
Cortical Dynamics Limited
ACN 107 557 620

Financial Report 30 June 2020

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Cortical Dynamics Limited

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Directors

David Breeze
Charles Chang
Ashley Zimpel

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Auditor

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Australian Business Number

88 107 557 620

Share Registry

Advanced Share Registry Limited
110 Stirling Highway
NEDLANDS WA 6009

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 2020.

Directors

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

| Name | Date Appointed | Date Resigned |
|---------------|------------------|------------------|
| David Breeze | 9 November 2004 | Current |
| Charles Chang | 4 March 2020 | Current |
| Ashley Zimpel | 4 March 2020 | Current |
| Bruce Whan | 8 January 2004 | 17 December 2019 |
| David Liley | 18 November 2015 | 13 February 2020 |
| Gary Todd | 16 October 2018 | 17 February 2020 |

Company Secretary

Mr David Breeze was appointed Company Secretary on 23 November 2016 until his resignation on 17 December 2019. He was re-appointed Company Secretary on 26 February 2020. He has many years' experience in the management of listed and unlisted entities.

Mr Dario Ferella was Company Secretary from 17 December 2019 to 26 February 2020.

Principal Activities

The principal activity of the economic entity during the financial year was the development of the Brain Anaesthesia Response Monitor (BARM) 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 \$745,998 (2019: loss of \$890,686).

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

Cortical is an Australian based medical device technology company that has developed an industry disruptive brain function monitor independently described as "a paradigm busting technology from an Australian based device house that really gives a significant advantage in this space". Its competitive advantage has been recognised by leading world experts in anaesthesia. Cortical has received both TGA approval and the CE mark and has now commenced its sales campaign.

The core product, the Brain Anaesthesia Response Monitor (BARM), was developed to better detect the effect of anaesthetic agents on brain activity, aiding anaesthetists in keeping patients optimally anaesthetised. The product is focused on integrated distribution with the leading global brands in operation theatre monitoring equipment.

The approach used is fundamentally different from all other devices currently available in the market in that its underlying algorithm produces EEG indexes which are directly related to the physiological state

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of the patient's brain. Such monitoring is gaining significant use during surgery, however even with the use of EEG monitors, it is not uncommon for there to be a critical imbalance between the patient's anaesthetic requirements and the anaesthetic drugs administered. While a number of EEG monitors are commercially available, one that is reliably able to quantify the patient's anaesthetic state is still desperately needed.

To date, all of the existing EEG based depth of anaesthesia ("D o A") monitors operate in the context of a number of well documented limitations: (i) inability to monitor the analgesic effects; and (ii) reliably measure certain hypnotic agents.

The above limitations highlight the inadequacies in current EEG based depth of anaesthesia monitors, particularly given surgical anaesthesia requires both hypnotic and analgesic agents (and muscle relaxants).

The global brain monitoring market is poised to grow to reach \$1.6 billion by 2020. Around 312 million major surgical procedures requiring anaesthesia are undertaken every year worldwide (*WHO 2012.*) The pain monitoring market is valued at over \$8.6 billion. per annum by 2022. (www.grandviewresearch.com/industry-analysis/pain-management-devices-market- April 2016).

Initial marketing will focus on Total Intravenous Anaesthesia (TIVA), a method of inducing and maintaining general anaesthesia without the use of any inhalation agent. This is becoming more widely accepted, particularly in Europe. Approximately 29 million major general surgery general anaesthesias are conducted in the European Union each year, of which 55% (circa 16 million) are balanced anaesthesia (using a combination of intravenous agents such as propofol and volatile gases) and 20% are total intravenous anaesthesia using propofol. This creates a market opportunity of between \$83m to \$229m to Cortical in the European Union alone.

"The use of EEG-based depth of anaesthesia monitors has been recommended in patients receiving total intravenous anaesthesia because it is cost effective and because it is not possible to measure end-tidal anaesthetic concentration in this group" (source: nice.org.uk).

Cortical's technology has a versatility that goes beyond depth of anaesthesia and may be applied to other EEG based markets, such as neuro-diagnostic, drug discovery, drug evaluation and the emerging Brain computer Interface (BCI) market.

There are considerable opportunities offered by subsequent expansion of the company's core technology through developing the product to carry out additional functions including neuro-diagnostics of changes in brain and memory functions to provide early warning of degenerative diseases, pain response and tranquiliser monitoring for trauma patients in intensive care units.

While the current array of bedside monitoring and imaging systems in the critical care environment has led to dramatic reductions in mortality, they do not as yet involve the continuous monitoring of brain function. This is widely acknowledged to be a major problem, as the care and management of the critically ill patient is ultimately all about the brain.

The continuous monitoring of a patients' brain state is not only necessary to diagnose and manage acute deteriorations in brain function that may have long lasting effects, but also to aid in the optimal administration of sedation and analgesia. Sedation and analgesia in the critically ill patient play a pivotal role in their care and is necessary to minimize patient distress and agitation, being essential to facilitate the utility of a wide variety of life support equipment and procedures, the most important of which is mechanical ventilation.

Study after study has shown that too deep sedation increases the time on mechanical ventilation, which leads to increases in mortality, the incidence of complications and treatment costs. Given these

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acknowledged advantages to brain function monitoring in the ICU why then is continuous monitoring of brain function not currently available?

There are two main reasons for this:

1. Firstly, the size and the complexity of configuration of most approaches to monitoring brain function are simply not capable of being adapted for use in the busy and crowded ICU environment.
2. Secondly, in those monitoring approaches that could be potentially deployed at the bedside, they depend on physiologically uncertain principles of operation that are not relevant, or meaningfully interpretable, in the context of the critically ill patient.

Cortical aims to address both these limitations by the further development and trialling of the novel bedside and remotely deployable Australian manufactured and designed, electroencephalographically based (EEG-based), BARM system. The BARM is configured to efficiently image and display complex information related to the clinically relevant state of the brain.

The BARM is not only expected to address the shortcomings of these EEG-based DoA approaches, and thus realise their documented promise, but to extend the functionality of bedside EEG monitoring to the objective monitoring of pain, a measure also vital to the management of the sedated mechanically ventilated critically ill patient.

