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Cortical Dynamics Limited  
ACN 107 557 620

Financial Report 2016

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Cortical Dynamics Limited

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## **Directors**

David Breeze  
Bruce Whan  
Deborah Ambrosini (resigned 18 November 2015)  
David Liley ( Appointed 18 November 2015)

## **Registered Office**

14 View Street  
NORTH PERTH WA 6006

## **Principal Business Address**

14 View Street  
NORTH PERTH WA 6006  
Telephone: (08) 9328 8711  
Facsimile: (08) 9328 8733  
Website: [www.corticaldynamics.com](http://www.corticaldynamics.com)  
Email: [contact@corticaldynamics.com](mailto:contact@corticaldynamics.com)

## **Auditor**

HLB Mann Judd  
Level 4  
130 Stirling Street  
PERTH WA 6000

## **Australian Business Number**

88 107 557 620

# Directors' Report

Cortical Dynamics Limited

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The directors of Cortical Dynamics Limited ("Cortical Dynamics" or the "company") present their report on the company for the financial year ended 30 June 2016.

## Directors

The names of directors in office at any time during or since the end of the year are:

Name	Date Appointed	Date Resigned
David Breeze	9 November 2004	Current
Bruce Whan	8 January 2004	Current
Deborah Ambrosini	22 May 2008	18 November 2015
David Liley	18 November 2015	Current

## Company Secretary

Ms Deborah Ambrosini continues in her role of company secretary. She also holds the position of chief financial officer of the company and has over 15 years' experience in corporate accounting roles.

## Principal Activities

The principal activity of the economic entity during the financial year was the development of the Brain Anaesthesia Response (BAR) monitor which is based on an algorithm able to measure patient brain activity during surgery to assist in maintaining optimal drug dosage.

## Operating Results

Operating loss for the company after tax for the year was \$324,202 (2015: \$338,862).

## Dividends

The directors recommend that no dividend be paid in respect of the current period and no dividends have been paid or declared since the commencement of the period.

## Review of Operations

The major activities throughout the period were:

- During the year Cortical received notification from the Therapeutic Goods Administration ("TGA") that a decision was made to issue a conformity assessment certificate to Cortical under section 41EC of the Therapeutic Goods Act 1989. In addition to this Cortical also received notification that to it would be issued MRA EC certificates ("CE Mark") under the Mutual Recognition Agreement (MRA) with the European Union therefore allowing the CE mark to be applied to the BAR monitor. Having achieved TGA certification and the CE Mark, Cortical is now able to market the BAR monitor within Australia and Europe.
- During the period the results from the clinical trial written by Cortical's principal research scientist Dr Mehrnaz Shoushtarian, "Evaluation of the Brain Anaesthesia Response Monitor during anaesthesia for cardiac surgery: a double-blind, randomised controlled trial using two doses of fentanyl" were accepted for publication in the Journal of Clinical Monitoring and Computing.

# Directors' Report

Cortical Dynamics Limited

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- During the period the poster entitled "Comparisons of EEG measures of Hypnosis and Anti-Nociception in Response to Stimuli During Propofol Remifentanil Anesthesia" was presented at the 2015 Annual Meeting of the American Society of Anesthesiologists in San Diego. The paper was presented by Mr Marko Sahinovic who was one of the co-authors on this paper with Cortical's principal research scientist Dr Mehrnaz Shoushtarian.
- During the period Cortical Dynamics successfully completed a small scale offering to existing shareholders of the company. A total of 1,005,000 shares were issued at \$0.10 per share raising \$100,500 for the Company.
- During the period Cortical Dynamics signed a letter of intent ("LOI") with Device Technologies Australia Pty Ltd ("Device"). Under the LOI Device will have exclusive distribution rights for Australia and New Zealand for the sale of products for a period of six (6) months. Subject to the overall market assessment outcome Device will have the right to continue the exclusive distribution rights for an addition 4 and a half (4.5) years.

## Financial Position

The net asset deficiency of the company at 30 June 2016 was \$2,617,612 (2015: (\$2,393,910) deficiency).

## Significant Changes In State Of Affairs

There were no other significant changes in the state of affairs of the company other than that referred to in the financial statements or notes thereto.

## After Balance Date Events

Other than referred at note 20 of these financial accounts, there have not been any matters or circumstance that have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in future financial years.

## Environmental Issues

The company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

## Likely Developments

Likely developments which may prejudice the company by disclosure have not been disclosed.

