

# NeuroDiscovery Limited

## Appendix 4E

### Preliminary final report

#### Details of reporting period

ABN or equivalent company reference	89 113 824 141
Financial year ended ('current period')	30 June 2012
Previous corresponding period	30 June 2011

#### Results for announcement to the market

Financial Results				June 2012 \$
Revenues	down	43%	to	163,615
(Loss) after tax attributable to members	down	70%	to	430,970
Net loss for the period attributable to members	down	70%	to	430,970

#### Dividends

The Directors do not propose that NeuroDiscovery will pay a dividend

Earnings/(loss) per share	June 2012	June 2011
Basic and diluted loss per ordinary share	(0.44) cents	(1.72) cents

Net Tangible Asset Backing	June 2012	June 2011
Net tangible asset backing per ordinary share	2.56 cents	3.0 cents

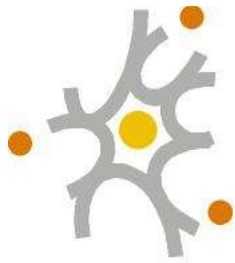
#### Other explanatory notes

Refer to review of operations and financial performance contained in the Directors Report.

#### Audit

The financial statements on which this Preliminary Financial Report is based have been audited.

The information required by listing rule 4.3A is contained in both this Appendix 4E and the attached Annual Report.



# **NeuroDiscovery**

**ABN 89 113 824 141**

## **NEURODISCOVERY LIMITED**

### **ANNUAL REPORT**

**for the year ended 30 June 2012**

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## CORPORATE DIRECTORY

This Annual Report covers NeuroDiscovery Limited as an individual entity ("Company"). The Company's presentation currency is Australian Dollars (\$AUD).

A description of the Company's operations and principal activities is included in the review of operations and activities in the Directors' Report on pages 3 to 12. The Directors' Report is not part of the Financial Report.

### Directors

Mr Bret Mattes, *Non-Executive Chairman*  
Mr David McAuliffe, *Executive Director*  
Mr Simon O'Loughlin, *Non-Executive Director*

### Company Secretary

Mr Robert Hodby

### Registered Office

Unit 16, 589 Stirling Highway  
Cottesloe WA 6011  
T: +61 8 9385 3552  
F: +61 8 9383 4113

### Share Registry

Security Transfer Registrars Pty Limited  
770 Canning Highway  
Applecross WA 6153  
T: +61 8 9315 0933  
F: +61 8 9315 2233

### Website

[www.neurodiscoveryltd.com](http://www.neurodiscoveryltd.com)

### Auditors

Crowe Horwath Perth  
Level 6  
256 St Georges Terrace  
Perth WA 6000

### Bankers

Westpac Banking Corporation  
108 Stirling Highway  
Nedlands WA 6009

### Solicitors

Steinepreis Paganin  
Level 4, Next Building  
16 Milligan Street  
Perth WA 6000

### Stock Exchange

ASX Limited  
Level 2, Exchange Plaza  
2 The Esplanade  
Perth WA 6000

### ASX Code

NDL – Shares

## LETTER TO SHAREHOLDERS

Dear Shareholder,

On behalf of the Board of Directors of NeuroDiscovery Limited ("NeuroDiscovery" or the "Company"), I am pleased to present the Annual Report of the Company.

During the course of the financial year there were a number of changes made to the Board in order to conserve financial resources and also to ensure there was a strategic approach to the development of the Company's current assets, in addition to any additional opportunities that may arise.

Recently we announced our partner on the NSL-043 programme, Sosei Corporation Ltd ("Sosei"), assigned the intellectual property rights to a Chinese Pharmaceutical company, Beijing Tide Pharmaceutical Co Ltd (Beijing Tide), which plans to develop NSL-043 for the Chinese market. In return Sosei maintains a potentially significant interest in the commercial outcome of any clinical trial/s success and as such NeuroDiscovery would also, to the extent of its current agreement with Sosei.

Beijing Tide intends to conduct a proof of principle Phase II clinical trial at its sole discretion with respect to financing and clinical design. Importantly Beijing Tide will maintain the current patent portfolio world-wide while it continues development of NSL 043 in China. This would mean that upon clinical success or commercialisation in China, Sosei may choose to have certain territories outside China re-assigned to Sosei.

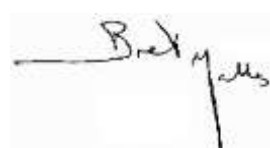
Moving forward, this remains a significant asset of the Company and if developed and marketed in China could see potential substantial returns for shareholders.

With regard to NSL-101, the Company continues to seek development partners for this programme.

I am pleased to introduce my fellow directors Mr David McAuliffe and Mr Simon O'Loughlin. Mr McAuliffe was a founder of NeuroDiscovery and recently rejoined the board, initially as a non executive director but has now taken on an Executive role. Mr McAuliffe has over 16 years experience in the biotechnology field internationally and brings a wealth of biotechnology investment experience. Mr O'Loughlin is an Adelaide-based legal practitioner who has been involved in numerous ASX listed companies and provides NeuroDiscovery with sound compliance guidance and business development opportunities.

The Board looks forward with new confidence that in the short to medium term we will be able to restore shareholder value and make significant steps forward with our current assets, or those we may wish to licence or acquire, as we move through a process of technology asset review.

Yours sincerely



**Mr Bret Mattes**  
**Non-Executive Chairman**

## DIRECTORS' REPORT

Your Directors present their report on NeuroDiscovery for the financial year ended 30 June 2012.