In Australia between 2015 and 2016 there were approximately 149,000 admissions to ICU of which 48,000 required continuous ventilatory support (CVS) and thus required sedation, pain relief and who would have potentially benefited from an instrumental approach to imaging brain activity. Given that the average patient time on CVS was 96 hours in Australia, this equates to potentially 4.5 million hours of instrumental monitoring and approximately a quantity of 188,000 of 24-hour single patient-use sensors to image brain activity. In the USA, based on 1.5 million ICU patients (30% CVS) requiring CVS, and given that the first episode of an average patient time on CVS is 96 hours, this equates to 144 million hours of instrumental monitoring and approximately 6 million of 24-hour single patient use sensors to image brain activity. For the European Union (EU), based on similar statistics to USA, there would be an estimated 5 million single patient use sensors, used per annum. Total market opportunity per annum of the US, Western Europe and Australian markets only, would be approximately 11.188 million 24-hour single-use patient sensors per annum, which with an average cost of \$AU20 per single patient use sensor, would represent a total revenue stream conservatively estimated to be of the order of \$AU223.8 million per annum.

The BARM system is protected by five patent families in multiple jurisdictions worldwide consisting of 22 granted patents. Cortical will continue to drive the development of the BAR monitor, maintain its intellectual property and concentrate on obtaining regulatory approval for the BAR monitor.

Cortical has now commenced preparations for a sales program of the device in Europe, Australia, New Zealand and further development is also underway in Korea and Singapore. A USA based distributorship is expected to follow once Cortical attains the FDA certification.

Cortical's Brain Anesthesia Response Monitor ("BARM") has now been used in further successful trials at Strathfield Private Hospital in Sydney. Strathfield is part of the Ramsay private hospital group.

Cortical announced a number of developments during the period which included:-

- In July 2019 it was announced that the Company was trialling the Brain Anaesthesia Response Monitor ("BARM") at Southampton University Hospital in the UK.

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- On 29 September 2019 Globaluck, the Company's South Korean exclusive distributor of the BARM, confirmed it has now received Korean KGMP certification. This regulatory milestone, the KGMP certificate of approval for its BARM (Class II Medical Device) from the Korea Good Manufacturing Practice (KGMP) followed an independent Korean audit of Cortical's facility in Scoresby, Victoria during July 2019. KGMP certification is required by the Korean Ministry of Food and Drug Safety (MFDS) before placement of Class II, III, and IV medical devices on the South Korean market.
- In the March 2020 quarter it was announced that the Company had secured an investment of \$250,000 from IntuitiveX ("IX") and Korean based VC investor Gentium Partners ("GP") by the issue of 12,500,000 shares at \$0.02 per share. Mr Charles Chang and Mr Ashley Zimpel joined the Cortical board following the resignations of Cortical directors Mr Gary Todd and Mr David Liley. BPH director David Breeze remained as a Cortical board member.

IX is a Seattle-based life science consulting firm and incubator. Its management team is comprised of life science entrepreneurs, physicians, investors, and innovators. It brings a combined 100+ years of experience in R&D, Clinical, IP Strategy, Prototyping, Product Development, and Commercialisation. IX catalyzes medical innovation by identifying novel and timely ideas and applying its resources to make them possible. From initial concept to final commercialisation, IntuitiveX has the in-house knowledge and network to meet the unique needs of the most innovative life science companies in the world. The Intuitive X team will assist Cortical in the FDA regulatory approval process. It has investments in eleven MedTech, digital health, robotics to augmented reality, and 3-D printing to biotech and brings to Cortical extensive experience in the US capital raising and commercialisation arena.

Gentium Partners Inc is a FSS licensed asset management company based in Seoul, South Korea. It was established in 2018 by professionals who have broad experience in domestic and global financial institutions. Previously, the partners have headed up divisions at Morgan Stanley, Bankers Trust, KB Bank, Commerzbank, and Meritz Securities. Using their collective broad network and experience, GP was created to assist venture companies, particularly those in the startup stages, with mentoring and fund raising. GP also assists and invests in promising pre-IPO companies. While sector agnostic, GP prefers to invest in companies with innovative technologies and/or ideas, particularly when they are impactful in healthcare, environment, and lifestyle. Among some of GP's investments are: the leading urban farm business in Korea; B2C payment technology based on unique Bluetooth identifier; a biomedical startup with a breakthrough approach for diagnosing and treating amyloid diseases; a 3D smart camera system to enable contactless input to avoid fomite; and "hycore" for electrifying a 26" bicycle, just to name a few.

- In the June 2020 quarter it was announced that Cortical has entered into a non-exclusive Licence and Co-operation Agreement with Philips Healthcare North America Corp ("Philips"), which will enable Cortical to interface its BARM into the Philips IntelliVue and Patient Information Center (PIC iX) Monitoring Systems using the IntelliBridge integration product line.
- Cortical has now begun the FDA 510K filing process for BARM in the USA assisted by its strategic investor IX. The Food and Drug Administration ("FDA") is the federal agency of the United States Department of Health and Human Services which regulates the sale of medical device products (including diagnostic tests) in the U.S. and monitors the safety of all regulated medical products. FDA approval is a necessary precursor for sales of BARM to commence in the USA. Cortical already has achieved both CE (Europe) and TGA (Australian) registration and is currently awaiting final approval of the Company's registration application to the Korean Ministry of Food and Drug Safety.

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Cortical Dynamics Limited

Financial Position

The company has a working capital surplus of \$120,098 as at 30 June 2020 (note 15(b)) (2019: working capital deficit of \$1,361,691) and net assets of \$123,978 as at 30 June 2020 (2019: deficiency of \$3,737,498).

Significant Changes in State Of Affairs

During the year BPH Energy Limited ("BPH") converted \$3,830,809 of debt owing by Cortical and Grandbridge Limited ("GBA") converted \$465,434 of debt owing by Cortical into equity by the issue of shares in Cortical at \$0.10 per share. Cortical also issued 1,062,500 shares at a deemed \$0.02 per share in lieu of share issue fees.

The Company also issued 13,991,045 shares for cash of \$401,605 at an average price of \$0.029 per share.

The Company has 18,000,000 share options in the Company on issue with various exercise prices and expiry dates.

Other than these 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.

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.

Subsequent Events

The Company has issued 2,102,150 fully paid ordinary shares at an average issue price of \$0.125 each for cash.