## Information on Directors

### David Breeze

*Managing Director and Executive Chairman – Age 62*

Shares held – 9,998,702

David Breeze is a Corporate Finance Specialist with extensive experience in the stock broking industry and capital markets. He has been a corporate consultant to Daiwa Securities; was formerly manager of corporate services for Eyres Reed McIntosh and the state manager and associate director for the stock broking firm BNZ North's.

# Directors' Report

Cortical Dynamics Limited

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David has a Bachelor of Economics and a Masters of Business Administration, and is a Member of the Australian Institute of Management, an Associate Member of the Financial Services Institute of Australasia, and a Fellow of the Institute of Company Directors of Australia. He has published in the Journal of Securities Institute of Australia and has also acted as Independent Expert under the Corporations Act. He has worked on the structuring, capital raising and public listing of over 70 companies involving in excess of \$250M. These capital raisings covered a diverse range of areas including oil and gas, gold, food, manufacturing and technology.

David Breeze is Chairman of Grandbridge Limited, a publicly listed investment and advisory company and an Executive Director of MEC Resources Limited and BPH Energy Limited.

## **Bruce Whan**

*Non - Executive Director - Age 67*

Shares held – nil

Bruce Whan, BEng, PhD, FAICD, has a background in industry covering a range of research, operations and management positions, followed by a long career in the management of innovation and commercialisation of R&D, in particular from the public research sector.

For 12 years he was a Director of Swinburne Knowledge and CEO of Swinburne Ventures Limited, Swinburne University's commercialisation company. Bruce was a member of the Commercialisation Australia board and has been director of several companies, mostly start-ups out of Swinburne, and for 10 years was Chairman of the Victorian Innovation Centre Limited (INNOVIC), a non-profit company assisting innovators at all levels. He is also a Director of one Cooperative Research Centre. Bruce has in-depth knowledge and working experience of the challenges of the innovation process and of bringing the outputs of R&D through the commercialisation process to successful market entry.

Bruce is also a Director of Molecular Discovery Systems Limited and ASX listed BPH Energy Limited.

## **Deborah Ambrosini (resigned 18 November 2015)**

*Executive Director - Age 42*

Shares held – nil

Deborah is a corporate accountant with over 15 years' experience in accounting and business development spanning the biotechnology, mining, IT communications and financial services sectors. She has extensive experience in financial and business planning, compliance and taxation. Deborah is a member of the Institute of Chartered Accountants and also holds the position of executive director and company secretary for other publicly listed entities BPH Energy Limited, Grandbridge Limited and MEC Resources Ltd.

## **David Liley (appointed 18 November 2015)**

*Non - Executive Director - Age 51*

Shares held – 6,000,000

Professor David Liley is one of the founders of Cortical Dynamics and one of Cortical's Key Personnel. He graduated in Medicine at the University of Auckland in 1990, completing a PhD in Psychiatry and Applied Mathematics in 1996. Currently he is one of the senior researchers within the Brain and Psychological Sciences Research Centre at Swinburne University of Technology in Melbourne.

## **Meetings of Directors**

During the financial year, one meeting of directors (including committees of directors) were held. Attendances by each director during the year were:

# Directors' Report

Cortical Dynamics Limited

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## Directors' Meetings

	Number eligible to attend	Number attended
D L Breeze	1	1
B Whan	1	1
D Liley	1	1

## Indemnifying Officers or Auditors

During or since the end of the financial year the company has not given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums.

## Options

No options have been granted since year end or during the year.

## Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any such proceedings during the year.

## Non-audit Services

No fees were paid for non-audit services to the external auditors during the year ended 30 June 2016 (2015: nil).

## Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2016 has been received and can be found on page 5.

Signed in accordance with a resolution of the board of directors.



David Breeze

Director

Dated this 14<sup>th</sup> day of September 2016

## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Cortical Dynamics Limited for the year ended 30 June 2016, 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  
14 September 2016

**B McVeigh**  
Partner

# Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2016

Cortical Dynamics Limited

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	Note	2016 \$	2015 \$
Revenue	2	214	107
Other income	2	39,947	100,770
Administration expenses		(73,241)	(84,986)
Consulting and legal expenses		(30,400)	(46,099)
Depreciation and amortisation expense		(4,235)	(4,472)
Occupancy expense		(6,590)	(18,048)
Research and development expenses	3	(82,462)	(143,579)
Other expenses from ordinary activities		(167,435)	(142,555)
Operating loss before income tax		(324,202)	(338,862)
Income tax expense	7	-	-
<b>Operating Loss from continuing operations</b>		(324,202)	(338,862)
Other Comprehensive Income			
Items that will never be reclassified to profit or loss		-	-
Items that are or may be reclassified to profit or loss		-	-
<b>Total Comprehensive Income</b>		(324,202)	(338,862)

The accompanying notes form part of these financial statements.

