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Cortical Dynamics Limited

ACN 107 557 620

Financial Report 2012

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Cortical Dynamics Limited

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Directors  
David Breeze  
Bruce Whan  
Deborah Ambrosini  
Greg Gilbert

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NORTH PERTH WA 6006

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Auditor  
Deloitte Touche Tohmatsu  
Woodside Plaza  
Level 14  
240 St Georges Tce  
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 2012.

## Directors

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

Name	Date Appointed
David Breeze	9 November 2004
Bruce Whan	8 January 2004
Deborah Ambrosini	22 May 2008
Greg Gilbert	16 February 2011

## Company Secretary

Ms Deborah Ambrosini continues in her role of Company Secretary. She also holds the position of Financial Controller of the Company and has over 11 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, an algorithm able to measure patient brain activity during surgery to assist in maintaining optimal drug dosage.

## Operating Results

Operating loss for the consolidated entity after tax for the year was \$1,023,471 (2011: \$267,148).

## 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:

- a) Cortical Dynamics was awarded the accolade of being named as one of the finalists in the health category of The Australian Innovation Challenge, a national innovation competition
- b) Cortical Dynamics obtained ethics approval from the Human Research Ethics Committee of St Vincent's Hospital (St Vincent's), Melbourne. The study which commenced in January 2012 employed the Brain Anaesthesia Response (BAR) monitor to detect varying levels of anaesthetic agents in an operating room environment where the presence of multiple artifacts are known to complicate the EEG assessment of anaesthetic action.

# Directors' Report

Cortical Dynamics Limited

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- c) Key patents related to BAR monitor were granted in the United States and New Zealand entitled 'Brain Function Monitoring and Display systems'.
- d) Key patents related to BAR monitor were granted in New Zealand entitled 'EEG Analysis System'
- e) Completion of the analysis of the End-to-End trials was conducted at Swinburne University with the analysis concluding that the major components of the BAR monitor are functioning properly, providing the necessary verification of the BAR monitor for it to be used in clinical studies.
- f) Cortical Dynamics was recipient of the Western Australian initiative, the Innovation Voucher Program. The grant monies are being used towards Cortical implementing a quality management system that satisfies the medical regulatory bodies of Australia and Europe. It is anticipated that a regulatory application will be lodged late 2012.
- g) On 18 June 2012 the Company closed its Initial Public Offering ("IPO") undersubscribed. The Company was not able to raise the minimum subscription under the IPO and was therefore unable to meet the conditions required for Official Quotation on ASX.

## Financial Position

The net asset deficiency of the company at 30 June 2012 were \$1,190,235 (2011: (\$168,646) 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

On 12 July 2012 and 4 September 2012, the company drew down a further \$50,000 and \$100,000 respectively under their convertible loan agreement facility with BPH Energy Limited.

## 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 59*

Shares held – 9,998,702

# Directors' Report

Cortical Dynamics Limited

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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.

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 Ltd and BPH Energy Limited.

## **Bruce Whan**

*Non - Executive Director - Age 63*

Shares held - nil

Bruce has been actively involved in innovation for some 20 years and is Director of Swinburne Knowledge, Swinburne University's commercialisation unit, and CEO of Swinburne Ventures Limited (SVL). Under his management, SVL has established or become involved in 18 start-up companies which have attracted investment of over \$16 million and presently enjoy annual operating revenues exceeding \$3 million. He is also Chairman of INNOVIC (the Victorian Innovation Centre Limited), which evaluates new products and technologies, and then plans and implements commercialisation strategies to attract investment and to optimise the likelihood of market place success. Bruce is also a member of the I&RD Board Engineering and Manufacturing Committee which administers applications for commercial ready funding.

## **Deborah Ambrosini**

*Executive Director - Age 38*

Shares held - nil

Deborah is a corporate accountant with over 10 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.

## **Greg Gilbert**

*Non Executive Director - Age 64*

Shares held - nil

Greg is a specialist in strategy and planning and works in the health and aged care sector. He has a Master of Science from Cranfield University in the UK and, in addition, has a Master of Health Administration from La Trobe University, an MBA from Deakin University, a BA from the University of Queensland, and a Dip.App Sc from the Royal Military College Duntroon.