Other than the above, 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.

Information on Directors

David Breeze (appointed 9 November 2004)

Executive Director and Company Secretary – Age 67

Shares held – 9,998,702

Options held- 3,500,000

David 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; and held executive and director positions in the stock broking industry. David has a Bachelor of Economics and a Masters of Business Administration, and is a Fellow 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 an Independent Expert under the Corporations Act. He has worked on

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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 ASX listed Grandbridge Limited, a publicly listed investment and advisory company and a director ASX listed BPH Energy Limited. He is also a director of, Molecular Discovery Systems Limited, Diagnostic Array Systems Limited, and Advent Energy Limited and its subsidiaries Asset Energy Pty Limited and Offshore Energy Pty Limited.

David Breeze was a Director of MEC Resources Limited ("MEC") from April 2005 and was removed from the ASIC register by MEC directors on 23 November 2016. He has neither resigned nor been removed by shareholders and disputes the actions taken by the Directors of MEC.

Charles Chang (appointed 4 March 2020)

Non - Executive Director – Age 63

Shares held – 7,713,803

Options held – 3,500,000

Founder of strategy advisory firm Accolade, Inc. in 2000 and Susterra EnVision, a clean energy developer. Previously Managing Director at Deutsche Bank and Bankers Trust investment banking. US citizen. Received M.Sc. from Dartmouth and B.A. in Economics from UC Berkeley. Served on several boards including as representative of AXA Asset Management in their JV in Korea with the third largest domestic life insurance company. Co-chairs subcommittee on PE/VC for the AmCham in Korea and actively involved in ESG, climate change activism, and impactful investments.

Ashley Zimpel (appointed 4 March 2020)

Executive Director – Age 61

Shares held – 9,084,038

Options held – 3,500,000

Mr. Zimpel is Perth based business developer, corporate financier and senior banker/investment banker with broad financial markets experience and a strong focus on innovation, client interaction, financing and business strategy. He has a 35 year track record of founding, investing in and establishing businesses in financial capital markets, Agri- business and fintech in WA and Australia wide. Adviser and mentor to Start-ups, SMEs and state government. He has a long history of interaction with Western Australian Government Sector, WA Universities, business incubators and innovation community. He has an exemplary record of capital raising in both equity, debt and structured financial products for start-ups, SMEs, ASX listed public companies and government agencies both in Australia and internationally. He has held positions of executive chairman, executive director, director, partner and financial advisor in financial institutions and ASX listed companies including Aurora Labs (ASX:A3D). His prior roles include:- Enable Funding-Co-Founder and Founding Chairman, Charter Pacific Corporation-Chairman Advisory Committee, Marine Produce Limited-Chairman, Macquarie Bank-Director, Bankers Trust Australia- Senior Vice President, Rand Merchant Bank Australia-Co Founder and Executive Director, Hattersley Maxwell Noall StockbrokersPartner.

David Liley (appointed 18 November 2015, resigned 13 February 2020)

Non - Executive Director

Gary Todd (appointed 16 October 2018, resigned 17 February 2020)

Managing Director

Bruce Whan (appointed 8 January 2004, resigned 17 December 2019)

Non - Executive Director

Directors' Report

Cortical Dynamics Limited

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 directors and officers 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 or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The Company has not indemnified the current or former auditors of the Company.

Meetings of Directors

During the financial year, two meetings of directors was held. The Board meets regularly by telephone to make day-to-day decisions with respect to the business of the Company. Attendances by each director during the year were:

| | Directors' Meetings | |
|----------|---------------------------|-----------------|
| | Number eligible to attend | Number attended |
| D Breeze | 2 | 2 |
| A Zimpel | - | - |
| C Chang | - | - |
| G Todd | 2 | 2 |
| B Whan | 2 | 1 |
| D Liley | 2 | 2 |

Options

At the date of this report, the unissued ordinary shares of the Company under option are as follows:

| Grant Date | Date of Expiry | Exercise Price | Number Under Option |
|------------|----------------|----------------|---------------------|
| 4/10/2019 | 24/8/2024 | \$0.20 | 7,000,000 |
| 14/5/2020 | 15/5/2023 | \$0.15 | 10,750,000 |
| 21/6/2020 | 21/6/2025 | \$0.20 | 250,000 |

During the year ended 30 June 2020 no ordinary shares of the Company were issued on the exercise of options (2019: Nil). No person entitled to exercise an option had or has any right by virtue of the option to participate in any share issue of any other body corporate. No shares have been issued during or since the end of the financial year as a result of exercise of an option. No options lapsed unexercised 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.

Directors' Report

Cortical Dynamics Limited

Non-audit Services

No fees were paid for non-audit services to the external auditors during the year ended 30 June 2020 (2019: \$Nil).

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2020 has been received and can be found on page 9.

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

A handwritten signature in black ink, appearing to read 'D. Breeze', with a horizontal line underneath.

David Breeze

Director

Dated this 22nd October 2020

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Cortical Dynamics Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) any applicable code of professional conduct in relation to the audit.



Perth, Western Australia
22 October 2020

B G McVeigh
Partner

hlb.com.au

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Liability limited by a scheme approved under Professional Standards Legislation.

HLB Mann Judd (WA Partnership) is a member of HLB International, the global advisory and accounting network.

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2020

Cortical Dynamics Limited

| | Note | 2020 \$ | 2019 \$ |
|---|------|------------|------------|
| Revenue | 2 | 766 | 2,251 |
| Other income | 2 | 462,406 | 158,557 |
| Administration expenses | | (441,752) | (345,057) |
| Interest expense | | (189,705) | (230,339) |
| Impairment expense | | - | (41,340) |
| Loan establishment fees | | (6,210) | (17,625) |
| Provision for inventory writedown | 9 | - | (100,170) |
| Consulting and legal expenses | | (84,434) | (103,798) |
| Amortisation and depreciation expense | | (970) | (1,968) |
| Occupancy expense | | (5,716) | (6,205) |
| Share based payments | | (256,854) | (92,343) |
| Research and development expenses | 3 | (201,494) | (93,889) |
| Other expenses from ordinary activities | | (22,035) | (18,760) |
| Operating loss before income tax | | (745,998) | (890,686) |
| Income tax expense | 7 | - | - |
| Operating loss from continuing operations | | (745,998) | (890,686) |
| 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 loss | | (745,998) | (890,686) |

The accompanying notes form part of, and should be read in conjunction with, these financial statements.