# Statement of Financial Position as at 30 June 2016

Cortical Dynamics Limited

	Note	2016 \$	2015 \$
<b>Current Assets</b>			
Cash and cash equivalents	6	48,123	16,801
Trade and other receivables	8	42,796	74,307
Financial Assets	11	1,847	1,847
Other Assets	12	3,246	2,434
<b>Total Current Assets</b>		<b>96,012</b>	<b>95,389</b>
<b>Non-Current Assets</b>			
Property plant and equipment	10	136	435
Intangibles	9	51,180	55,116
<b>Total Non-Current Assets</b>		<b>51,316</b>	<b>55,551</b>
<b>Total Assets</b>		<b>147,328</b>	<b>150,940</b>
<b>Current Liabilities</b>			
Trade and other payables	13	75,015	56,719
Provisions	14	2,366	3,234
Other financial liabilities	15	2,686,656	2,483,822
<b>Total Current Liabilities</b>		<b>2,764,037</b>	<b>2,543,775</b>
<b>Non-Current Liabilities</b>			
Provisions	14	903	1,075
<b>Total Non-Current Liabilities</b>		<b>903</b>	<b>1,075</b>
<b>Total Liabilities</b>		<b>2,764,940</b>	<b>2,544,850</b>
<b>Net Assets/(Liabilities)</b>		<b>(2,617,612)</b>	<b>(2,393,910)</b>
<b>Equity</b>			
Issued capital	16	1,075,200	974,700
Reserves	17	2,981	2,981
Accumulated losses		(3,695,793)	(3,371,591)
<b>Total Equity/(Deficiency)</b>		<b>(2,617,612)</b>	<b>(2,393,910)</b>

The accompanying notes form part of these financial statements.

# Statement of Changes in Equity

## for the year ended 30 June 2016

Cortical Dynamics Limited

	Ordinary Share Capital \$	Accumulated losses \$	Reserves \$	Total \$
<b>Balance at 1 July 2014</b>	950,200	(3,032,729)	2,981	(2,079,548)
Loss attributable to members of the economic entity	-	(338,862)	-	(338,862)
Total comprehensive income	-	(338,862)	-	(338,862)
Shares issued	24,500	-	-	24,500
<b>Balance at 30 June 2015</b>	974,700	(3,371,591)	2,981	(2,393,910)
	Ordinary Share Capital \$	Accumulated losses \$	Reserves \$	Total \$
<b>Balance at 1 July 2015</b>	974,700	(3,371,591)	2,981	(2,393,910)
Loss attributable to members of the economic entity	-	(324,202)	-	(324,202)
Total comprehensive income	-	(324,202)	-	(324,202)
Shares issued	100,500	-	-	100,500
<b>Balance at 30 June 2016</b>	1,075,200	(3,695,793)	2,981	(2,617,612)

The accompanying notes form part of these financial statements.

# Statement of Cash Flows for the year ended 30 June 2016

Cortical Dynamics Limited

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	Note	2016 \$	2015 \$
<b><i>Cash Flows From Operating Activities</i></b>			
Payments to suppliers and employees		(139,896)	(284,094)
Research and development tax offset received		71,401	178,347
Grant monies received		-	27,368
Interest received /(paid)		(683)	107
<b>Net cash used in operating activities</b>	18(b)	<b>(69,178)</b>	<b>(78,272)</b>
<b><i>Cash Flows From Financing Activities</i></b>			
Receipt of loans		-	34,100
Receipt from issue of shares		100,500	24,500
Repayment of loans		-	-
<b>Net cash provided by financing activities</b>		<b>100,500</b>	<b>58,600</b>
<i>Net decrease/(increase) in Cash Held</i>		31,322	(19,672)
<i>Cash At the Beginning Of The Financial Year</i>		16,801	36,473
<b><i>Cash At The End Of The Financial Year</i></b>	18(a)	<b>48,123</b>	<b>16,801</b>

The accompanying notes form part of these financial statements.

# Notes to the Financial Statements for the year ended 30 June 2016

Cortical Dynamics Limited

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## 1. Statement of Significant Accounting Policies

### Corporate Information

Cortical Dynamic Ltd is a public unlisted company, which is incorporated and domiciled in Australia.