Greg has an extensive background in merchant banking and banking, having held the position Global Head of Strategy and Finance and Project Director Global Credit Review with the

# Directors' Report

Cortical Dynamics Limited

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National Australia Bank, as well as having worked in executive roles with Capel Court Investment Bank, CIBC Australia Limited and Bentley and Chau.

Greg has also worked with the National Australia Bank as an Internal Consultant on strategic operational reviews with Mckinsey and Company and Booz Allen and Hamilton consultants.

A former Lieutenant Colonel in the Australian Defence Force, he has extensive senior management experience in strategic planning, financial management, change management and project management as well as merchant banking and corporate advisory experience in mergers and acquisitions and valuations.

Greg is also an Executive Director of BPH Energy Limited.

## 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' Meetings	
	Number eligible to attend	Number attended
D L Breeze	1	1
B Whan	1	1
D Ambrosini	1	1
G Gilbert	1	1

## Indemnifying Officers or Auditors

During or since the end of the financial year the company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The company has paid premiums to insure each of the following directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the company. The amount of the premium was \$23,486.

- D Breeze
- D Ambrosini
- G Gilbert
- B Whan

The company has not indemnified the current or former auditor of the Company.

## Options

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

# Directors' Report

Cortical Dynamics Limited

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## 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

The board of directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

There were no fees paid for non-audit services to the external auditors during the year ended 30 June 2012 (2011: nil).

## Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2012 has been received and can be found on page 6.

Signed in accordance with a resolution of the Board of Directors.

A handwritten signature in black ink, appearing to read 'D. Breeze'.

David Breeze

Director

Dated this 4 October 2012

The Board of Directors  
Cortical Dynamics Limited  
14 View Street  
NORTH PERTH WA 6006

4 October 2012

Dear Board Members

### **Cortical Dynamics Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Cortical Dynamics Limited.

As lead audit partner for the audit of the financial statements of Cortical Dynamics Limited for the financial year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



**Chris Nicoloff**  
Partner  
Chartered Accountants

# Statement of Comprehensive Income

for the year ended 30 June 2012

Cortical Dynamics Limited

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	Note	2012 \$	2011 \$
Revenue	2	206,589	91,348
Other income	2	19,246	155
Administration expenses		(210,484)	(62,291)
Consulting and Legal expenses		(326,884)	(94,326)
Depreciation and amortisation expense		(4,008)	(3,934)
Occupancy expense		(26,465)	(11,458)
Research and development expenses		(255,872)	(159,585)
Other expenses from ordinary activities		(425,593)	(27,057)
Operating Loss Before Income Tax	3	(1,023,471)	(267,148)
Income tax expense	7	-	-
<b>Operating Loss from continuing operations</b>		<b>(1,023,471)</b>	<b>(267,148)</b>
Other Comprehensive Income		-	-
<b>Total Comprehensive Income</b>		<b>(1,023,471)</b>	<b>(267,148)</b>

The accompanying notes form part of these financial statements.

# Statement of Financial Position as at 30 June 2012

Cortical Dynamics Limited

	Note	2012 \$	2011 \$
<b>Current Assets</b>			
Cash and cash equivalents	6	47,922	70,118
Trade and other receivables	8	280,949	103,228
Financial Assets	11	1,847	1,847
Other Assets	12	27,107	296,906
<b>Total Current Assets</b>		<b>357,825</b>	<b>472,099</b>
<b>Non-Current Assets</b>			
Property Plant and Equipment	10	836	-
Intangibles	9	66,924	70,860
<b>Total Non-Current Assets</b>		<b>67,760</b>	<b>70,860</b>
<b>Total Assets</b>		<b>425,585</b>	<b>542,959</b>
<b>Current Liabilities</b>			
Trade and other payables	13	126,195	187,142
Provisions	14	(498)	1,709
Other financial liabilities	15	1,159,155	522,754
<b>Total Current Liabilities</b>		<b>1,284,852</b>	<b>711,605</b>
<b>Non-Current Liabilities</b>			
Other financial liabilities	15	330,968	-
<b>Total Non-Current Liabilities</b>		<b>330,968</b>	<b>-</b>
<b>Total Liabilities</b>		<b>1,615,820</b>	<b>711,605</b>
<b>Net Assets</b>		<b>(1,190,235)</b>	<b>(168,646)</b>
<b>Equity</b>			
Issued capital	16	950,200	950,200
Reserves	17	15,921	14,039
Accumulated losses		(2,156,356)	(1,132,885)
<b>Total Equity</b>		<b>(1,190,235)</b>	<b>(168,646)</b>

The accompanying notes form part of these financial statements.

