
Cortical Dynamics Limited

ACN 107 557 620

Financial Report 2015

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Cortical Dynamics Limited

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Directors

David Breeze
Bruce Whan
Deborah Ambrosini

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NORTH PERTH WA 6006

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Auditor

Nexia Perth Audit Services Pty Ltd
Level 3, 88 William Street
PERTH WA 6000

Australian Business Number

88 107 557 620

Directors' Report

Cortical Dynamics Limited

The directors of Cortical Dynamics Limited ("Cortical Dynamics" or the "company") present their report on the company for the financial year ended 30 June 2015.

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

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 \$338,862 (2014: \$414,200).

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:

- Cortical is progressing the BAR monitor toward regulatory approval in Australia and Europe. In 2013 Cortical lodged an application for Conformity Assessment Certification with the Australian therapeutics and goods administration (TGA), a review which comprises of an on-site audit of a company's manufacturing facility in addition to the examination of the device's clinical evidence.

The on-site audit showed Cortical to satisfactorily comply with the manufacturing standard established under the *Therapeutic Goods Act 1989*. Satisfactorily complying with the TGA on-site audit validates Cortical's Quality Management System to a standard that is recognised for the design, development and manufacturing of safe medical devices.

Late 2014 Cortical Dynamics Ltd voluntarily withdrew its Conformity Assessment application after receiving feedback from the TGA. Cortical subsequently refined its application to better reflect the Essential Principles of the TGA and submitted an amended application in February 2015 and is awaiting a response to this. TGA certification will allow Cortical to market the BAR monitor within Australia.

Directors' Report

Cortical Dynamics Limited

- During the period Cortical re-located its manufacturing and research facility to the STC incubator in Scoresby Victoria. The re-location to the STC - a facility designed to promote commercialisation and entrepreneurship around next-generation innovation - will provide the network and support to further advance the development and commercialisation of the BAR monitor.
- On the 22nd of September 2015 Cortical Dynamics received formal notification from the Therapeutic Goods Administration ("TGA") that a decision has been made to issue a conformity assessment certificate to Cortical under section 41EC of the Therapeutic Goods Act 1989.
- During the year Cortical raised \$24,500 from share placements to existing shareholders. A total of 490,000 shares were issued at 5c per share.

Financial Position

The net asset deficiency of the company at 30 June 2015 was \$2,393,910 (2014: (\$2,079,548) 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 to 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 61
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.

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

Directors' Report

Cortical Dynamics Limited

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 66

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. He remains a director of Swinburne Ventures Limited. 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 3 Cooperative Research Centres. 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

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.

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

Directors' Report

Cortical Dynamics Limited

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 2015 (2014: nil).

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2015 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 28 October 2015

Lead auditor's independence declaration under section 307C of the Corporations Act 2001

To the directors of Cortical Dynamics Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2015 there have been:

- (i) no contraventions of the auditor's independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

NPAS

Nexia Perth Audit Services Pty Ltd

Amar Nathwani

Amar Nathwani
Director

Perth
28 October 2015

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2015

Cortical Dynamics Limited

	Note	2015 \$	2014 \$
Revenue	2	100,770	224,940
Other income	2	107	655
Administration expenses		(84,986)	(103,823)
Consulting and Legal expenses		(46,099)	(60,482)
Depreciation and amortisation expense		(4,472)	(4,408)
Occupancy expense		(18,048)	(28,458)
Research and development expenses	3	(143,579)	(303,459)
Other expenses from ordinary activities		(142,555)	(139,165)
Operating Loss Before Income Tax		(338,862)	(414,200)
Income tax expense	7	-	-
Operating Loss from continuing operations		(338,862)	(414,200)
Other Comprehensive Income			
Items that will never be reclassified to profit or loss		-	-
Items that are or may be reclassified to profit or loss		-	-
Total Comprehensive Income		(338,862)	(414,200)

The accompanying notes form part of these financial statements.