The financial report was authorised for issue on 14th September 2016 by the board of directors.

### Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, and the Corporations Act 2001. Cortical Dynamics Limited is a for-profit entity for the purpose of preparing the financial statements.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of for profit selected non-current assets, financial assets and financial liabilities.

### Compliance with IFRS

The financial statements of the Cortical Dynamics Limited comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### Going Concern

The company has incurred a net loss before tax for the year ended 30 June 2016 of \$324,202 (2015: \$338,862), and has a working capital deficit of (\$2,668,905) (note 16(a)) and a net asset deficiency position of \$2,617,612 (2015: deficiency of \$2,393,910) as at 30 June 2016.

Included in the working capital position of the company are loan payables of \$2,686,656 at 30 June 2016 (30 June 2015: \$2,483,822). Subsequent to year end the company has received letters confirming that \$2,657,056 will not be called upon for repayment for at least 12 months from signing the financial report or until such time the company is financially independent.

Based on the cash flow forecasts including the research and development rebate, loan funds to be received from a related party and a significant number of expense reductions which have been implemented, the directors are satisfied that, the going concern basis of preparation is appropriate. The financial report has therefore been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

# Notes to the Financial Statements for the year ended 30 June 2016

Cortical Dynamics Limited

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## Accounting Policies

### (a) Financial Instruments

#### Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

#### Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity is no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit and loss.

#### Classification and Subsequent Measurement

##### Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the statement of comprehensive income in the period in which they arise.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

##### Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost at effective interest rate method, comprising original debt less principal payments and amortisation.

##### Derivative instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

##### Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

# Notes to the Financial Statements for the year ended 30 June 2016

Cortical Dynamics Limited

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## (a) Financial Instruments (continued)

### Impairment

At each reporting date, the company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

## (b) Impairment of Assets

At each reporting date, the company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

## (c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

## (d) Revenue and Other Income

Interest revenue is recognised when it is probable that the economic benefits will flow to the company and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

All revenue is stated net of the amount of goods and services tax (GST).

## (e) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantively enacted by the statement of financial position date. Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is recognised in the statement of comprehensive income except

# Notes to the Financial Statements for the year ended 30 June 2016

Cortical Dynamics Limited

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## **(e) Income Tax (continued)**

where it relates to items that may be recognised directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences or unused tax losses or tax credits can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

### **Tax incentives**

The company is entitled to claim special tax deductions in relation to qualifying expenditure. As the company is not in a position to recognise current income tax payable or current tax expense, the refundable tax offset is in cash and recognised as R&D rebate revenue in the period incurred.

## **(f) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

## **(g) Intangibles**

### **Patents and Trademarks**

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents and trademarks are amortised over their useful life of 20 years.

## **(h) Trade and other payables**

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether or not billed to the company. The amounts are unsecured and are usually paid within 30 days.

## **(i) Share based payments**

Share based compensation benefits are provided to employees via the company's employee option plan.

The fair value of options granted under the company's employee option plan is recognized as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognized over the period during which the employees become unconditionally entitled to the options.

# Notes to the Financial Statements for the year ended 30 June 2016

Cortical Dynamics Limited

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## **(i) Share based payments (continued)**

The fair value at grant date is independently determined using an option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the option, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and risk free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimate of the number of options that are expected to vest. The employee benefit expense recognised each period takes into account the most recent estimate. Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

## **(j) Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

## **(k) Critical accounting estimates and judgments**

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company.

### Key estimates — Impairment

The company assesses impairment at each reporting date by evaluating conditions specific to the company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

## **(l) Employee Benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees to statement of financial position. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

## **(m) Property, plant and equipment**

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

### **Plant and equipment**

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The

# Notes to the Financial Statements for the year ended 30 June 2016

Cortical Dynamics Limited

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expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

## Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

<b>Class of Fixed Asset</b>	<b>Depreciation Rate</b>
Plant and equipment	33.33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

## (n) Trade and Other Receivables

Trade receivables and other receivables are carried at amortised cost less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when the collection of the full amount of the debt is no longer probable. Bad debts are written off when identified.

# Notes to the Financial Statements for the year ended 30 June 2016

Cortical Dynamics Limited

## (o) Application of New and Revised Accounting Standards

### Standards and Interpretations applicable to 30 June 2016

In the year ended 30 June 2016, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company and effective for the current annual reporting period.

As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations on the Company and, therefore, no material change is necessary to Group accounting policies.