# Statement of Changes in Equity

for the year ended 30 June 2012

Cortical Dynamics Limited

	Ordinary Share Capital \$	Accumulated losses \$	Reserves \$	Total \$
<b>Balance at 1 July 2010</b>	950,200	(865,737)	-	84,463
Loss attributable to members of the economic entity	-	(267,148)	-	(267,148)
Other comprehensive income	-	-	-	-
<b>Total comprehensive income</b>	-	(267,148)	-	(267,148)
Issue of convertible note	-	-	14,039	14,039
Capital raising costs	-	-	-	-
Share based payments	-	-	-	-
<b>Balance at 30 June 2011</b>	950,200	(1,132,885)	14,039	(168,646)
<b>Balance at 1 July 2011</b>	950,200	(1,132,885)	14,039	(168,646)
Loss attributable to members of the economic entity	-	(1,023,471)	-	(1,023,471)
Other comprehensive income	-	-	-	-
<b>Total comprehensive income</b>	-	(1,023,471)	-	(1,023,471)
Issue of convertible note	-	-	1,882	1,882
Capital raising costs	-	-	-	-
Share based payments	-	-	-	-
<b>Balance at 30 June 2012</b>	950,200	(2,156,356)	15,921	(1,190,235)

The accompanying notes form part of these financial statements.

# Statement of Cash Flows for the year ended 30 June 2012

Cortical Dynamics Limited

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	Note	2012 \$	2011 \$
<b>Cash Flows From Operating Activities</b>			
Receipts from customers		-	-
Payments to suppliers and employees		(932,468)	(282,325)
Research and development tax offset received		80,412	51,039
Interest Received		19,256	155
<b>Net cash used in operating activities</b>	18(b)	<b>(832,800)</b>	<b>(231,131)</b>
<b>Cash Flows From Investing Activities</b>			
Purchase of Property Plant and Equipment		(909)	-
<b>Net cash used in investing activities</b>		<b>(909)</b>	<b>-</b>
<b>Cash Flows From Financing Activities</b>			
Repayment/Receipt of loans		855,000	449,697
Proceeds /(Refund) of shares issue proceeds		(43,487)	43,000
Capital raising costs		-	(211,148)
<b>Net cash provided by financing activities</b>		<b>811,513</b>	<b>281,549</b>
<i>Net increase (decrease) in Cash Held</i>		(22,196)	50,418
<i>Cash At the Beginning Of The Financial Year</i>		70,118	19,700
<b><i>Cash At The End Of The Financial Year</i></b>	18(a)	<b>47,922</b>	<b>70,118</b>

The accompanying notes form part of these financial statements.

# Notes to the Financial Statements for the year ended 30 June 2012

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 4th of October 2012 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, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001.

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 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 2012 of \$1,023,471 (2011: \$267,148), and has a working capital deficiency of \$927,027 (2011: deficiency of \$239,506) and a net asset deficiency position of \$1,190,235 (2011: deficiency of \$168,646) as at 30 June 2012.

Included in the working capital deficiency are loan payables of \$1,159,155 at 30 June 2012 (30 June 2011: \$522,754) from BPH Energy Limited and Grandbridge Limited. The Company has received letters from BPH Energy Limited and Grandbridge Limited confirming that they will not call upon their loans outstanding for at least 12 months from signing the financial report or until such time the Company is financially independent.

On 12 July 2012 and 4 September 2012, Cortical Dynamics drew down a further \$50,000 and \$100,000 respectively under their convertible loan agreement facility with BPH Energy Limited entered into on 28<sup>th</sup> February 2012. A further \$520,000 can be drawn down under this convertible loan agreement.

The directors have prepared cash flow forecasts that indicate that the Company will have sufficient cash flows for a period of at least 12 months from the date of signing the financial report.

Based on the cash flow forecasts including the research and development rebate and receipt of funds from BPH Energy Limited, 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.