### DIRECTORS

The names of the Directors in office during the financial year and until the date of this report are as follows. All Directors were in office for the entire period unless otherwise stated.

#### **Mr Bret Mattes**

**Non-Executive Chairman (appointed 12 December 2011)**

##### Qualifications and Experience

Mr Mattes was until recently the Chief Executive Officer of The Star Energy Group of Companies, which is an oil and gas producer and natural gas infrastructure owner, and operates the Wayang Windu geothermal electricity generation facility in West Java.

Mr Mattes studied earth sciences, oceanography and economics at the University of Sydney, McGill University, The University of Chicago and the Rosenstiel School of Marine and Atmospheric Sciences in Miami, before joining Shell, where he worked for more than ten years in Europe, Scandinavia, Asia and the United States.

Mr Mattes is currently Chairman of ChemCentre WA, a provider of high quality chemical and forensic services; Chairman of New World Energy, a geothermal developer; Chairman of EcoCarbon Incorporated, a carbon markets think tank; Chairman of APGAS (set up under the auspices of the APEC Energy Working Group); a Director of The Energy Alliance; Chairman of West Australian Ballet; and founding Director of the WA State Library Foundation. He is a Director of Chandra Asri Petrochemical Tbk, a publicly listed Indonesian company. He is an Advisor on Indonesia to the University of Western Australia in Perth. He is a Director of The International Skills and Training Institute in Health, and of the National Centre for Asbestos Related Diseases in Australia. He lives in Jakarta.

##### Interest in Shares and Options

Mr Mattes currently has a beneficial interest in 600,000 ordinary shares in NeuroDiscovery.

#### **Mr David McAuliffe B.Pharm LLB (Hons)**

**Executive Director (appointed 12 December 2011)**

##### Qualifications and Experience

Mr McAuliffe is the founder of NeuroDiscovery. Mr McAuliffe has over sixteen years experience in the international Life Science sector. During this time he has been involved in numerous capital raisings and technology licensing exercises. Mr McAuliffe has an Honours Degree in Law and a Bachelor of Pharmacy degree and is The President of the Dyslexia - Speld Foundation WA (Inc).

During the past three years Mr McAuliffe has held the following ASX listed company directorships; Living Cell Technologies Limited.

##### Interest in Shares and Options

Mr McAuliffe currently holds 4,614,280 ordinary shares in NeuroDiscovery.

#### **Mr Simon O'Loughlin**

**Executive Director (appointed 14 March 2012)**

##### Qualifications and Experience

Simon O'Loughlin is the founding member of O'Loughlins Lawyers, an Adelaide based medium sized specialist commercial law firm. He has obtained extensive experience in the corporate and commercial law fields while practising in Sydney and Adelaide. More recently, he has been focusing on the resources sector. Simon also holds accounting qualifications. He is currently chairman of Kibaran Resources Limited, and a non-executive director of Aura Energy Limited, Petrathern Limited, Chesser Resources Limited, WCP Resources Limited, Goldminex Limited and Australian Oriental Minerals Limited. He has comprehensive experience with companies in the small industrial and resources sectors. Simon is a former Chairman of the Taxation Institute of Australia (SA Division) and Save the Children Fund (SA Division).

During the past three years Mr O'Loughlin has held the following ASX listed company directorships; Avenue Resources Limited, World Titanium Resources Limited, Living Cell Technologies Ltd and Strezelecki Metals Limited.

Interest in Shares and Options

Mr O'Loughlin currently holds 175,000 ordinary shares in NeuroDiscovery Limited.

**Mr Michael Robson LLB (1<sup>st</sup> Class Hons) B.Sc (Physics) MAICD  
Non-Executive Chairman (resigned 12 December 2011)**

Qualifications and Experience

Mr Robson has held a number of senior management positions both in the Western Australian government and in private industry since 2001. Mr Robson is currently a director of Datamotion Asia Pacific Ltd (ASX: DMN). He is a specialist compliance and risk management consultant to the stockbroking and financial planning industries. His senior roles have included responsibility for corporate governance, corporate finance, investor relations, regulatory compliance, risk management, training, policy development and implementation and strategic planning.

During the past three years he has held the following ASX listed company directorships; Datamotion Asia Pacific Ltd, US Nickel Limited.

Interest in Shares and Options

Mr Robson currently holds no ordinary shares or options in NeuroDiscovery Limited.

**Mr Kyle Haynes  
Executive Director (resigned 14 March 2012)**

Qualifications and Experience

Mr Haynes works as a client advisor for CPS Securities, a Perth based investment firm. Mr Haynes has worked in the finance industry for over 15 years primarily as a client advisor. He has previously been a Director of a publicly listed company.

Interest in Shares and Options

Mr Haynes has an interest in 6,650,000 ordinary shares in NeuroDiscovery Limited.

**Mr Neville Bassett B.Bus, FCA  
Non-Executive Director (resigned 14 March 2012)**

Qualifications and Experience

Mr Bassett is a Chartered Accountant operating his own corporate consulting business, specialising in the area of corporate, financial and management advisory services. Mr Bassett consults to a number of publicly listed companies and private company groups in a diversity of industry sectors. He is a Director or company secretary of a number of public and private companies.

Mr Bassett has been involved with numerous public company listings and capital raisings. His involvement in the corporate arena has also taken in mergers and acquisitions, and includes significant knowledge and exposure to the Australian financial markets. Mr Bassett has a wealth of experience in matters pertaining to the Corporations Act, ASX listing requirements, corporate taxation and finance.