Statement of Financial Position

as at 30 June 2020

Cortical Dynamics Limited

| | Note | 2020 \$ | 2019 \$ |
|--------------------------------------|------|----------------|--------------------|
| Current Assets | | | |
| Cash and cash equivalents | 5 | 126,851 | 36,767 |
| Trade and other receivables | 8 | 147,864 | 154,322 |
| Prepayments | | 31,080 | 25,047 |
| Financial assets | 11 | - | 1,847 |
| Total Current Assets | | 305,795 | 217,983 |
| Non-Current Assets | | | |
| Property, plant and equipment | 10 | 3,880 | - |
| Total Non-Current Assets | | 3,880 | - |
| Total Assets | | 309,675 | 217,983 |
| Current Liabilities | | | |
| Trade and other payables | 12 | 170,697 | 203,980 |
| Provisions | 13 | - | 8,844 |
| Financial liabilities | 14 | 15,000 | 1,366,850 |
| Total Current Liabilities | | 185,697 | 1,579,674 |
| Non-Current Liabilities | | | |
| Provisions | 13 | - | 990 |
| Financial liabilities | 14 | - | 2,374,817 |
| Total Non-Current Liabilities | | - | 2,375,807 |
| Total Liabilities | | 185,697 | 3,955,481 |
| Net Assets / (Liabilities) | | 123,978 | (3,737,498) |
| Equity | | | |
| Issued capital | 15 | 6,224,799 | 1,871,198 |
| Reserves | 16 | 256,854 | 2,981 |
| Accumulated losses | | (6,357,675) | (5,611,677) |
| Total Equity / (Deficiency) | | 123,978 | (3,737,498) |

The accompanying notes form part of, and should be read in conjunction with, these financial statements.

Statement of Changes in Equity

for the year ended 30 June 2020

Cortical Dynamics Limited

| | Issued Capital \$ | Accumulated losses \$ | Reserves \$ | Total \$ |
|---|-------------------------|-----------------------------|----------------|-------------|
| Balance at 30 June 2018 | 1,721,977 | (4,720,991) | 2,981 | (2,996,033) |
| Loss attributable to members of the economic entity | - | (890,686) | - | (890,686) |
| Total comprehensive loss | - | (890,686) | - | (890,686) |
| Shares issued as remuneration to directors | 62,750 | - | - | 62,750 |
| Shares issued in lieu of consulting fees | 86,471 | - | - | 86,471 |
| Balance at 30 June 2019 | 1,871,198 | (5,611,677) | 2,981 | (3,737,498) |
| Loss attributable to members of the economic entity | - | (745,998) | - | (745,998) |
| Total comprehensive loss | - | (745,998) | - | (745,998) |
| Shares issued for cash | 401,605 | - | - | 401,605 |
| Shares issued on conversion of debt | 4,296,425 | - | - | 4,296,425 |
| Shares issued in lieu of share issue fees | 21,250 | - | - | 21,250 |
| Transfer on conversion of debt | 2,981 | - | (2,981) | - |
| Share based payments | - | - | 256,854 | 256,854 |
| Share issue costs | (368,660) | - | - | (368,660) |
| Balance at 30 June 2020 | 6,224,799 | (6,357,675) | 256,854 | 123,978 |

The accompanying notes form part of and should be read in conjunction with these financial statements

Statement of Cash Flows

for the year ended 30 June 2020

Cortical Dynamics Limited

| | Note | 2020 \$ | 2019 \$ |
|--|-------|------------------|------------------|
| Cash flows from operating activities | | | |
| Payments to suppliers and employees | | (659,317) | (571,095) |
| Research and development tax offset received | | 128,661 | 111,684 |
| Receipt of JobKeeper subsidies | | 12,500 | - |
| Interest received | | 34 | 1 |
| Interest paid | | (5,256) | (5,814) |
| Net cash used in operating activities | 17(b) | <u>(523,378)</u> | <u>(465,224)</u> |
| Cash flows used in investing activities | | | |
| Acquisition of property, plant and equipment | | (4,850) | - |
| Net cash used in financing activities | | <u>(4,850)</u> | <u>-</u> |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | 17(c) | 222,000 | 492,500 |
| Receipts from issue of shares | | 401,605 | - |
| Share issue costs | | (5,293) | - |
| Net cash provided by financing activities | | <u>618,312</u> | <u>492,500</u> |
| Net increase in cash held | | 90,084 | 27,276 |
| Cash at the beginning of the financial year | | 36,767 | 9,491 |
| Cash at the end of the financial year | 17(a) | <u>126,851</u> | <u>36,767</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements

Notes to the Financial Statements for the year ended 30 June 2020

Cortical Dynamics Limited

1. Statement of Significant Accounting Policies

Corporate Information

Cortical Dynamic Ltd ("Cortical" or "Company") is a public unlisted company, which is incorporated and domiciled in Australia. This financial report was authorised for issue on 22nd October 2020 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

Operating loss for the company after tax for the year was \$745,998 (2019: loss of \$890,686). The company has a working capital surplus of \$120,098 as at 30 June 2020 (note 15(b)) (2019: working capital deficit of \$1,361,691) and net assets of \$123,978 as at 30 June 2020 (2019: deficiency of \$3,737,498).

Subsequent to year end the Company has issued 2,102,150 fully paid ordinary shares at an average issue price of \$0.125 each for cash.

Based on the cash flow forecasts 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. Should the Company not be successful in raising additional funds through the issue of new equity or borrowings, should the need arise, there exists a material uncertainty that may cast significant doubt as to whether or not the Company will be able to continue as a going concern and therefore whether it will realise its assets and discharge its liabilities as and when they fall due and in the normal course of business and at the amounts stated in the financial report.

The financial statements do not include any adjustments relative to the recoverability and classification of recorded asset amounts or, to the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern.

Accounting Policies

(a) Financial Instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable). For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- equity instruments at fair value through other comprehensive income (FVOCI)
- debt instruments at fair value through other comprehensive income (FVOCI).

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

The classification is determined by both:

- the entity's business model for managing the financial asset, and
- the contractual cash flow characteristics of the financial asset.