### Standards and Interpretations in issue not yet adopted

The Directors have also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2016. As a result of this review the Directors have determined that there is no material impact, of the new and revised Standards and Interpretations on the Group and, therefore, no change is necessary to Group accounting policies

	2016 \$	2015 \$
<b>2. Revenue</b>		
<b>Revenue</b>		
Interest Revenue	214	107
	<u>214</u>	<u>107</u>
<b>Other Income</b>		
R&D rebate	39,947	71,340
Other income	-	29,430
	<u>39,947</u>	<u>100,770</u>

## 3. Expenses Included in the Loss for the Year

### Research and Development Expenses:

Salary	38,575	85,568
Superannuation expense	3,664	8,129
Consultant expense	13,182	39,547
Other expenses	27,041	10,335
	<u>82,462</u>	<u>143,579</u>

# Notes to the Financial Statements for the year ended 30 June 2016

Cortical Dynamics Limited

	2016 \$	2015 \$
<b>4. Auditors' Remuneration</b>		
Remuneration of the auditor of the company for:		
HLB Mann Judd	5,000	-
Nexia Perth Audit Services	-	6,000
	<u>5,000</u>	<u>6,000</u>

## 5. Key Management Personnel Compensation

Names and positions held of company key management personnel in office at any time during the financial year are:

### *Key Management Personnel*

David Breeze – Managing Director and Executive Chairman  
Bruce Whan – Non-Executive Director  
David Liley – Non Executive Director  
Deborah Ambrosini- Company Secretary

### Remuneration of Key Management Personnel

During the year no fees were paid to the key management personnel of Cortical Dynamics (2015: Nil).

	2016 \$	2015 \$
<b>6. Cash and cash equivalents</b>		
Cash at bank and in hand	48,123	16,801

The average effective interest rate on short-term bank deposits was 0.003%: (2015: 0.003%)

# Notes to the Financial Statements for the year ended 30 June 2016

Cortical Dynamics Limited

	2016 \$	2015 \$
<b>7. Income Tax Expense</b>		
The components of tax expense comprise:		
Current tax	-	-
Deferred tax	-	-
a) The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2015: 30%)	(97,261)	(101,659)
Non-deductible expenses	-	-
Adjustment for prior years	96,585	100,435
Revenue losses not recognised	676	(1,224)
Income tax	-	-
	%	%
Weighted average rate of tax	-	-
The following deferred tax balances at 30% (2015: 30%) have not been recognised		
Deferred Tax Assets:		
Carry forward revenue losses	614,395	301,238
Temporary differences	4,567	5,188
(b) Deferred Tax Liabilities		
Research and Development accrual	(12,000)	(21,900)
Net deferred tax assets:	606,962	284,526
The above Deferred Tax Liabilities have been offset against the carry forward revenue losses.		
(c) The tax benefits of the unrecognised tax losses will only be obtained if:		
(i) the company derives future assessable income in a nature and of an amount sufficient to enable the benefits to be utilised;		
(ii) the company continues to comply with the conditions for deductibility imposed by law; and		
(iii) no changes in income tax legislation adversely affect the company in utilising the benefits.		

# Notes to the Financial Statements for the year ended 30 June 2016

Cortical Dynamics Limited

	2016 \$	2015 \$
<b>8. Trade and other receivables</b>		
<b>CURRENT</b>		
Research and development rebate receivable	40,000	73,000
GST receivable	2,796	1,307
Other receivables	-	-
Total trade and other receivables	<u>42,796</u>	<u>74,307</u>
<b>9. Intangibles</b>		
Contacts Database		
Patent Costs	<u>51,179</u>	<u>55,116</u>
Reconciliation		
Opening balance	55,116	59,052
Less Amortisation	<u>(3,936)</u>	<u>(3,936)</u>
Closing balance	<u>51,180</u>	<u>55,116</u>
Patent costs include all costs associated with the filing and maintenance of the patents for the company's technologies.		
<b>10. Property, Plant and Equipment</b>		
Property, plant and equipment At cost	16,144	16,144
Property, plant and equipment Accumulated depreciation	<u>(16,008)</u>	<u>(15,709)</u>
Total Property, plant and equipment	<u>136</u>	<u>435</u>

# Notes to the Financial Statements for the year ended 30 June 2016

Cortical Dynamics Limited

## 10. Property, Plant and Equipment (continued)

### (a) Movements in Carrying Amounts

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	2016	2015
	\$	\$
Balance at the beginning of the year	435	971
Additions	-	-
Disposals	-	-
Depreciation expense	(299)	(536)
Carrying amount at the end of the year	136	435

## 11. Financial Assets

### Current

Unsecured Loans to other entities: (a)

MEC Resources Ltd	1,359	1,359
BPH Energy Limited	418	418
Diagnostic Array Systems Pty Ltd	70	70
	1,847	1,847

(a) These loans are unsecured, non-interest bearing and repayable on demand.