During the past three years Mr Bassett has held the following ASX listed company directorships; Vector Resources Ltd, Ram Resources Ltd, Mamba Minerals Ltd and Modena Resources Ltd.

Interest in Shares and Options

Mr Bassett currently holds no ordinary shares or options in NeuroDiscovery Limited.

## COMPANY SECRETARY

### **Mr Robert Hodby B.Com CPA ACIS (appointed 2 December 2010)**

#### Qualifications and Experience

Robert Hodby holds a Bachelor of Commerce from Murdoch University and is a member of CPA Australia and Chartered Secretaries Australia. Robert provides corporate, management and accounting advice to a number of companies involved in the resource and energy industries.

Robert is the Company Secretary of Torrens Energy Limited and a Non-Executive Director of Robe Australia Limited.

## PRINCIPAL ACTIVITIES

The principal activities of the Company during the financial year were the development of compounds for the treatment of pain.

No other significant changes in the nature of these activities have occurred during the financial year.

The Company is currently reviewing alternative projects including those outside of the neurology and health services sector.

## OPERATING RESULTS

The loss after tax for the Company for the year ended 30 June 2012 was \$430,970 (2011: \$1,458,019).

## DIVIDENDS PAID OR RECOMMENDED

No dividend has been paid or recommended by the Directors since the commencement of the financial year.

## REVIEW OF OPERATIONS

NeuroDiscovery Ltd is a neuroscience drug development company specialist. NeuroDiscovery has an interest in two programs for the treatment of pain.

The activities and developments during the year ended 30 June 2012 are presented as follows:

### ***Drug Development Programs***

#### NSL-101

NeuroDiscovery Limited identified NSL-101 from UK-based Ampika Limited's database of medicinal plants as a natural product formulation that is effective in alleviating the symptoms of pain. Detailed electrophysiology studies demonstrated that a preparation of NSL-101 inhibits discharges from damaged nerves associated with pain. NeuroDiscovery Limited acquired NSL-101 in March 2010

NSL-101 is a natural product formulation that NeuroDiscovery intends to out-license as an over-the-counter product for the treatment of pain. As such, this project has a potentially shorter path to commercialisation compared to traditional drug programs.

Two Phase II trials of NSL-101 were completed in 2008, both to appropriate clinical trial standards. The compound was effective in the first trial, where it prevented pain associated with root planing and scaling, a dental procedure used to combat periodontitis. In the second clinical trial, for the treatment of post-operative pain caused by the extraction of an impacted third molar ("wisdom tooth"), NeuroDiscovery Limited was unable to measure NSL-101's efficacy due to unexpected confounding factors.



## DIRECTORS' REPORT (CONTINUED)

### REVIEW OF OPERATIONS (CONTINUED)

The Company is currently conducting a strategic review of the commercialisation opportunities for the product and has entered into discussions with interested companies, which could potentially take the product to market.

#### NSL-043

NSL-043 was previously in development by another company in the 1990s as a treatment for a “non-pain” condition. It passed all toxicology screens and demonstrated suitability for oral use. The compound was progressed to a late clinical stage in Japan before development was ceased due to a lack of clear efficacy.

In collaboration with Sosei Corporation NSL-043 completed two Phase I clinical trials during early 2008. The primary goal of the Phase I clinical trials was to establish the safety and tolerability of NSL-043 in humans, which they did successfully.

Following that success, and for financial reasons alone, the Company announced on 17 March 2010 it had terminated a Collaboration Agreement with Sosei and entered into an Assignment Agreement with respect to all the intellectual property for NSL-043.

Under the terms and conditions of the agreement, Sosei agreed that, for the life of the granted patent/s and in any or all jurisdictions where they are maintained, approximately 32% of any future revenue (being all and any payments, fees, revenue and other consideration of any nature whatsoever received by Sosei and/or its Group in respect of the development, licensing, assignment, exploitation, commercialization and/or use of and/or any other dealings whatsoever in the whole of any part of the current NSL-043 granted intellectual property) would be paid to NeuroDiscovery Ltd. The percentage entitlement remains the same today.

Sosei informed NeuroDiscovery it had assigned the intellectual property rights to a Chinese Pharmaceutical company, Beijing Tide Pharmaceutical Co., Ltd. (“Beijing Tide”) which plans to develop NSL-043 for the Chinese market. In return Sosei maintains a potentially significant interest in the commercial outcome of any clinical trial/s success. No assignment fee or any other fee has been paid to Sosei at this stage.

Beijing Tide intends to conduct a proof of principle Phase II clinical trial at its sole discretion with respect to financing and clinical design. Importantly, Beijing Tide will maintain the current patent portfolio world-wide while it continues development in China. This would mean that upon clinical success or commercialisation in China, Sosei may choose to have certain territories outside China re- assigned to Sosei.

The Sosei and Beijing Tide Assignment Agreement ensures the NSL-043 program can now potentially move forward into Phase II trial/s.

NeuroDiscovery is pleased it continues to have a potentially significant commercial interest in the NSL-043 program.

#### ***Corporate and Business development***

During the period there were significant changes to the board. Mr Michael Robins, Kyle Haynes and Neville Bassett resigned. Mr David McAuliffe resumed as an Executive Director of NeuroDiscovery on 1 July 2012 to manage the Company’s drug development programs. Mr Bret Mattes and Mr Simon O’Loughlin also joined the board providing significant Corporate and Financial experience.