## Accounting Policies

### (a) 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 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.

### (b) 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.

## Held-to-maturity investments

These investments have fixed maturities, and it is the company's intention to hold these investments to maturity. Any held-to-maturity investments held by the company are stated at amortised cost using the effective interest rate method.

## Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

## Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, 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.

## 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.

## (c) 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.

# Notes to the Financial Statements for the year ended 30 June 2012

Cortical Dynamics Limited

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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.

## (d) 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.

## (e) Revenue and Other Income

Revenue from the rendering of a service is recognised by reference to the stage of completion of the contract.

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

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).

## (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 cashflows 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.

The fair value at grant date is independently determined using a Black and Scholes 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-tradeable 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) Earnings per share**

Basic earnings per share (EPS) is calculated as net profit/loss attributable to members, adjusted to exclude 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 adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

## **(n) Government grants**

Government grants are not recognised until there is reasonable assurance that the company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the company should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the company with no future related costs are recognised in profit or loss in the period in which they become receivable.

## **(o) 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 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 group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of 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 consolidated group 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.

# Notes to the Financial Statements for the year ended 30 June 2012

Cortical Dynamics Limited

Class of Fixed Asset	Depreciation Rate
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Plant and equipment	33.33%
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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.

## (p) 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.

	2012 \$	2011 \$
<b>2. Revenue</b>		
<b>Operating activities</b>		
R&D rebate	206,589	77,602
Other income	-	13,747
Interest Revenue	19,246	155
	<u>225,835</u>	<u>91,503</u>

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

### Research and Development Expenses:

Salary	105,273	25,760
Superannuation expense	9,673	2,318
Consultant expense	125,333	107,563
Equipment expense	1,506	15,287
Other expenses	14,087	8,657
	<u>255,872</u>	<u>159,585</u>

## 4. Auditors' Remuneration

Remuneration of the auditor of the company for:

Deloitte Touche Tohmatsu	8,000	7,500
	<u>8,000</u>	<u>7,500</u>

# Notes to the Financial Statements for the year ended 30 June 2012

Cortical Dynamics Limited

## 5. Key Management Personnel Compensation

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

### *Key Management Personnel*

D L Breeze – Managing Director and Executive Chairman  
 Bruce Whan – Non-Executive Director  
 D Ambrosini- Executive Director and Company Secretary  
 Greg Gilbert - Non-Executive Director

### Remuneration of Key Management Personnel

During the year no fees were paid to the Directors of Cortical Dynamics (2011: Nil).

### Shareholdings - Cortical Dynamics Ltd

#### Number of Shares Held by Key Management Personnel

#### 2012

Key Management Person	Balance 1.7.2011	Received as Compensation	Options Exercised	Net Change Other	Balance 30.6.2012
D L Breeze	9,998,702	-	-	-	9,998,702
Bruce Whan	-	-	-	-	-
D Ambrosini	-	-	-	-	-
Greg Gilbert	-	-	-	-	-

#### 2011

Key Management Person	Balance 1.7.2010	Received as Compensation	Options Exercised	Net Change Other	Balance 30.6.2011
D L Breeze	9,998,702	-	-	-	9,998,702
Bruce Whan	-	-	-	-	-
D Ambrosini	-	-	-	-	-
Greg Gilbert	-	-	-	-	-

2012  
\$

2011  
\$

## 6. Cash and cash equivalents

Cash at bank and in hand

47,922

70,118

The average effective interest rate on short-term bank deposits was 4.25%: (2011: 4.25%)

# Notes to the Financial Statements for the year ended 30 June 2012

Cortical Dynamics Limited

	2012 \$	2011 \$
<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% (2011: 30%)	(307,039)	(80,144)
Non deductible expenses	(55,644)	(1,678)
Tax benefit of revenue losses not recognised	(251,394)	(78,466)
	<hr/>	<hr/>
Income tax attributable to parent entity	-	-
	<hr/>	<hr/>
	%	%
Weighted average rate of tax	-	-
The following deferred tax balances at 30% (2011: 30%) have not been recognised		
Deferred Tax Assets:		
Carry forward revenue losses	356,552	137,806
Temporary differences	14,282	40,578
(b) The tax benefits of the above Deferred Tax Assets will only be obtained if:		
(a) the company derives future assessable income in a nature and of an amount sufficient to enable the benefits to be utilised;		
(b) the company continues to comply with the conditions for deductibility imposed by law; and		
(c) no changes in income tax legislation adversely affect the company in utilising the benefits.		
Deferred Tax Liabilities		
Research and Development accrual	77,437	23,281
The above Deferred Tax Liabilities have not been recognised as they have given rise to the carry forward revenue losses for which the Deferred Tax Asset has not been recognised.		