Statement of Financial Position as at 30 June 2015

Cortical Dynamics Limited

	Note	2015 \$	2014 \$
Current Assets			
Cash and cash equivalents	6	16,801	36,473
Trade and other receivables	8	74,307	179,252
Financial Assets	11	1,847	1,847
Other Assets	12	2,434	1,581
Total Current Assets		95,389	219,153
Non-Current Assets			
Property Plant and Equipment	10	435	971
Intangibles	9	55,116	59,052
Total Non-Current Assets		55,551	60,023
Total Assets		150,940	279,176
Current Liabilities			
Trade and other payables	13	56,719	79,319
Provisions	14	3,234	2,404
Other financial liabilities	15	2,483,822	2,277,001
Total Current Liabilities		2,543,775	2,358,724
Non-Current Liabilities			
Provisions	14	1,075	-
Total Non-Current Liabilities		1,075	-
Total Liabilities		2,544,850	2,358,724
Net Assets		(2,393,910)	(2,079,548)
Equity			
Issued capital	16	974,700	950,200
Reserves	17	2,981	2,981
Accumulated losses		(3,371,591)	(3,032,729)
Total Equity		(2,393,910)	(2,079,548)

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

for the year ended 30 June 2015

Cortical Dynamics Limited

	Ordinary Share Capital \$	Accumulated losses \$	Reserves \$	Total \$
Balance at 1 July 2013	950,200	(2,618,529)	2,981	(1,665,348)
Loss attributable to members of the economic entity	-	(414,200)	-	(414,200)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	(414,200)	-	(414,200)
Issue of convertible note	-	-	-	-
Balance at 30 June 2014	950,200	(3,032,729)	2,981	(2,079,548)
Balance at 1 July 2014	950,200	(3,032,729)	2,981	(2,079,548)
Loss attributable to members of the economic entity	-	(338,862)	-	(338,862)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	(338,862)	-	(338,862)
Shares issued	24,500	-	-	24,500
Balance at 30 June 2015	974,500	(3,371,591)	2,981	(2,393,910)

The accompanying notes form part of these financial statements.

Statement of Cash Flows for the year ended 30 June 2015

Cortical Dynamics Limited

	Note	2015 \$	2014 \$
Cash Flows From Operating Activities			
Receipts from customers		-	-
Payments to suppliers and employees		(284,094)	(496,368)
Research and development tax offset received		178,347	203,810
Grant monies received		27,368	54,940
Interest Received		107	655
Net cash used in operating activities	18(b)	<u>(78,272)</u>	<u>(236,963)</u>
Cash Flows From Investing Activities			
Purchase of Property Plant and Equipment		-	(908)
Net cash used in investing activities		<u>-</u>	<u>(908)</u>
Cash Flows From Financing Activities			
Receipt of loans		34,100	260,000
Receipt from issue of shares		24,500	-
Repayment of loans		-	(50,000)
Net cash provided by financing activities		<u>58,600</u>	<u>210,000</u>
<i>Net decrease/(increase) in Cash Held</i>		(19,672)	(27,871)
<i>Cash At the Beginning Of The Financial Year</i>		36,473	64,344
Cash At The End Of The Financial Year	18(a)	<u>16,801</u>	<u>36,473</u>

The accompanying notes form part of these financial statements.

Notes to the Financial Statements for the year ended 30 June 2015

Cortical Dynamics Limited

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 28 October 2015 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 2015 of \$338,862 (2014: \$414,200), and has a working capital deficit of (\$2,447,586) (note 16) and a net asset deficiency position of \$2,393,910 (2014: deficiency of \$2,079,548) as at 30 June 2015.

Included in the working capital position of the company are loan payables of \$2,483,822 at 30 June 2015 (30 June 2014: \$2,277,001). Subsequent to year end the company has received letters confirming that \$2,447,873 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, expected loan funds to be received from the R&D facility, letter of support from a director 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 2015

Cortical Dynamics Limited

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 2015

Cortical Dynamics Limited

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

Notes to the Financial Statements for the year ended 30 June 2015

Cortical Dynamics Limited

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.

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.

Notes to the Financial Statements for the year ended 30 June 2015

Cortical Dynamics Limited

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.

Notes to the Financial Statements for the year ended 30 June 2015

Cortical Dynamics Limited

(n) 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 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.

Class of Fixed Asset

Depreciation Rate

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.

(o) 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.

(p) Application of New and Revised Accounting Standards

New and amended standards adopted in the current year

The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2014:

- AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets
- AASB 2013-4 Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting
- Interpretation 21 Accounting for Levies
- AASB 2014-1 Amendments to Australian Accounting Standards

The adoption of these standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

New standards not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2015 reporting periods and have not been early adopted by the group. The group's assessment of the impact of these new standards and interpretations is set out below.