## DIRECTORS' REPORT (CONTINUED)

### FINANCIAL POSITION

#### Liquidity and Capital Resources

The cash flow statement shows that cash and cash equivalents at year ended 30 June 2012 were \$2,411,646 (2011: \$2,727,474).

### SIGNIFICANT CHANGES IN STATE OF AFFAIRS

No significant changes in the Company's state of affairs occurred during the financial year.

### AFTER BALANCE DATE EVENTS

No significant events occurred after balance date which may affect either the Company's operations or results of those operations or the Company's state of affairs.

### FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The Board of NeuroDiscovery continues to review and invest in its current assets and at the same time will try to identify and acquire innovative products that are complementary to NeuroDiscovery's current drug development strategy. In addition, the Board continues to monitor expenditure very closely.

### ENVIRONMENTAL ISSUES

The Directors are mindful of the regulatory regime in relation to the impact of the organisational activities on the environment.

There have been no known breaches by the Company during the financial year.

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for Directors and Key Management Personnel of NeuroDiscovery Limited.

#### **Remuneration Policy**

The performance of the Company depends upon the quality of its Directors and Key Management Personnel.

The NeuroDiscovery remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

#### Remuneration Structure

The Board of Directors is responsible for determining and reviewing compensation arrangements for Executive Directors and the senior management team.

The Board assesses the appropriateness of the nature and amount of emoluments on a periodic basis by reference to the relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Key Management Personnel. Such employees are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

All Directors and Key Management Personnel may be entitled to annual bonuses payable upon the achievement of annual corporate or profitability measures.

The Company seeks to emphasise payment for results through providing various cash bonus reward schemes, specifically the incorporation of incentive payments based on achievement of approved targets.

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive remuneration is separate and distinct.

#### The Directors of NeuroDiscovery and their positions held are as follows:

- |                       |   |
|-----------------------|---|
| ▪ Mr Bret Mattes      | Non-Executive Chairman (appointed 12 December 2011) 3 year contract from 12 December 2011. 3 months notice required to terminate.   |
| ▪ Mr David McAuliffe  | Non-Executive Director (appointed 12 December 2011, appointed as an Executive Director effective 1 July 2012) 3 year contract from 12 December 2011. 3 months notice required to terminate. |
| ▪ Mr Simon O'Loughlin | Non-Executive Director (appointed 14 March 2012) 3 year contract from 14 March 2012. 3 months notice required to terminate.   |
| ▪ Mr Michael Robson*  | Non-Executive Chairman (resigned 12 December 2011)  |
| ▪ Mr Kyle Haynes      | Executive Director (resigned 14 March 2012)   |
| ▪ Mr Neville Bassett  | Non-Executive Director (resigned 14 March 2012)   |

## DIRECTORS' REPORT (CONTINUED)

### Principles Used to Determine the Nature and Amount of Remuneration

#### Senior Manager and Executive Director Remuneration

##### *Objective*

The Company aims to reward Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- Reward Executives for Company and individual performance against targets set by reference to appropriate benchmarks;
- Align the interests of Executives with those of shareholders;
- Link reward with the strategic goals and performance of the Company; and
- Ensure total remuneration is competitive by market standards.

##### *Structure*

Executive Directors are contracted to the Company either on a consultancy basis with remuneration and terms stipulated in individual consultancy arrangements or pursuant to an employment contract with remuneration and terms stipulated in individual employment agreements.

#### Company Performance

The table below shows the gross revenue, losses and earnings per share for the last three years for the Company.

	2010	2011	2012
	\$	\$	\$
Revenue	2,110,830	122,831	163,615
Net Loss	(1,712,021)	(1,458,019)	(430,970)
Earnings/(loss) per share (cents per share)	(2.98)	(1.72)	(0.44)

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT (AUDITED) (CONTINUED)

#### Details of Directors and Executives Remuneration (Audited)

		Primary		Non Monetary \$	Post Employment		Equity Shares & Options \$	Total \$	Performance Related %
		Salary & Fees \$	Cash Bonus \$		Superannuation Pensions \$	Termination Benefits \$			
<b>Directors</b>									
Mr Bret Mattes	2012	16,532	-	-	1,488	-	-	18,020	-
	2011	-	-	-	-	-	-	-	-
Mr D McAuliffe*	2012	16,532	-	-	-	-	-	16,532	-
	2011	3,300	-	-	-	-	-	3,300	-
Mr Simon O'Loughlin	2012	8,979	-	-	808	-	-	9,787	-
	2011	-	-	-	-	-	-	-	-
Mr M Robson*	2012	13,468	-	-	-	-	-	13,468	-
	2011	27,500	-	-	-	-	-	27,500	-
Mr K Haynes*,	2012	150,000	-	-	-	20,000	-	170,000	-
	2011	157,500	45,000	-	-	-	-	202,500	-
Mr N Bassett*	2012	15,000	-	-	-	5,000	-	20,000	-
	2011	27,500	-	-	-	-	-	27,500	-
<b>Total Directors</b>	<b>2012</b>	<b>220,511</b>	<b>-</b>	<b>-</b>	<b>2,296</b>	<b>25,000</b>	<b>-</b>	<b>247,807</b>	
	<b>2011</b>	<b>223,865</b>	<b>45,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>268,865</b>	

\* During the comparative year the Company made payments to Director related entities for services rendered on behalf of the Company, as detailed in Note 21.