# Notes to the Financial Statements for the year ended 30 June 2012

Cortical Dynamics Limited

	2012	2011
	\$	\$
<b>8. Trade and other receivables</b>		
<b>CURRENT</b>		
Research and development rebate receivable	206,579	77,602
Refund – ASX listing fees	51,545	-
GST receivable	17,478	20,626
Other receivables	5,347	5,000
Total trade and other receivables	<u>280,949</u>	<u>103,228</u>

## 9. Intangibles

Contacts Database		
Patent Costs	<u>66,924</u>	<u>70,860</u>
Reconciliation		
Opening balance	70,860	78,730
Less Amortisation	<u>(3,936)</u>	<u>(7,870)</u>
Closing balance	<u>66,924</u>	<u>70,860</u>

Patent costs include all costs associated with the filing and maintenance of the patents for the company's technologies.

## 10. Plant and Equipment

Plant and Equipment At Cost	15,236	14,328
Plant and Equipment Accumulated Depreciation	<u>(14,400)</u>	<u>(14,328)</u>
Total Plant and Equipment	<u>836</u>	<u>-</u>

### (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.

# Notes to the Financial Statements for the year ended 30 June 2012

Cortical Dynamics Limited

	2012	2011
	\$	\$
Balance at the beginning of the year	-	-
Additions	908	-
Disposals	-	-
Depreciation expense	(72)	-
Carrying amount at the end of the year	836	-

## 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	27,107	85,759
Capitalised costs – Initial Public Offering	-	211,147
Total Other Current Assets	27,107	296,906

## 13. Trade and other payables

Unsecured:

Trade payables	94,925	88,412
Subscriptions received – initial public offering	-	43,000
Sundry payables and accrued expenses	31,270	55,730
	126,195	187,142

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.

# Notes to the Financial Statements for the year ended 30 June 2012

Cortical Dynamics Limited

	2012 \$	2011 \$
<b>14. Provisions</b>		
Provision – Employee entitlements	(498)	1,709
Balance at 30 June	(498)	1,709

## 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 485,070 100,070

Loan payable to Grandbridge Limited 153,148 82,996

Secured loans : (b)(d)

Loan payable to BPH Energy Limited (b)  
(d) 520,937 339,688

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1,159,155 522,754

### Non – Current

Secured loans : (b)(c)

Loan payable to BPH Energy Limited – Feb  
2012 (c) 330,968 -

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330,968 -

- (a) These loans to other entities are non interest bearing and repayable on demand.
- (b) These loans are secured by a charge over all of the assets and undertakings of Cortical Dynamics Ltd and interest bearing. Subject to the conditions of the agreement BPH Energy Limited (“BPH Energy”) has the right to conversion to satisfy the debt on or before the termination date.
- (c) On 28th February 2012 Cortical Dynamics entered into a convertible loan agreement with BPH Energy. The facility is for a maximum amount of \$1M 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. The funds will be used for short term working capital requirements and funding further development of the BAR monitor. The facility will terminate on the earlier of 24 months from the execution date and any date on which the facility is terminated in accordance with the agreement.

# Notes to the Financial Statements for the year ended 30 June 2012

Cortical Dynamics Limited

- (d) Subject to Cortical Dynamics being admitted to the Official List this loan is convertible at the election of BPH Energy. The issue price on conversion will be \$0.10 cents per share. Interest will be 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, as follows:

Proceeds of issue - \$495,000

Liability component at date of issue – \$479,079

Equity component - \$15,921

The equity component of \$15,921 has been credited to equity – see Note 17

The liability component is subsequently measured at amortised cost. The interest expense for the year \$38,132 (2011: \$3,726) is calculated by applying an effective interest rate of 8.16% to the liability component for year.