Subsequent measurement of financial assets

(i) Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets to collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

(ii) Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL.

(a) Financial Instruments (continued)

All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply. The category also contains an equity investment. The Company accounts for the investment at FVTPL and did not make the irrevocable election to account for the investment in unlisted and listed equity securities at fair value through other comprehensive income (FVOCI). The fair value was determined in line with the requirements of AASB 9, which does not allow for measurement at cost. Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

(iii) Equity instruments at fair value through other comprehensive income (Equity FVOCI)

Investments in equity instruments that are not held for trading are eligible for an irrevocable election at inception to be measured at FVOCI. Under Equity FVOCI, subsequent movements in fair value are recognised in other comprehensive income and are never reclassified to profit or loss. Dividend from these investments continue to be recorded as other income within the profit or loss unless the dividend clearly represents return of capital. This category includes unlisted equity securities that were previously classified as 'available-for-sale' under AASB 139. Any gains or losses recognised in other comprehensive income (OCI) are not recycled upon derecognition of the asset.

(iv) value through other comprehensive income (Debt FVOCI)

Financial assets with contractual cash flows representing solely payments of principal and interest and held within a business model of collecting the contractual cash flows and selling the assets are accounted for at debt FVOCI. The Company accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is to "hold to collect" the associated cash flows and sell financial assets; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognised in other comprehensive income (OCI) will be recycled upon derecognition of the asset.

Impairment of financial assets

AASB 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. Instruments within the scope of the requirements include loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under AASB 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss. Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Level 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Level 2').
- 'Level 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Notes to the Financial Statements for the year ended 30 June 2020

Cortical Dynamics Limited

(a) Financial Instruments (continued)

Trade and other receivables and contract assets

The Company makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix. The Company assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due.

Classification and measurement of financial liabilities

The Company's financial liabilities include borrowings, trade and other payables and derivative financial instruments. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss. Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

(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).

Notes to the Financial Statements for the year ended 30 June 2020

Cortical Dynamics Limited

(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.

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 may be 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. Capitalized patents and trademarks are amortised over their useful life.

(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.

Notes to the Financial Statements for the year ended 30 June 2020

Cortical Dynamics Limited

(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.

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) Trade and Other Receivables

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

Notes to the Financial Statements for the year ended 30 June 2020

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 | 20% |

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) Inventories

Inventories are valued at the lower of cost and net realisable value (refer Note 9).

Costs incurred in bringing each product to its present location and condition is accounted for as follows:

- (i) Raw materials – purchase cost on a first-in, first-out basis; and
- (ii) Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the Financial Statements for the year ended 30 June 2020

Cortical Dynamics Limited

(p) Application of New and Revised Accounting Standards

Standards and Interpretations in issue not yet adopted

The Directors have reviewed new accounting standards and interpretations that have been published that are not mandatory for 30 June 2020 reporting periods. As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations on the Company and, therefore, no material change is likely to company accounting policies.

Conceptual Framework for Financial Reporting (Conceptual Framework)

The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 January 2020 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the consolidated entity has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the consolidated entity may need to review such policies under the revised framework.

At this time, the application of the Conceptual Framework is not expected to have a material impact on the consolidated entity's financial statements.

Standards and Interpretations applicable to 30 June 2020

In the 12 month period ended 30 June 2020, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company and effective for the current annual reporting period.

AASB 16 Leases

The consolidated entity has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

There is no material impact to profit or loss or net assets on the adoption of this new standard in the current or comparative years as the Company does not have any agreements that fall within the scope of AASB 16 as all leases are short term or less than the \$10,000 threshold the Company uses as its low value lease exemption.

Notes to the Financial Statements for the year ended 30 June 2020

Cortical Dynamics Limited

| | 2020 \$ | 2019 \$ |
|---|----------------|----------------|
| 2. Revenue | | |
| Revenue | | |
| Sale of finished goods | 732 | 2,250 |
| Interest Revenue | 34 | 1 |
| | <u>766</u> | <u>2,251</u> |
| Other Income | | |
| Cashflow boost government subsidy | 12,500 | - |
| Loan forgiven | 342,117 | - |
| R&D rebate - current year | 125,000 | 145,872 |
| R&D rebate - prior year (over accrued) / under accrued | (17,211) | 12,685 |
| | <u>462,406</u> | <u>158,557</u> |
| 3. Expenses Included in the Loss for the Year | | |
| Research and Development Expenses: | | |
| Consultant expense | 130,688 | 89,797 |
| Other expenses | 70,806 | 104,262 |
| Recognition of inventories | - | (100,170) |
| | <u>201,494</u> | <u>93,889</u> |
| 4. Auditors' Remuneration | | |
| Remuneration of the auditor of the company for: | | |
| HLB Mann Judd | 7,445 | 13,226 |
| | <u>7,445</u> | <u>13,226</u> |
| 5. Cash and Cash Equivalents | | |
| Cash at bank and in hand | <u>126,851</u> | <u>36,767</u> |

The average effective interest rate on short-term bank deposits was 0.03%: (2019 0.03%)

Notes to the Financial Statements for the year ended 30 June 2020

Cortical Dynamics Limited

6. Key Management Personnel Compensation

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

Key Management Personnel

David Breeze – Executive Director and Company Secretary
Charles Chang - Non-Executive Director (Appointed 4 March 2020)
Ashley Zimpel - Executive Director (Appointed 4 March 2020)
Gary Todd – Managing Director (resigned 17 February 2020)
Bruce Whan – Non-Executive Director (resigned 19 December 2019)
David Liley – Non Executive Director (resigned 13 February 2020)

Remuneration of Key Management Personnel (KMP)

KPM remuneration was as follows.

| | 2020 | 2019 |
|------------------------------|----------------|----------------|
| | \$ | \$ |
| Salary, fees, and allowances | 156,495 | 87,004 |
| Sign on bonus | - | 14,754 |
| Post-employment benefits | 13,551 | 7,271 |
| Share based payments | 145,450 | 62,750 |
| | 315,496 | 171,779 |