#### Details of Equity-based Remuneration for the year ended 30 June 2012

No shares or options were issued to Directors or Key Management Personnel during the current or comparative financial years.

### END OF REMUNERATION REPORT

## DIRECTORS' REPORT (CONTINUED)

### MEETINGS OF DIRECTORS

During the financial year, 6 meetings of Directors were held. Attendances by each Director during the year were as follows:

Director	Board Meetings	
	Number eligible to attend	Number attended
Mr B Mattes	4	2
Mr D McAuliffe	4	4
Mr S O'Loughlin	3	3
Mr M Robson	2	2
Mr K Haynes	3	3
Mr N Bassett	3	3

### INDEMNIFYING OFFICERS OR AUDITOR

During the financial year the Company paid insurance premiums to indemnify all Directors and Executive Officers of the Company, against liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors or Officers of the Company, except where the liability arises out of conduct involving a lack of good faith.

The contract stipulates that the Company will insure Directors or Officers against costs incurred in defending proceedings for conduct involving:

- (a) a breach of duty; or
- (b) a contravention of Section 182 or 183 of the Corporations Act, as permitted by section 199B of the Corporations Act 2001.

### PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

### NON-AUDIT SERVICES

The Board of Directors, in accordance with advice from the Audit Committee, is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors ensure that:

- all non-audit services are reviewed and approved by the Audit Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and APES 110 Code of Ethics for Professional Accountants.

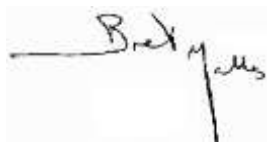
No fees for non-audit services were paid to the external auditors during the year ended 30 June 2012 (2011: Nil).

## DIRECTORS' REPORT (CONTINUED)

### AUDITORS' INDEPENDENCE DECLARATION

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 13.

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

A handwritten signature in black ink, appearing to read 'Bret Mattes', is written over a light blue rectangular background.

**BRET MATTES**  
**NON-EXECUTIVE CHAIRMAN**

**Perth, Western Australia, 31 August 2012**



## AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of NeuroDiscovery Ltd for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads "Crowe Horwath Perth".

CROWE HORWATH PERTH

A handwritten signature in black ink that reads "Sean McGurk".

SEAN MCGURK  
Partner

Signed at Perth, 31 August 2012



## STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 30 June 2012

	Note	2012 \$	2011 \$
<b>Continuing operations</b>			
Income	2	163,615	122,831
Corporate and administrative expenses	3	(414,577)	(504,111)
Changes in fair value of financial assets at fair value through profit or loss		(180,008)	(210,951)
Unrealised foreign exchange (loss)		-	(45,950)
<b>Loss before income tax</b>		<b>(430,970)</b>	<b>(638,181)</b>
Income tax benefit/(expense)	4	-	-
<b>Loss from continuing operations</b>		<b>(430,970)</b>	<b>(638,181)</b>
Profit/(loss) from discontinued operations	14	-	(819,838)
<b>Loss for the year</b>		<b>(430,970)</b>	<b>(1,458,019)</b>
Other Comprehensive Income		-	-
<b>Other comprehensive income/(loss) for the period, net of tax</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive loss for the period</b>		<b>(430,970)</b>	<b>(1,458,019)</b>
<b>(Loss) per Share</b>			
Basic and diluted (loss) per share (cents per share)	16	(0.44)	(1.72)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

## STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Note	2012 \$	2011 \$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	5	2,411,646	2,727,474
Other receivables	6	5,372	133,998
Financial assets at fair value through profit or loss	7	79,750	141,175
Other current assets		24,565	27,383
<b>TOTAL CURRENT ASSETS</b>		<b>2,521,333</b>	<b>3,030,030</b>
<b>NON-CURRENT ASSETS</b>			
Plant and equipment	8	2,229	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,229</b>	<b>-</b>
<b>TOTAL ASSETS</b>		<b>2,523,562</b>	<b>3,030,030</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	9	7,280	104,570
Other current liabilities	10	33,507	12,315
<b>TOTAL CURRENT LIABILITIES</b>		<b>40,787</b>	<b>116,885</b>
<b>TOTAL LIABILITIES</b>		<b>40,787</b>	<b>116,885</b>
<b>NET ASSETS</b>		<b>2,482,775</b>	<b>2,913,145</b>
<b>EQUITY</b>			
Issued capital	11	9,708,590	9,707,990
Reserves	12	855,462	855,462
Accumulated losses		(8,081,277)	(7,650,307)
<b>TOTAL EQUITY</b>		<b>2,482,775</b>	<b>2,913,145</b>