	2012 \$	2011 \$
<b>16. Issued Capital</b>		
103,176,221 (2011: 103,176,221) fully paid ordinary shares of no par value	950,200	950,200

## Fully Paid Ordinary Share Capital

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

### (a) 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. The company's strategy is 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 2012 and 30 June 2011 are as follows:

	2012 \$	2011 \$
Cash and cash equivalents	47,922	70,118
Trade and other receivables	280,948	103,228
Trade and other payables	(126,195)	(187,142)
Working capital position	202,675	(13,796)

# Notes to the Financial Statements for the year ended 30 June 2012

Cortical Dynamics Limited

## 17. Reserves

	2012	2011
	\$	\$
Option premium on convertible notes	15,921	14,039
<b>Reconciliation of movement</b>		
Opening balance	14,039	-
Recognition of option premium on convertible notes	1,882	14,039
Closing balance	15,921	14,039

The option premium on convertible notes represents the equity component (conversion rights) of the convertible notes issued during the year. See Note 15

## 18. Cash Flow Information

### a) Reconciliation of Cash

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	47,922	70,118
<b>b) Reconciliation of Cash Flow from Operations with Profit after income tax</b>		
Operating loss after income tax	(1,023,471)	(267,148)
Non-cash flows in profit:		
Depreciation (of non current assets)	72	-
Intercompany recharges	44,100	
Administration recharge	70,170	52,792
Amortisation	3,936	3,933
Changes in net assets and liabilities:		
Decrease/ (Increase) in trade receivables	(177,722)	(40,309)
(Increase)/decrease in other assets	269,793	(90,759)

# Notes to the Financial Statements for the year ended 30 June 2012

Cortical Dynamics Limited

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(Decrease)/ Increase in trade payables and accruals	(19,678)	110,360
<b>Net cash flow from operating activities</b>	<b>(832,800)</b>	<b>(231,131)</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

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.

The company does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the company.

### 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:

# Notes to the Financial Statements for the year ended 30 June 2012

Cortical Dynamics Limited

2012	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	4.25	47,922	-	-	47,922
Trade and other receivables		-	-	280,949	280,949
Financial assets - current		-	-	1,847	1,847
		47,922	-	282,796	330,718
<b>Financial Liabilities</b>					
Trade and sundry Payables		-	-	126,195	126,195
Other financial liabilities	8.60%	-	851,905	638,218	1,490,123
		-	851,905	764,413	1,616,318

2011	Effective Average Interest Rate Payable %	Floating Interest Rate \$	Fixed Interest Rate 1 - 5Years \$	Non-Interest Bearing \$	Total \$
<b>Financial Assets</b>					
Cash and cash equivalents	4.25	70,118	-	-	70,118
Trade and other receivables		-	-	103,228	103,228
Financial assets - current		-	-	1,847	1,847
		70,118	-	105,075	175,193
<b>Financial Liabilities</b>					
Trade and sundry Payables		-	-	187,142	187,142
Other financial liabilities	8.16	-	339,688	183,066	522,754
		-	339,688	370,208	709,896

## 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.

# Notes to the Financial Statements for the year ended 30 June 2012

Cortical Dynamics Limited

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

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Loans and receivables	282,796	282,796	105,075	105,075
	<u>282,796</u>	<u>282,796</u>	<u>105,075</u>	<u>105,075</u>
<b>Financial Liabilities</b>				
Other loans and amounts due	1,490,123	1,490,123	522,754	522,754
Other liabilities	126,195	126,195	187,142	187,142
	<u>1,616,318</u>	<u>1,616,318</u>	<u>709,896</u>	<u>709,896</u>

## 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	
	2012	2011
<b>Change in profit</b>		
— Increase in interest rate by 1%	5,349	36
— Decrease in interest rate by 0.5%	(2,674)	(18)

## 20. Operating Segment

Operating segments have been identified on the basis of internal reports of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The chief operating decision maker has been identified as the Board of Directors. On a regular basis, the board receives financial information on the company on a basis similar to the financial statements presented in the financial report, to manage and allocate their resources.

The company holds operates in one industry and this is biotechnology.

# Notes to the Financial Statements for the year ended 30 June 2012

Cortical Dynamics Limited

## 21. Events after the Reporting Date

On 12 July 2012 and 4 September 2012, the company drew down a further \$50,000 and \$100,000 respectively under their convertible loan agreement facility with BPH Energy Limited.