Notes to the Financial Statements for the year ended 30 June 2020

Cortical Dynamics Limited

| | 2020 \$ | 2019 \$ |
|---|------------|------------|
| 7. Income Tax Expense | | |
| a) The prima facie tax (benefit) on loss from ordinary activities before income tax is reconciled to the income tax as follows: | | |
| Accounting loss before tax | (745,998) | (890,686) |
| Prima facie tax (benefit) on loss from ordinary activities before income tax at 27.5% (2019: 27.5%) | (205,149) | (244,939) |
| Effect of concessions: Research and Development Grant | 68,143 | 100,237 |
| Tax benefit of revenue losses and temporary differences not recognised | 137,006 | 144,702 |
| Income tax | - | - |
| b) The following deferred tax balances at 26% (2019: 27.5%) have not been recognised | | |
| Deferred Tax Assets: | | |
| Carry forward revenue losses | 994,877 | 982,341 |
| Temporary differences | 35,060 | 30,111 |
| Deferred Tax Liabilities: | | |
| Research and Development accrual | (34,375) | (43,603) |
| Net deferred tax assets: | 995,562 | 968,849 |
| 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 2020

Cortical Dynamics Limited

| | 2020 \$ | 2019 \$ |
|--|----------------|----------------|
| 8. Trade and Other Receivables | | |
| <i>Current</i> | | |
| Trade receivables | 1,795 | - |
| Research and development rebate receivable | 125,000 | 145,872 |
| GST receivable | 21,069 | 8,450 |
| Total trade and other receivables | <u>147,864</u> | <u>154,322</u> |
| 9. Inventories | | |
| <i>Current</i> | | |
| Raw materials at cost | 49,828 | 58,664 |
| Less: writedown | (49,828) | (58,644) |
| Raw materials at net realisable value | <u>-</u> | <u>-</u> |
| Finished goods at cost | 44,779 | 41,506 |
| Less: writedown | (44,779) | (41,506) |
| Finished goods at net realisable value | <u>-</u> | <u>-</u> |

Inventories have been written down on the basis that the Company does not have a historical record of sufficient revenue generation from the BARM and the product is still in the development stage. This writedown may be re-assessed and may be reversed in future periods.

Notes to the Financial Statements for the year ended 30 June 2020

Cortical Dynamics Limited

| | 2020 \$ | 2019 \$ |
|--|------------|------------|
| 10. Property, Plant and Equipment | | |
| Cost | 20,994 | 16,144 |
| Accumulated depreciation | (17,144) | (16,144) |
| Closing balance | 3,880 | - |
| Reconciliation of carrying value | | |
| Office equipment: | | |
| Opening balance | - | - |
| Additions | 4,850 | - |
| Less amortisation | (970) | - |
| Closing balance | 3,880 | - |
| 11. Financial Assets | | |
| <i>Current</i> | | |
| Unsecured Loans to other entities | - | 1,847 |
| | - | 1,847 |
| 12. Trade and other payables | | |
| <i>Current unsecured:</i> | | |
| Trade payables | 134,389 | 77,180 |
| Sundry payables and accrued expenses | 36,308 | 126,800 |
| | 170,697 | 203,980 |

Trade payables are normally settled within 90 days.

Notes to the Financial Statements for the year ended 30 June 2020

Cortical Dynamics Limited

| | 2020 \$ | 2019 \$ |
|--|------------|------------|
| 13. Provisions | | |
| <i>Employee entitlements:</i> | | |
| Opening balance at 1 July | 9,834 | 990 |
| (Reduction) / increase in provision | (9,834) | 8,844 |
| Balance at 30 June | - | 9,834 |
| Current | - | 8,844 |
| Non-Current | - | 990 |
| Total at 30 June | - | 9,834 |
| <i>Annual leave: current</i> | | |
| Opening balance at 1 July | 8,844 | - |
| (Decrease) / increase in provision | (8,844) | 8,844 |
| Balance at 30 June | - | 8,844 |
| <i>Long service leave: non-current</i> | | |
| Opening balance at 1 July | 990 | 990 |
| (Reduction) in provision | (990) | - |
| Balance at 30 June | - | 990 |

Notes to the Financial Statements for the year ended 30 June 2020

Cortical Dynamics Limited

| | 2020 \$ | 2019 \$ |
|--|---------------|------------------|
| 14. Financial liabilities | | |
| <i>Current</i> | | |
| Loan payable to BPH Energy Limited - secured (a) | 15,000 | 1,026,670 |
| Loan payable to Grandbridge Limited (a) | - | 340,180 |
| | <u>15,000</u> | <u>1,366,850</u> |
| <i>Non- Current</i> | | |
| Loans payable to BPH Energy Limited (b) | - | 2,374,817 |
| | <u>-</u> | <u>2,374,817</u> |

- (a) The Company had provided the borrowers with an option to convert the loans into ordinary shares in the Company. During the year these loans and accrued interest, other than a loan of \$15,000 in June 2020, were, on agreement between the borrower and lender, converted into fully paid ordinary shares in Cortical at \$0.10 per share.
- (b) On 19 November 2010 the Company entered into a convertible loan agreement with BPH Energy Limited. The facility was for an amount of \$500,000 with an issue price on conversion of \$0.10 per share. Interest is charged annually at a rate of 8.16% per annum. During the year this loan and accrued interest was, on agreement between the borrower and lender, converted into fully paid ordinary shares in Cortical at \$0.10 per share.

On 28 February 2012 the Company entered into a second convertible loan agreement with BPH Energy Limited. The facility is for an amount of \$1,000,000 and has an annual interest rate of 9.40%. During the year this loan and accrued interest was, on agreement between the borrower and lender, converted into fully paid ordinary shares in Cortical at \$0.10 per share.