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

## STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2012

	Issued Capital \$	Accumulated Losses \$	Share Based Payment Reserves \$	Option Reserve \$	Total Equity \$
Total Equity at 1 July 2010	8,695,049	(6,192,288)	74,966	-	2,577,727
<b>Comprehensive income</b>					
Loss for the year	-	(1,458,019)	-	-	(1,458,019)
Other comprehensive income for the year	-	-	-	-	-
<b>Total comprehensive income for the year</b>	8,695,049	(7,650,307)	74,966	-	1,119,708
<b>Transactions with owner in their capacity as owner, and other transfers</b>					
Shares issued for the year	1,012,941	-	-	-	1,012,941
Options issued for the year	-	-	75,600	704,896	780,496
<b>Total transactions with owner in their capacity as owner, and other transfers</b>	1,012,941	-	75,600	704,896	1,793,437
<b>Total Equity at 30 June 2011</b>	<b>9,707,990</b>	<b>(7,650,307)</b>	<b>150,566</b>	<b>704,896</b>	<b>2,913,145</b>
<b>Comprehensive income</b>					
Loss for the year	-	(430,970)	-	-	(430,970)
Other comprehensive income for the year	-	-	-	-	-
<b>Total comprehensive income for the year</b>	-	(430,970)	-	-	(430,970)
<b>Transactions with owner in their capacity as owner, and other transfers</b>					
Shares issued for the year	600	-	-	-	600
<b>Total transactions with owner in their capacity as owner, and other transfers</b>	600	-	-	-	600
<b>Total Equity at 30 June 2012</b>	<b>9,708,590</b>	<b>(8,081,277)</b>	<b>150,566</b>	<b>704,896</b>	<b>2,482,775</b>

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

## STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2012

	Note	2012 \$	2011 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		-	163,900
Payments to suppliers and employees		(448,037)	(566,876)
Interest received		142,254	86,311
Net cash used in operating activities	21	(305,783)	(316,665)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of plant and equipment		-	3,083
Purchase of plant and equipment		(2,400)	-
Proceeds from sale of controlled entity net of cash disposed		-	(9,595)
Purchase of financial assets at fair value through profit or loss		(447,959)	(417,071)
Proceeds from disposal of financial assets at fair value through profit or loss		329,376	74,083
Proceeds from repayment of loans		110,338	71,801
Net cash used in investing activities		(10,645)	(277,699)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		600	1,148,577
Share issue costs		-	(83,136)
Proceeds from issue of options		-	704,896
Net cash provided by financing activities		600	1,770,337
Net increase / (decrease) in cash held		(315,828)	1,175,973
Cash at beginning of financial year		2,727,474	1,551,501
Cash at end of financial year		2,411,646	2,727,474

The above statement of cash flows should be read in conjunction with the accompanying notes.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report of NeuroDiscovery Limited for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the Directors on 30 August 2012.

NeuroDiscovery is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX).

#### Basis of Preparation

The financial report is a general-purpose financial report of the Company. The financial report has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. NeuroDiscovery Limited is a for-profit entity for the purpose of preparing 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. Compliance with Australian Accounting Standards ensures that the financial statements and the notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

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

The financial report is presented in Australian dollars.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (a) Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Plant and equipment - over 3 to 15 years.

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the income statement.

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

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

#### (b) Intangible Assets

##### *Goodwill*

Goodwill is initially recorded at the amount by which the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

##### *Intellectual Property*

Intellectual property assets relate to the separately identifiable intellectual property components acquired on the acquisition of subsidiaries. Intellectual property assets have an indefinite life and are tested annually for impairment and carried at cost less accumulated impairment losses.

##### *Research and development costs*

Research and development costs during the research phase of a project are expensed as incurred.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (c) Impairment of Assets

At each reporting date, the Company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets may be impaired. Where an indicator of impairment exists, the Company makes a formal assessment of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

#### (d) Financial Instruments

##### *Recognition and initial measurement*

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

##### *Classification and subsequent measurement*

Finance instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

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 (CONTINUED)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (e) Financial Instruments (continued)

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in profit or loss.

(i) *Financial assets at fair value through profit or loss*

Financial assets are classified at “fair value through profit or loss” when they are held for trading for the purpose of short-term profit taking. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

(ii) *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 subsequently measured at amortised cost.

Loans and receivables are included in current assets, where they are expected to mature within 12 months after the end of the reporting period.

(iii) *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

*Written call options on shares*

A contract that will be settled by the entity (receiving or) delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument. Any consideration received (such as the premium received for a written option or warrant on the entity's own shares) is added directly to equity.

Changes in the fair value of an equity instrument are not recognised in the financial statements.

*Derecognition*

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity 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 discharged, cancelled or expired. 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 or loss.

#### (f) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, deposits held at call with banks and other highly-liquid deposits with maturities of 3 months or less, net of outstanding bank overdrafts.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (g) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

##### *Rendering of services*

Revenue from the provision of services is referenced to the stage of completion.

Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract.

Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

##### *Interest*

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

#### (h) Income Tax

The income tax expense (income) for the year comprises current income tax (expense) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant tax authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. 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 assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (h) Income Tax (continued)

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur.

#### (i) Other Taxes

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

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

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

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

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

#### (j) Earnings per Share

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

- (i) costs of servicing equity (other than dividends) and preference share dividends;
- (ii) the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have not been recognised as expenses; and
- (iii) other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares,

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (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

##### (i) *Impairment*

The Company assesses impairment at each reporting date by evaluating conditions and events specific to the Company that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

#### (l) Adoption of new and revised Accounting Standards

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, the adoption of AASB 1054 Australian Additional Disclosures and AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project enabled the removal of certain disclosures in relation to commitments and the franking of dividends.

#### (m) New Accounting Standards for Application in Future

At the date of the authorization of the financial statements, the standards and Interpretations listed below were in issue but not yet effective.