## 12. Other Current Assets

Prepayments	3,246	2,434
Total Other Current Assets	3,246	2,434

# Notes to the Financial Statements for the year ended 30 June 2016

Cortical Dynamics Limited

	2016	2015
	\$	\$
<b>13. Trade and other payables</b>		
Unsecured:		
Trade payables	59,563	40,185
Sundry payables and accrued expenses	15,452	16,534
	<u>75,015</u>	<u>56,719</u>

The average credit period on payables is 45 days. The company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

## 14. Provisions

Employee entitlements:

Opening balance at 1 July	4,309	2,404
Additional/(Reduction) in provision	(1,040)	1,905
Balance at 30 June	<u>3,269</u>	<u>4,309</u>
Current	2,366	3,234
Non-Current	903	1,075
Total at 30 June	<u>3,269</u>	<u>4,309</u>

### Provision for Employee Entitlements

A provision has been recognised for employee entitlements relating to annual leave. The measurement and recognition criteria relating to employee benefits has been included in Note 1 to this report.

## 15. Other financial liabilities

### Current

Unsecured loans : (a)

Loan payable to BPH Energy Limited	494,170	494,170
Loan payable to Grandbridge Limited	340,180	283,937
Secured loans : (c) and (d)		
Loan payable to BPH Energy Limited	1,822,706	1,669,766
Advance on Research and Development Rebate (b)	29,600	35,949

<u>2,686,656</u>	<u>2,483,822</u>
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# Notes to the Financial Statements for the year ended 30 June 2016

Cortical Dynamics Limited

## 15. Other financial liabilities (continued)

- (a) These loans to other entities are non-interest bearing and repayable on demand.
- (b) On 16 June 2016 Cortical entered into a funding agreement which was secured against their 2016 Research and Development rebate for the maximum amount of \$32,000. The loan can be drawn down in a maximum of two tranches throughout the agreement. Interest is charged monthly at a rate of 18% per annum. The funds are to be used for working capital and further advancement of the BAR monitor. As at reporting date the closing balance of the loan including interest accrued to 30 June 2016 was \$29,600 (2015: \$35,949).
- (c) On 19 November 2010 (execution date), a convertible loan agreement with BPH Energy was entered into. The facility was for an amount of \$500,000. The loan agreement is convertible at the election of BPH Energy. The issue price on conversion will be \$0.10 cents per share. Interest is charged annually at a rate of 8.16% per annum. The net proceeds received from the issue of the convertible notes have been split between the financial liability element and an equity component, representing the residual attributable to the option to convert the financial liability into equity of the company.

The interest expense for the year of \$46,743 is calculated by applying an effective interest rate of 8.83% to the liability component for the year. As at reporting date the closing balance of the loan including interest accrued to 30 June 2016 was \$575,846 (2015: \$532,643).

- (d) On 28 February 2012 (execution date) Cortical Dynamics entered into a second convertible loan agreement with BPH Energy. The facility is for an amount of \$1,000,000 and has an annual interest rate of 9.40%. The loan agreement is convertible at the election of BPH Energy. The issue price on conversion will be the lower of \$0.10 cents per share and the most recent share placement price achieved by the company in the 6 months prior to conversion. Interest is charged annually at a rate of 9.40% per annum. The net proceeds received from the issue of the convertible notes have been split between the financial liability element and an equity component, representing the residual attributable to the option to convert the financial liability into equity of the company.

The liability component is subsequently measured at amortised cost. The interest expense for the year of \$109,707 is calculated by applying an effective interest rate of 9.40% to the liability component for year. As at the reporting date the closing balance of the loan including interest accrued to 30 June 2016 was \$1,246,829 (2015:\$1,137,121).