Notes to the Financial Statements for the year ended 30 June 2020

Cortical Dynamics Limited

| | 2020 \$ | 2019 \$ |
|--|------------|------------|
| 15. Issued Capital | | |
| 171,170,433 (2019: 113,153,431) fully paid ordinary shares of no par value | 6,566,916 | 1,871,198 |

a) Fully Paid Ordinary Share Capital

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

| Ordinary Shares | 2020 \$ | 2019 \$ | 2020 Number | 2019 Number |
|---|------------------|------------------|--------------------|--------------------|
| At the beginning of reporting period | 1,871,198 | 1,721,977 | 113,153,431 | 111,661,221 |
| Shares issued for cash | 401,605 | - | 13,991,045 | - |
| Shares issued on conversion of debt | 4,299,406 | - | 42,963,457 | - |
| Shares issued as director remuneration | - | 62,750 | - | 627,500 |
| Shares issued in lieu of share issue fees | 21,250 | 86,471 | 1,062,500 | 864,710 |
| Share issue costs | (368,660) | - | - | - |
| At reporting date | <u>6,224,799</u> | <u>1,871,198</u> | <u>171,170,433</u> | <u>113,153,431</u> |

b) 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 2020 and 30 June 2019 are as follows:

| | 2020 \$ | 2019 \$ |
|---------------------------------|----------------|--------------------|
| Cash and cash equivalents | 126,851 | 36,767 |
| Trade and other receivables | 147,864 | 154,322 |
| Other receivables | 31,080 | 25,047 |
| Financial assets | - | 1,847 |
| Trade and financial liabilities | (185,697) | (1,579,674) |
| Working capital position | <u>120,098</u> | <u>(1,361,691)</u> |

Refer to note 1 for further details of the Company's financial position and plans to manage the working capital at 30 June 2020.

Notes to the Financial Statements for the year ended 30 June 2020

Cortical Dynamics Limited

16. Reserves

| | 2020 | 2019 |
|--|----------------|--------------|
| | \$ | \$ |
| Option premium on convertible notes | - | 2,981 |
| Share based payments reserve | 256,854 | - |
| | <u>256,854</u> | <u>2,981</u> |
| Reconciliation of movement | | |
| <i>Option premium on convertible notes</i> | | |
| Opening balance | 2,981 | 2,981 |
| Transfer to issued capital on conversion of debt | (2,981) | - |
| Closing balance | <u>2,981</u> | <u>2,981</u> |
| <i>Share based payments reserve</i> | | |
| Opening balance | - | - |
| Share based payment | 256,854 | - |
| Closing balance | <u>256,854</u> | <u>-</u> |

The option reserve records items recognized as expenses in respect of share options.

Notes to the Financial Statements for the year ended 30 June 2020

Cortical Dynamics Limited

17. 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:

| | 2020 | 2019 |
|--|------------------|------------------|
| | \$ | \$ |
| Cash and cash equivalents | 126,851 | 36,767 |
| | | |
| <i>b) Reconciliation of cash flow from operations with profit after income tax</i> | | |
| Operating loss after income tax | (745,998) | (890,686) |
| <i>Non-cash flows:</i> | | |
| Depreciation and amortisation | 970 | 1,968 |
| Share based payments | 256,854 | 92,343 |
| Loan forgiven | (342,117) | - |
| Impairment expense | - | 41,340 |
| Debts written off | 1,777 | - |
| Inventory writedown | - | 100,170 |
| Interest expense | 146,044 | 200,499 |
| <i>Changes in working capital:</i> | | |
| Decrease / (increase) in trade and other receivables | 6,458 | (47,150) |
| (Increase) / decrease in other assets | (6,033) | (25,047) |
| (Increase) in inventories | - | (100,100) |
| Increase in trade payables and accruals | 168,501 | 152,595 |
| (Decrease) / increase in provisions | (9,834) | 8,844 |
| Net cash (outflows) from operating activities | (523,378) | (465,224) |
| | | |
| <i>(c) Changes in liabilities arising from financing activities:</i> | | |
| Balance at 1 July | 3,741,667 | 3,048,668 |
| Net cash from financing activities | 222,000 | 492,500 |
| Administration services provided and accrued interest charges | 201,714 | - |
| Conversion of debt to equity | (4,296,425) | - |
| Settlement of capital raising costs | 342,117 | - |
| Loan forgiveness | (342,117) | - |
| Interest expense | 146,044 | 200,499 |
| Balance at 30 June | 15,000 | 3,741,667 |

18. 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 fixed and variable 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.

Notes to the Financial Statements for the year ended 30 June 2020

Cortical Dynamics Limited

18. Financial Instruments (continued)

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. The effective average interest rate is calculated on interest bearing assets and liabilities.

| 2020 | Effective Average Interest Rate Receivable /Payable % | Floating Interest Rate \$ | Fixed Interest Rate 0 – 1 Years \$ | Fixed Interest Rate 1 – 5 Years \$ | Non- Interest Bearing \$ | Total \$ |
|------------------------------|---|------------------------------------|--|--|-----------------------------------|-------------|
| Financial Assets | | | | | | |
| Cash and cash equivalents | 0.03% | 126,851 | - | - | - | 126,851 |
| Trade and other receivables | | - | - | - | 147,864 | 147,864 |
| | | 126,851 | - | - | 147,864 | 274,715 |
| Financial Liabilities | | | | | | |
| Trade and sundry Payables | | - | - | - | 170,697 | 170,697 |
| Financial liabilities | | - | - | - | 15,000 | 15,000 |
| | | - | - | - | 185,697 | 185,697 |
| 2019 | | | | | | |
| | Effective Average Interest Rate Receivable /Payable % | Floating Interest Rate \$ | Fixed Interest Rate 0 – 1 Years \$ | Fixed Interest Rate 1 – 5 Years \$ | Non- Interest Bearing \$ | Total \$ |
| Financial Assets | | | | | | |
| Cash and cash equivalents | 0.03% | 36,767 | - | - | - | 36,767 |
| Trade and other receivables | | - | - | - | 154,322 | 154,322 |
| Financial assets - current | | - | - | - | 1,847 | 1,847 |
| | | 36,767 | - | - | 156,169 | 192,936 |
| Financial Liabilities | | | | | | |
| Trade and sundry Payables | | - | - | - | 203,980 | 203,980 |
| Financial liabilities | 9.00% | - | 532,500 | 2,374,817 | 834,350 | 3,714,667 |
| | | - | 532,500 | 2,374,817 | 942,614 | 3,945,647 |

Notes to the Financial Statements for the year ended 30 June 2020

Cortical Dynamics Limited

18. Financial Instruments (continued)

(b) Financial Instruments (continued)

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:

| | 2020 | | 2019 | |
|------------------------------|-----------------|----------------|------------------|------------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial Assets | | | | |
| Trade and other receivables | 147,864 | 147,864 | 154,322 | 154,322 |
| Financial assets | - | - | 1,847 | 1,847 |
| | <u>147,864</u> | <u>147,864</u> | <u>156,189</u> | <u>156,189</u> |
| Financial Liabilities | | | | |
| Financial liabilities | 15,000 | 15,000 | 3,714,667 | 3,714,667 |
| Trade and other payables | 170,697 | 170,697 | 203,980 | 203,980 |
| | <u>185,697</u> | <u>185,697</u> | <u>3,945,647</u> | <u>3,945,647</u> |

18. Financial Instruments (continued)

(b) Financial Instruments (continued)

iii. Sensitivity Analysis

Interest Rate Risk

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

Interest Rate Sensitivity Analysis

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

| | Company | |
|-------------------------------------|----------------|-------------|
| | 2020 | 2019 |
| Change in loss | | |
| — Increase in interest rate by 1% | 1,268 | 326 |
| — Decrease in interest rate by 0.5% | (634) | (82) |

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.