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Company. The Company has decided not to early adopt any of the new and amended pronouncements. The Company's assessment of the new and amended pronouncements that are relevant to the Company but applicable in future reporting periods is set out below:

AASB 9 Financial Instruments standard is one of a series of amendments that are expected to eventually completely replace AASB 139. AASB 9 simplifies the classifications of financial assets into those to be carried at amortised cost and those to be carried at fair value – the 'available for sale' and 'held-to-maturity' categories no longer exists. AASB 9 also simplifies requirements for embedded derivatives and removes the tainting rules associated with held-to-maturity assets. The new categories of financial assets are: Amortised cost, Fair value through other comprehensive income and Fair Value through profit and Loss. While the rules are less complex than those of AASB 139, the option to show equity instruments at cost has been largely removed, which is likely to lead to greater volatility within the income statement. The future impact of this standard has not yet been quantified.

AASB 13 Fair Value Measurement. AASB 13 replaces the existing IFRS guidance on fair value measurement and disclosure. It applies whenever another standard permits or requires the use of fair value measurements. It sets out a fair value hierarchy for such measurements: The standard determines 'how to' rather than 'when' in respect of fair value measurements, and summarises the existing IFRS guidance in one place. The future impact of this standard has not yet been quantified.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (m) New Accounting Standards for Application in Future (continued)

AASB 2011-9 Amendments to Australian Accounting Standards –Presentation of Items of Other Comprehensive Income. This amendment changes the presentation of some items within Other Comprehensive Income (OCI): Items must be grouped together within OCI on the basis of whether they are potentially subsequently reclassifiable to profit and loss or not. Requires tax associated with OCI to be shown separately for each of these two groups. Periods beginning on or after 1 July 2012. Early adoption is permitted. This may result in reclassification of some items within Other Comprehensive Income. The future impact of this standard has not yet been quantified.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2. INCOME

	2012 \$	2011 \$
Bank interest	139,436	113,694
Gain on disposal of financial asset at fair value through profit or loss	24,179	9,137
	<u>163,615</u>	<u>122,831</u>

### 3. CORPORATE & ADMINISTRATIVE EXPENSES

	2012 \$	2011 \$
Administrative Expenses	63,070	63,174
Finance & Legal Services	46,930	107,072
Labour Expenses	304,577	333,865
	<u>414,577</u>	<u>504,111</u>

### 4. INCOME TAX

The prima facie tax on operating loss from ordinary activities is reconciled to the income tax as follows:

	2012 \$	2011 \$
Accounting loss before income tax from continuing operations	(430,970)	(638,181)
Prima facie tax on loss from ordinary activities at a tax rate of 30% (2011: 30%)	(129,291)	(191,454)
Tax effect of non-deductable items	-	16,354
Foreign exchange adjustments	497	13,785
Benefit of tax losses not brought to account as an asset	128,794	161,315
Income tax attributable to Company	<u>-</u>	<u>-</u>

The Company has deferred tax assets in relation to tax losses arising in Australia of \$849,968 (2011: \$721,174) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose, subject to the company satisfying the necessary loss recoupment tests.

### 5. CASH AND CASH EQUIVALENTS

	2012 \$	2011 \$
Cash at bank and in hand	118,670	477,474
Short-term bank deposits	2,292,976	2,250,000
	<u>2,411,646</u>	<u>2,727,474</u>

The effective interest rate on short-term bank deposits are made for varying periods of between five and six months depending on immediate cash requirements of the Company, and earn interest at the respective short-term bank deposit rates between 4.75% and 5.50%.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 6. OTHER RECEIVABLES

	2012 \$	2011 \$
<b>Current</b>		
Receivable from purchaser of NeuroSolutions Ltd	-	110,340
Other	5,372	23,658
	<u>5,372</u>	<u>133,998</u>

### 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss consists of investments in public listed shares. The carrying value of these investments is based on their market value as at 30 June 2012.

	2012 \$	2011 \$
<b>Balance at 1 July</b>	141,175	-
Additions	447,959	426,209
Fair value movement	(180,008)	(210,951)
Disposals	(329,376)	(74,083)
<b>Balance at 30 June</b>	<u>79,750</u>	<u>141,175</u>

### 8. PLANT AND EQUIPMENT

	2012 \$	2011 \$
<b>Plant and Equipment</b>		
At cost	8,715	6,315
Accumulated depreciation	(6,486)	(6,315)
<b>Total Plant and equipment</b>	<u>2,229</u>	<u>-</u>

#### a) Movements in Carrying Amounts

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

	\$
Balance at 30 June 2010	139,980
Additions	-
Disposals	(139,980)
Depreciation and amortisation expense	-
Balance at 30 June 2011	<u>-</u>
Additions	2,400
Disposals	-
Depreciation and amortisation expense	(171)
Balance at 30 June 2012	<u>2,229</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 9. TRADE PAYABLES

	2011 \$	2011 \$
<b>Current</b>		
Trade payables	7,280	104,570

Trade payables are non-interest bearing and are normally settled on 60-day terms.

The net of GST payable and GST receivable is remitted to the appropriate tax body on a quarterly basis.

### 10. OTHER CURRENT LIABILITIES

	2012 \$	2011 \$
Accrued expenses	33,507	12,315

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 11. ISSUED CAPITAL

	2012 \$	2011 \$
Ordinary Shares		
Issued and fully paid	9,708,590	9,707,990

#### a) Ordinary Shares

	No.	No.
At the beginning of reporting period	96,979,274	57,486,183
Shares issued during year	10,000	39,493,091
	96,989,274	96,979,274

- i. Ordinary shares entitle the holder to participate in dividends and the proposed winding up of the company in proportion to the number and amount paid on the share held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll each share is entitled to one vote. The shares have no par value and there is no current on-market buy back.
- ii. Capital management  
The Board's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and to sustain future development of the business. Given the stage of the Company's development there are no formal targets set for return on capital. There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

#### b) Options

The Company does not have any options over ordinary shares on issue.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of share options cancelled and expired during the year.