AASB 9 Financial Instruments

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.

AASB 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety.

The standard is not expected to have a material impact on the Company's financial instruments.

AASB 15 Revenue from Contracts with Customers

AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (e.g. 1 July 2017), i.e. without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

AASB 15 is mandatory for financial years commencing on or after 1 January 2017. Management is currently assessing the impact of the new rules. At this stage, the group is not able to estimate the impact of the new rules on the group's financial statements. The Company will make more detailed assessments of the impact over the next twelve months.

Notes to the Financial Statements for the year ended 30 June 2015

Cortical Dynamics Limited

	2015 \$	2014 \$
2. Revenue		
Operating activities		
R&D rebate	71,340	170,000
Other income	29,430	54,940
Interest Revenue	107	655
	<u>100,877</u>	<u>225,595</u>

3. Expenses Included in the Loss for the Year

Research and Development Expenses:

Salary	85,568	110,454
Superannuation expense	8,129	10,217
Consultant expense	39,547	150,241
Other expenses	10,335	32,547
	<u>143,579</u>	<u>303,459</u>

4. Auditors' Remuneration

Remuneration of the auditor of the company for:

Nexia Perth Audit Services	6,000	8,360
	<u>6,000</u>	<u>8,360</u>

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

Notes to the Financial Statements for the year ended 30 June 2015

Cortical Dynamics Limited

Remuneration of Key Management Personnel

During the year no fees were paid to the directors of Cortical Dynamics (2014: Nil).

Shareholdings - Cortical Dynamics Ltd

Number of Shares Held by Key Management Personnel

2015

Key Management Person	Balance 1.7.2014	Received as Compensation	Options Exercised	Net Change Other	Balance 30.6.2015
D L Breeze	9,998,702	-	-	-	9,998,702
Bruce Whan	-	-	-	-	-
D Ambrosini	-	-	-	-	-
Greg Gilbert	-	-	-	-	-

2014

Key Management Person	Balance 1.7.2013	Received as Compensation	Options Exercised	Net Change Other	Balance 30.6.2014
D L Breeze	9,998,702	-	-	-	9,998,702
Bruce Whan	-	-	-	-	-
D Ambrosini	-	-	-	-	-
Greg Gilbert	-	-	-	-	-

6. Cash and cash equivalents

Cash at bank and in hand

2015
\$

2014
\$

16,801 36,473

The average effective interest rate on short-term bank deposits was 0.003%: (2014: 1.42%)

Notes to the Financial Statements for the year ended 30 June 2015

Cortical Dynamics Limited

	2015 \$	2014 \$
7. Income Tax Expense		
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% (2014: 30%)	(101,659)	(124,260)
Non-deductible expenses	-	-
Adjustment for prior years	100,435	34,226
Revenue losses not recognised	(1,224)	(90,034)
Income tax	-	-
	%	%
Weighted average rate of tax	-	-
The following deferred tax balances at 30% (2014: 30%) have not been recognised		
Deferred Tax Assets:		
Carry forward revenue losses	301,238	426,722
Temporary differences	5,188	10,412
(b) Deferred Tax Liabilities		
Research and Development accrual	21,900	51,000
Net deferred tax liabilities:	284,526	386,134
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 2015

Cortical Dynamics Limited

	2015 \$	2014 \$
8. Trade and other receivables		
CURRENT		
Research and development rebate receivable	73,000	170,000
GST receivable	1,307	3,415
Other receivables	-	5,837
Total trade and other receivables	<u>74,307</u>	<u>179,252</u>

9. Intangibles

Contacts Database		
Patent Costs	<u>55,116</u>	<u>59,052</u>
Reconciliation		
Opening balance	59,052	62,988
Less Amortisation	<u>(3,936)</u>	<u>(3,936)</u>
Closing balance	<u>55,116</u>	<u>59,052</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	16,144	16,144
Plant and Equipment Accumulated Depreciation	<u>(15,709)</u>	<u>(15,173)</u>
Total Plant and Equipment	<u>435</u>	<u>971</u>

Notes to the Financial Statements for the year ended 30 June 2015

Cortical Dynamics Limited

(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.