	2016	2015
	\$	\$
<b>16. Issued Capital</b>		
104,671,221 (2015: 103,666,221) fully paid ordinary shares of no par value	1,075,200	974,700

### Fully Paid Ordinary Share Capital

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

# Notes to the Financial Statements for the year ended 30 June 2016

Cortical Dynamics Limited

## 16. Issued Capital (continued)

	2016 \$	2015 \$	2016 No.	2015 No.
<b>(a) Ordinary Shares</b>				
At the beginning of reporting period	974,700	950,200	103,666,221	103,176,221
Share issued during the year	100,500	24,500	1,005,000	490,000
At reporting date	1,075,200	974,700	104,671,221	103,666,221

### Capital risk management

The company's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they may continue to provide returns for shareholders and benefits for other stakeholders.

The focus of the company's capital risk management is:

- the current working capital position against the requirements of the company to meet corporate overheads; and
- to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required.

The working capital position of the company at 30 June 2016 and 30 June 2015 are as follows:

	2016 \$	2015 \$
Cash and cash equivalents	48,123	16,801
Trade and other receivables	44,643	76,154
Trade and financial liabilities	(2,761,671)	(2,540,541)
Working capital position	(2,668,905)	(2,447,586)

Refer to note 1 for further details of the Group's financial position and plans to manage the working capital deficit at 30 June 2016.

## 17. Reserves

Option premium on convertible notes	2,981	2,981
<b>Reconciliation of movement</b>		
Opening balance	2,981	2,981
Recognition of option premium on convertible notes	-	-
Closing balance	2,981	2,981

The option premium on convertible notes represents the equity component (conversion rights) of the convertible notes issued during the year.

# Notes to the Financial Statements for the year ended 30 June 2016

Cortical Dynamics Limited

## 18. Cash Flow Information

### a) Reconciliation of Cash

	2016	2015
	\$	\$
For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:		
Cash and cash equivalents	48,123	16,801

### b) Reconciliation of Cash Flow from Operations with Profit after income tax

Operating loss after income tax	(324,202)	(338,862)
Non-cash flows in profit:		
Depreciation	299	536
Intercompany recharges	146,592	126,606
Administration recharge	56,242	46,110
Amortisation	3,936	3,936
Changes in working capital:		
Decrease in trade receivables	31,511	104,945
Decrease in other assets	(820)	(853)
Increase/ (Decrease) in trade payables and accruals	18,304	(22,595)
(Decrease)/Increase in provisions	(1,040)	1,905
<b>Net cash flow from operating activities</b>	<b>(69,178)</b>	<b>(78,272)</b>

## 19. Financial Instruments

### a) Financial Risk Management

The company's financial instruments consist mainly of deposits with banks, accounts receivable and payable, and loans from related parties. The main purpose of non-derivative financial instruments is to raise finance for company operations.

#### i. Financial Risks

The main risks that the company is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk.

Interest rate risk

# Notes to the Financial Statements for the year ended 30 June 2016

Cortical Dynamics Limited

## 19. Financial Instruments (continued)

Interest rate risk is managed with a mixture of fixed and floating rate debt.

Liquidity risk

The company manages liquidity risk by monitoring forecast cash flows.

Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

Credit risk for derivative financial instruments arises from the potential failure by counter-parties to the contract to meet their obligations.

### b) Financial Instruments

#### i. Interest rate risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

2016	Effective Average Interest Rate Receivable /Payable %	Floating Interest Rate \$	Fixed Interest Rate 1 - 5Years \$	Non-Interest Bearing \$	Total \$
<b>Financial Assets</b>					
Cash and cash equivalents	.003%	48,123	-	-	48,123
Trade and other receivables		-	-	42,796	42,796
Financial assets - current		-	-	1,847	1,847
		48,123	-	44,643	92,762
<b>Financial Liabilities</b>					
Trade and sundry Payables		-	-	75,015	75,015
Other financial liabilities	8.60%	-	1,852,306	834,350	2,686,656
		-	1,852,306	909,365	2,761,671

# Notes to the Financial Statements for the year ended 30 June 2016

Cortical Dynamics Limited

## 19. Financial Instruments (continued)

2015	Effective Average Interest Rate Receivable / Payable %	Floating Interest Rate \$	Fixed Interest Rate 1 - 5Years \$	Non-Interest Bearing \$	Total \$
<b>Financial Assets</b>					
Cash and cash equivalents	.003%	16,801	-	-	16,801
Trade and other receivables		-	-	74,307	74,307
Financial assets - current		-	-	1,847	1,847
		16,801	-	76,154	92,955
<b>Financial Liabilities</b>					
Trade and sundry Payables		-	-	56,719	56,719
Other financial liabilities	8.60%	-	1,705,715	778,107	2,483,822
		-	1,705,715	834,826	2,540,541

### ii. Fair Values

The fair values of:

- Term receivables are determined by discounting the cash flows, at the market interest rates of similar securities, to their present value.
- Other loans and amounts due are determined by discounting the cash flows, at market interest rates of similar borrowings to their present value.
- Other assets and liabilities approximate their carrying value.