Contractual cash flows

| 30 June 2020 | Carrying amount | Total | 2 mths or less | 2-12 mths | 1-2 years |
|--------------------------|------------------------|--------------|-----------------------|------------------|------------------|
| Trade and other payables | 170,697 | 170,697 | 170,697 | - | - |
| Unsecured loans | 15,000 | 15,000 | 15,000 | - | - |
| | 185,697 | 185,697 | 185,697 | - | - |

Contractual cash flows

| 30 June 2019 | Carrying amount | Total | 2 mths or less | 2-12 mths | 1-2 years |
|--------------------------|------------------------|--------------|-----------------------|------------------|------------------|
| Trade and other payables | 203,980 | 203,980 | 203,980 | - | - |
| Unsecured loans | 1,366,850 | 1,366,850 | - | 1,366,850 | |
| Secured loans | 2,374,817 | 2,374,817 | - | - | 2,374,817 |
| | 3,945,647 | 3,945,647 | 203,980 | 1,366,850 | 2,374,817 |

Notes to the Financial Statements for the year ended 30 June 2020

Cortical Dynamics Limited

19. Subsequent Events

The Company has issued 2,102,150 fully paid ordinary shares at an average issue price of \$0.125 each for cash.

Other than the above, 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.

20. Related Party Transactions

(a) Key Management Personnel Remuneration

Details of key management personnel remuneration and retirement benefits are disclosed in Note 6 to the financial statements.

Trade and other payables at 30 June 2020 include \$28,902 payable to Mr David Breeze for Company expenses incurred by him, and \$3,300 payable to Grandbridge Limited, a company of which Mr Breeze is Managing Director.

(b) Related entities

Refer to Note 14 for details regarding unsecured and secured loans

During the year the Company:

- (i) incurred \$209,760 (2019: \$170,796) in management and service fees to Grandbridge Limited, including a services agreement termination fee of \$99,996 and cost recharges of \$18,794
- (ii) incurred \$187,906 (2019: \$240,793) in loan interest and fee charges to BPH Energy Limited
- (iii) borrowed net \$222,000 (2019: \$492,500) from BPH Energy Limited
- (iv) converted \$465,434 of amounts owing to Grandbridge Limited into shares in the Company at \$0.10 per share
- (v) converted \$3,830,991 of amounts owing to BPH Energy Limited into shares in the Company at \$0.10 per share
- (vi) issued 1,062,500 shares at a deemed \$0.02 per share in lieu of share issue costs to related parties of Mr Chang and Mr Zimpel
- (vii) offered security over the Company's patents to related parties of Mr Chang
- (viii) entities related to Mr Chang and Mr Zimpel provided services in relation to obtaining additional investment in the Company, the value of services provided being \$342,117. These services were settled by BPH Energy Limited and Grandbridge Limited and were applied to loans that were subsequently forgiven by BPH Energy Limited and Grandbridge Limited.

21. Capital Commitments

At reporting date there were no capital commitments.

22. Contingent Liabilities

There were no contingent liabilities at 30 June 2020 or 30 June 2019.

Notes to the Financial Statements for the year ended 30 June 2020

Cortical Dynamics Limited

24. Share-Based Payments

The following share-based payment arrangements existed at 30 June 2020:

| Total number | Grant Date | Exercise price | Fair value at grant date | Expiry date |
|-------------------|------------|----------------|--------------------------|-------------|
| 7,000,000 | 4/10/2019 | \$0.20 | \$0.331 | 24/8/2024 |
| 10,750,000 | 14/5/2020 | \$0.15 | \$0.0012 | 15/5/2023 |
| 250,000 | 21/6/2020 | \$0.20 | \$0.0467 | 21/6/2025 |
| <u>18,000,000</u> | | | | |

All options granted are to purchase ordinary shares Cortical Dynamics Limited, which confer a right of one ordinary share for every option held. The fair value of the options granted is estimated as at the date of grant using a Black-Scholes model taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| Grant date | 4/10/2019 | 14/5/2020 | 21/6/2020 |
|---------------------------|------------|-----------|-----------|
| Share price at grant date | \$0.10 | \$0.02 | \$0.125 |
| Exercise price | \$0.20 | \$0.15 | \$0.20 |
| Expected volatility | 75% | 75% | 75% |
| Expected life | 4.75 years | 3 years | 4 years |
| Expected dividends | Nil | Nil | Nil |
| Risk-free interest rate | 2.5% | 2.5% | 2.5% |
| Fair value at grant date | \$0.331 | \$0.0012 | \$0.0467 |

| | 2020 | |
|--|-------------------|---|
| | Number of options | Weighted average exercise price per share |
| Outstanding at the beginning of the year | - | - |
| Issued | 18,000,000 | 0.17 |
| Outstanding at year-end | <u>18,000,000</u> | <u>0.17</u> |
| Exercisable at year-end | <u>18,000,000</u> | <u>0.17</u> |

There were no options on issue during the previous financial year.

Directors' Declaration

Cortical Dynamics Limited

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 10 to 37, 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 2020 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
Director

Dated this 22nd October 2020

INDEPENDENT AUDITOR'S REPORT

To the members of Cortical Dynamics Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Cortical Dynamics Limited ("the Company") which comprises the statement of financial position as at 30 June 2020, 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 then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a) giving a true and fair view of the Company's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

Material uncertainty related to going concern

We draw attention to Note 1 in the financial report, which indicates that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

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

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

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

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

Perth, Western Australia
22 October 2020



B G McVeigh
Partner