	2015	2014
	\$	\$
Balance at the beginning of the year	971	536
Additions	-	907
Disposals	-	-
Depreciation expense	(536)	(472)
Carrying amount at the end of the year	435	971

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	2,434	1,581
Total Other Current Assets	2,434	1,581

Notes to the Financial Statements for the year ended 30 June 2015

Cortical Dynamics Limited

	2015	2014
	\$	\$
13. Trade and other payables		
Unsecured:		
Trade payables	40,185	55,302
Sundry payables and accrued expenses	16,534	24,017
	<u>56,719</u>	<u>79,319</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	2,404	486
Additional/Reduction in provision	1,905	1,918
Balance at 30 June	<u>4,309</u>	<u>2,404</u>
Current	3,234	2,404
Non-Current	1,075	-
Total at 30 June	<u>4,309</u>	<u>2,404</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	485,070
Loan payable to Grandbridge Limited	283,937	237,827
Secured loans : (c)		
Loan payable to BPH Energy Limited	1,669,766	1,554,104
Advance on Research and Development Rebate (b)	35,949	-
	<u>2,483,822</u>	<u>2,277,001</u>

(a) These loans to other entities are non-interest bearing and repayable on demand.

Notes to the Financial Statements for the year ended 30 June 2015

Cortical Dynamics Limited

- (b) On 2 May 2015 Cortical entered into a funding agreement which was secured against their 2015 Research and Development rebate for the maximum amount of \$100,000. The loan can be drawn down in a maximum of two tranches throughout the agreement. Interest is charged monthly at a rate of 22% 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 2015 was \$35,949 (2014: \$nil).
- (c) On the 19th 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. The \$500,000 facility was extended on 18 November 2013, the same conversion terms were retained. The facility will terminate on the earlier of 48 months from the execution date and any date on which the facility is terminated in accordance with the agreement.

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 \$25,347 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 2015 was \$532,643 (2014: \$507,295).

- (d) On 28th 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. The \$1,000,000 facility was extended on 22 August 2013, the same conversion terms were retained. The facility will terminate on the earlier of 36 months from the execution date and any date on which the facility is terminated in accordance with the agreement.

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 \$100,311 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 2015 was \$1,137,121 (2014:\$1,046,809).

Notes to the Financial Statements for the year ended 30 June 2015

Cortical Dynamics Limited

	2015 \$	2014 \$
16. Issued Capital		
103,666,221 (2014: 103,176,221) fully paid ordinary shares of no par value	974,700	950,200

Fully Paid Ordinary Share Capital

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

	Consolidated		Consolidated	
	2015 \$	2014 \$	2015 No.	2014 No.
(a) Ordinary Shares				
At the beginning of reporting period	950,200	950,200	103,176,221	103,176,221
Share issued during the year	24,500	-	490,000	-
At reporting date	974,700	950,200	103,666,221	103,176,221

(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; 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 2015 and 30 June 2014 are as follows:

	2015 \$	2014 \$
Cash and cash equivalents	16,801	36,473
Trade and other receivables	76,154	179,252
Trade and financial liabilities	(2,540,541)	(2,356,320)
Working capital position	(2,447,586)	(2,140,595)

Refer to note 1 for further details of the Group's financial position and plans to manage the working capital deficit at 30 June 2015.

17. Reserves

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

Notes to the Financial Statements for the year ended 30 June 2015

Cortical Dynamics Limited

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

18. Cash Flow Information

a) Reconciliation of Cash

	2015 \$	2014 \$
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	16,801	36,473

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

Operating loss after income tax	(338,862)	(414,200)
Non-cash flows in profit:		
Depreciation	536	472
Intercompany recharges	126,606	117,817
Administration recharge	46,110	55,630
Amortisation	3,936	3,936
Changes in working capital:		
Decrease in trade receivables	104,945	33,810
Decrease in other assets	(853)	21,260
(Decrease)/ Increase in trade payables and accruals	(22,595)	(57,606)
Increase in provisions	1,905	1,918
Net cash flow from operating activities	(78,272)	(236,963)

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.

Notes to the Financial Statements for the year ended 30 June 2015

Cortical Dynamics Limited

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.