No financial assets and financial liabilities are readily traded on organised markets in standardised form other than listed investments.

Aggregate fair values and carrying amounts of financial assets and financial liabilities at balance date:

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Loans and receivables	44,643	44,643	76,154	76,154
	44,643	44,643	76,154	76,154
<b>Financial Liabilities</b>				
Other loans and amounts due	2,686,656	2,686,656	2,483,822	2,483,822
Other liabilities	75,015	75,015	56,719	56,719
	2,761,671	2,761,671	2,540,541	2,540,541

# Notes to the Financial Statements for the year ended 30 June 2016

Cortical Dynamics Limited

## 19. Financial Instruments (continued)

### iii. Sensitivity Analysis

#### Interest Rate Risk

The company has performed sensitivity analysis relating to its exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks

#### *Interest Rate Sensitivity Analysis*

The effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	Company	
	2016	2015
<b>Change in profit</b>		
— Increase in interest rate by 1%	329	168
— Decrease in interest rate by 0.5%	(165)	(84)

### iv. Liquidity risk

Liquidity is the risk that the company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The following are the contractual maturities at the end of the reporting period of financial liabilities.

#### 30 June 2016

#### Contractual cash flows

	Carrying amount	Total	2 mths or less	2-12 mths	1-2 years
<b>Financial liabilities</b>					
Trade and other payables	75,015	(75,015)	(75,015)	-	-
Unsecured loan	834,349	(834,349)	-	-	(834,349)
Convertible note	1,852,307	(1,852,307)	-	-	(1,852,307)
	<u>2,761,671</u>	<u>(2,761,671)</u>	<u>(75,015)</u>	<u>-</u>	<u>(2,686,656)</u>

#### 30 June 2015

#### Contractual cash flows

	Carrying amount	Total	2 mths or less	2-12 mths	1-2 years
<b>Financial liabilities</b>					
Trade and other payables	56,719	(56,719)	(56,719)	-	-
Unsecured loan	778,107	(778,107)	-	-	(778,107)
Convertible note	1,705,715	(1,705,715)	-	-	(1,705,715)
	<u>2,540,541</u>	<u>(2,540,541)</u>	<u>(56,719)</u>	<u>-</u>	<u>(2,483,822)</u>

# Notes to the Financial Statements for the year ended 30 June 2016

Cortical Dynamics Limited

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## 20. Events after the Reporting Date

On 16<sup>th</sup> July 2016 Cortical prepared an offering to sophisticated and professional investors. The offer gave investors the opportunity to purchase shares in Cortical at 10c per share. The offer closed on 30 July 2016 and a total of \$85,000 was raised.

## 21. Related Party Transactions

### (a) *Key Management Personnel Remuneration*

Details of key management personnel remuneration and retirement benefits are disclosed in note 5 to the financial statements.

### (b) *Related entities*

Refer to Note 15 for details regarding unsecured and secured loans with related entity BPH Energy Limited.

## 22. Commitments

At reporting date there were no commitments.

# Directors' Declaration

Cortical Dynamics Limited

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The directors of the company declare that:

1. the financial statements and notes, as set out on pages 6 to 28, are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the financial position as at 30 June 2016 and of the performance for the year ended on that date of the company;
2. the Financial Statements and Notes comply with International Financial Reporting Standards as disclosed in Note 1;
3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to S295(5) of the Corporations Act 2001.

Director



.....  
David Breeze  
Executive Director

Dated this 14<sup>th</sup> day of September 2016

## INDEPENDENT AUDITOR'S REPORT

To the members of Cortical Dynamics Limited

### Report on the Financial Report

We have audited the accompanying financial report of Cortical Dynamics Limited ("the company"), which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flow for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration, for the company.

### ***Directors' Responsibility for the Financial Report***

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal 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 Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, the financial statements comply with International Financial Reporting Standards.

### ***Auditor's Responsibility***

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

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

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

### ***Independence***

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### ***Auditor's Opinion***

In our opinion:

- (a) the financial report of Cortical Dynamics Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2016 and its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

HLB Mann Judd

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

A handwritten signature in black ink, appearing to read 'B G McVeigh'.

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

**Perth, Western Australia**  
**14 September 2016**