## 22. 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) Directors' Equity Holdings

	Parent	
	2012	2011
	\$	\$
Ordinary Shares		
Held as at the date of this report by directors and their director-related entities in:		
Cortical Dynamics Limited	9,998,702	9,998,702

### (c) Related entities

A secured convertible loan exists with BPH Energy. The loan is for a maximum amount of \$500,000 and is to be used for short term working capital requirements. Subject to Cortical Dynamics being admitted to the Official list BPH Energy has a right of conversion to satisfy the debt on or before the termination date. As at reporting date the loan been drawn down by an amount of \$536,858 (2011: \$353,727).

During the year Cortical Dynamics entered into a secured convertible loan agreement with BPH Energy. The loan is for a maximum amount of \$1,000,000 and is to be used for short term working capital requirements and funding further development of the BAR monitor. BPH Energy has a right of conversion to satisfy the debt on or before the termination date if Cortical Dynamics application for admission to the Official List is unsuccessful. As at reporting date the loan been drawn down by an amount of \$330,968 (2011: nil).

A loan payable exists between Cortical Dynamics and BPH Energy \$485,070 (2011: \$100,070). This amount is unsecured, non interest bearing and repayable on demand.

## 23. Contingent liabilities and Commitments

As at the date of this report there are no contingent liabilities.

The company has entered into a services contract with Swinburne University for a period of 24 months. The agreement is for the services of a BioMedical Engineer to assist in the further development of the BAR monitor. The total value of the contract is \$192,594 and payable quarterly in arrears. As at 30 June 2012, \$88,268 is still payable under the service contract (2011:\$184,561).

## 24. Application of New and Revised Accounting Standards

Standards and Interpretations adopted in the current year

# Notes to the Financial Statements for the year ended 30 June 2012

Cortical Dynamics Limited

The Company has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to their operations and are effective for the current financial reporting period beginning 1 July 2011.

The following new and revised Standards and Interpretations have been adopted in the current period:

- AASB 124 'Related Party Disclosures' (revised December 2009) and AASB 2009-12 'Amendments to Australian Accounting Standards'
- AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'
- AASB 2010-5 'Amendments to Australian Accounting Standards'
- AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets'

The impact of the adoption of these Standards and Interpretation did not have a material impact on the Company.

## Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, following Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Company for the year ended 30 June 2012:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments' (December 2009), AASB 2009- 11 'Amendments to Australian Accounting Standards arising from AASB 9' AASB 9 'Financial Instruments' (December 2010) and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)'	1 January 2013	30 June 2014
AASB 10 'Consolidated Financial Statements'	1 January 2013	30 June 2014
AASB 11 'Joint Arrangements'	1 January 2013	30 June 2014
AASB 12 'Disclosure of Interests in Other Entities'	1 January 2013	30 June 2014
AASB 127 'Separate Financial Statements' (2011)	1 January 2013	30 June 2014
AASB 128 'Investments in Associates and Joint Ventures' (2011)	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB	1 January 2013	30 June 2014

# Notes to the Financial Statements for the year ended 30 June 2012

Cortical Dynamics Limited

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
119 (2011)'		
AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets'	1 January 2012	30 June 2013
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	30 June 2014
AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'	1 January 2013	30 June 2014
AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'	1 July 2012	30 June 2013
AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to AASB 7)'	1 January 2013	30 June 2014
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities (Amendments to AASB 132)'	1 January 2014	30 June 2015
AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle	1 January 2013	30 June 2014

At the date of authorisation of the financial statements the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and interpretations have not yet been issued and have not been adopted by the Company for the year ended 30 June 2012.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Mandatory Effective Date of IFRS 9 and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)	1 January 2015	30 June 2016
Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)	1 January 2013	30 June 2014

The impact of these recently issued or amended standards and interpretations have not been determined as yet by the Company.

# 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 7 to 30, 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 2012 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 4 October 2012

## Independent Auditor's Report to the Members of Cortical Dynamics Limited

We have audited the accompanying financial report of Cortical Dynamics Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 7 to 31.

### *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*, that the financial statements comply with International Financial Reporting Standards.

### *Auditor's Responsibility*

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

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

### *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Cortical Dynamics Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

## *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 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.



DELOITTE TOUCHE TOHMATSU



**Chris Nicoloff**  
Partner  
Chartered Accountants  
Perth, 4 October 2012