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:

2015	Effective Average Interest Rate Receivable / Payable %	Floating Interest Rate \$	Fixed Interest Rate 1 - 5Years \$	Non-Interest Bearing \$	Total \$
Financial Assets					
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
Financial Liabilities					
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

Notes to the Financial Statements for the year ended 30 June 2015

Cortical Dynamics Limited

2014	Effective Average Interest Rate Receivable /Payable %	Floating Interest Rate \$	Fixed Interest Rate 1 - 5Years \$	Non- Interest Bearing \$	Total \$
Financial Assets					
Cash and cash equivalents	1.42%	36,473	-	-	36,473
Trade and other receivables		-	-	179,252	179,252
Financial assets - current		-	-	1,847	1,847
		36,473	-	181,099	217,572
Financial Liabilities					
Trade and sundry Payables		-	-	79,319	79,319
Other financial liabilities	8.60%	-	1,554,104	722,897	2,277,001
		-	1,554,104	802,216	2,356,320

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:

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Loans and receivables	76,154	76,154	181,099	181,099
	76,154	76,154	181,099	181,099
Financial Liabilities				
Other loans and amounts due	2,483,822	2,483,822	2,277,001	2,277,001
Other liabilities	56,719	56,719	79,319	79,319
	2,540,541	2,540,541	2,356,320	2,356,320

Notes to the Financial Statements for the year ended 30 June 2015

Cortical Dynamics Limited

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	
	2015	2014
Change in profit		
— Increase in interest rate by 1%	168	364
— Decrease in interest rate by 0.5%	(84)	(182)

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 2015

Contractual cash flows

	Carrying amount	Total	2 mths or less	2-12 mths	1-2 years
Financial liabilities					
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)
	2,540,541	(2,540,541)	(56,719)	-	(2,483,822)

30 June 2014

Contractual cash flows

	Carrying amount	Total	2 mths or less	2-12 mths	1-2 years
Financial liabilities					
Trade and other payables	79,319	(79,319)	(79,319)	-	-
Unsecured loan	722,897	(722,897)	-	-	(722,897)
Convertible note	1,554,104	(1,554,104)	-	(50,000)	(1,504,104)
	2,356,320	(2,356,320)	(79,319)	(50,000)	(2,227,001)

Notes to the Financial Statements for the year ended 30 June 2015

Cortical Dynamics Limited

20. Events after the Reporting Date

On the 22nd of September 2015 Cortical Dynamics received formal notification from the Therapeutic Goods Administration ("TGA") that a decision has been made to issue a conformity assessment certificate to Cortical under section 41EC of the Therapeutic Goods Act 1989.

TGA certification will allow Cortical to market the Brain Anaesthesia Response ("BAR") monitor within Australia and via the TGA's mutual recognition agreement enable Cortical to apply for CE Marking to sell the BAR monitor in Europe.

In September 2015 the Company received confirmation from BPH Energy Ltd that its convertible loan with BPH Energy would not be called upon for a period of 12 months or until the Company is financially independent.

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) Directors' Equity Holdings

Ordinary Shares

Held as at the date of this report by directors and their director-related entities in:

Cortical Dynamics Limited

Parent	
2015	2014
\$	\$
9,998,702	9,998,702

(c) Related entities

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

22. Commitments

A secured convertible loan exists with BPH Energy. The loan is for an 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 closing balance of the loan including interest accrued to 30 June 2015 was \$532,643 (2014: \$507,295).

On 28th February 2012 Cortical Dynamics entered into a secured convertible loan agreement with BPH Energy. The loan is for an 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 closing balance of the loan including interest accrued to 30 June 2015 was \$1,137,121 (2014: \$1,046,089).

Notes to the Financial Statements for the year ended 30 June 2015

Cortical Dynamics Limited

On 5 May 2015, Cortical Dynamics entered into a secured loan agreement with Innovative Technology Funding Pty Ltd. The loan is for a maximum amount of \$100,000 and is to be used for short term working capital requirements and funding further development of the BAR monitor. The loan is secured against Cortical Dynamics 2015 Research and Development entitlement and will be repaid immediately upon receipt of the rebate. As at reporting date the closing balance of the loan including interest accrued to 30 June 2015 was \$35,949 (2014: nil).

See note 15 for further details regarding the above loans and borrowings.

Directors' Declaration

Cortical Dynamics Limited

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 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 2015 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 28 October 2015

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, which comprises the statement of financial position as at 30 June 2015, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the Company.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Nexia Perth Audit Services Pty Ltd

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Independence

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 financial position of the company as at 30 June 2015 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

NPAS

Nexia Perth Audit Services Pty Ltd

Amar Nathwani

Amar Nathwani
Director

Perth, 28 October 2015