,601 | 0.532% |
| CROSSFIELD INTECH NOMINEES PTY LTD <LIEBESKIND FAMILY S/FUND A/C> | 8,264,257 | 0.482% |
| MR PAUL GLENDON HUNTER | 8,000,000 | 0.467% |
| BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP> | 7,570,190 | 0.442% |
| MRS REBECCA OSSEIRAN-MOISSON <OSSEIRAN FAMILY A/C> | 6,843,172 | 0.399% |
| MR JEFFREY BRIAN WILTON | 5,800,000 | 0.338% |
| **Total Shares - Top 20 Holdings** | **750,981,683** | **43.805%** |
| **Total Shares** | **1,714,362,144** | |

(1) 100,589,833 fully paid ordinary shares are held by Merrill Lynch (Australia) Nominees Pty Limited on behalf of Mr Mankar.

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

| Size of parcel | Number of share holders | Number of shares | % |
|---|---|---|---|
| 1 to 1,000 | 8,522 | 5,579,716 | 0.33 |
| 1,001 to 5,000 | 16,840 | 44,522,268 | 2.60 |
| 5,001 to 10,000 | 6,198 | 49,105,230 | 2.86 |
| 10,001 to 100,000 | 9,207 | 288,947,112 | 16.85 |
| 100,001 and over | 1,471 | 1,326,207,818 | 77.36 |
| **Total** | **42,238** | **1,714,362,114** | **100.0** |

There are 1,259 holders with less than a marketable parcel of ordinary shares based on the Company's closing market price of $0.545 on 24 January 2022.

**(ii) Distribution of unquoted securities**

| Size of parcel | Number of Option holders | Number of options | Number of perfor-mance rights holders | Number of perform-ance rights | Number of restricted stock unit holders | Number of restricted stock units |
|---|---|---|---|---|---|---|
| 1 to 1,000 | - | - | - | - | - | - |
| 1,001 to 5,000 | - | - | - | - | - | - |
| 5,001 to 10,000 | - | - | - | - | - | - |
| 10,001 to 100,000 | 1 | 100,000 | 2 | 140,000 | 10 | 660,000 |
| 100,001 and over | 39 | 88,847,447 | 1 | 125,000 | 23 | 6,762,500 |
| **Total** | **40** | **88,947,447** | **3** | **265,000** | **32** | **7,247,500** |

| (c) **Substantial Shareholders** | **%** | **Number of shares** |
|---|---|---|
| MR PETER AJ VAN DER MADE | 9.35 | 160,305,823 |
| MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED (1) | 6.43 | 110,211,503 |

(1) 100,589,833 fully paid ordinary shares are held by Merrill Lynch (Australia) Nominees Pty Limited on behalf of Mr Mankar.

### (d) Voting Rights

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

*Ordinary fully paid shares*
Each ordinary shareholder is entitled to one vote for each share held.

*Options*
The holders of options have no voting rights. Upon exercise of the option, the holders will be holders of fully paid ordinary shares and therefore will have voting rights as afforded to shareholders of these securities.

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

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