	No.	WAEP
Outstanding at 30 June 2010	1,977,154	\$0.22
Options cancelled & expired during the year	(1,977,154)	\$0.22
Options issued during the year	78,289,637	\$0.06
Outstanding at 30 June 2011	78,289,637	\$0.06
Options cancelled & expired during the year	(78,289,637)	\$0.06
Exercisable at the end of the year	-	-



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 12. RESERVES

	2012 \$	2011 \$
Share-based Payment Reserve	150,566	150,566
Option Reserve	704,896	704,896
	<u>855,462</u>	<u>855,462</u>
<b>Share-based Payment Reserve</b>	<u>150,566</u>	<u>150,566</u>
<b>Share-based Payment Reserve</b>		
Balance at 1 July 2010	74,966	
Share-based payments	75,600	
Options cancelled and expired	-	
Balance at 30 June 2011	<u>150,566</u>	
Share-based payments	-	
Options cancelled and expired	-	
As at 30 June 2012	<u>150,566</u>	

#### Nature and purpose of Reserve

##### *Share-based Payment Reserve*

The share-based payments reserve is used to record the value of equity benefits which may be provided:

- to employees and Directors as part of their remuneration under an Employee share option plan (ESOP);
- to Directors on terms determined by the Board and approved by shareholders; and
- to advisers and consultants as payments for services.

	2012 \$	2011 \$
<b>Option Reserve</b>	<u>704,896</u>	<u>704,896</u>

#### Nature and purpose of Reserve

##### *Option Reserve*

The option reserve is used to record the value of benefits on issue of options:

- under entitlement issue of 48,489,637 options at \$0.01;
- placement issue of 22,000,000 options at \$0.01.
- placement issue of 2,000,000 options at \$0.01.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 13. SEGMENT INFORMATION

#### Identification of reportable segment

The Company identifies its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Company operates primarily in neuroscience drug development in Australia. The financial information presented in the income statements and balance sheet is the same as that presented to chief operating decision maker.

#### Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker is in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Company.

### 14. DISCONTINUED OPERATIONS

Neurodiscovery entered into a sale and purchase agreement on the 11 June 2010 regarding the sale of the Company's 100% interest in Neurosolutions Limited. The sale was approved by shareholder on 22 July 2010 and receipt of initial funds and transfers of shares finalised on the 12 August 2010.

Financial information relating to the discontinued operation to the date of disposal is set out below.

The financial performance of the discontinued operation to the date of sale which is included in profit/(loss) from discontinued operations per the statement of comprehensive income is as follows:

	<b>12 August 2010 \$</b>
Revenue	163,900
Expenses	(142,738)
Profit before income tax	21,162
Income tax expense	-
Profit attributable to members of the parent entity	21,162
Loss on sale before income tax	(841,000)
Income tax expense	-
Loss on sale after income tax	(841,000)
Total profit/(loss) after tax attributable to the discontinued operation	(819,838)
	<b>12 August 2010 \$</b>
Net cash inflow from operating activities	25,435
Net cash inflow from investing activities	3,083
Net cash (outflow) from financing activities	-
Net cash decrease in cash generated by the discontinuing division	28,518

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 14. DISCONTINUED OPERATIONS (CONTINUED)

	<b>Consolidated Entity 30 June 2011 \$</b>
Cash consideration received/to be received	824,800
Carrying amount of net assets sold	(765,800)
Profit on sale before elimination of goodwill	59,000
Less: Elimination of goodwill on disposal	(900,000)
Total loss on sale of subsidiary	(841,000)
Income tax expense	-
<b>Loss on sale of subsidiary after income tax</b>	<b>(841,000)</b>

The carrying amount of assets and liabilities as of the date of sale are as follows:

	<b>12 August 2010 \$</b>
Cash	604,007
Receivables	164,057
Property Plant & Equipment	92,998
Other	102,206
<b>Total Assets</b>	<b>963,268</b>
Payables	15,108
Other	182,360
<b>Total Liabilities</b>	<b>197,468</b>
<b>Net Assets</b>	<b>765,800</b>

### 15. AUDITORS REMUNERATION

	<b>2012 \$</b>	<b>2011 \$</b>
Amounts received or due and receivable by Crowe Horwath Perth for:		
• an audit or review of the financial report of the entity	29,180	32,500

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 16. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings/(loss) per share amounts are calculated by dividing the net loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of dilutive options).

The following reflects the income and share data used in the total operations basic and diluted earnings per share computations:

	2012 \$	2011 \$
a) Profit or Loss used in calculating earnings per share		
- Loss from continuing operations	(430,970)	(638,181)
- Loss from discontinued operations	-	(819,838)
- Loss for the year	(430,970)	(1,458,019)
b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	No.	No.
	96,984,274	84,982,423

Diluted EPS not disclosed as potential ordinary shares are anti-dilutive.

#### Diluted earnings per share

When dilutive earnings per share would result in more favourable earnings, diluted and basic earnings per share are considered equal.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

### 17. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Directors are not aware of any contingent liabilities or contingent assets as at 30 June 2012.

### 18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments comprise cash, short-term deposits and short term investments.

The main purpose of these financial instruments is to provide finance for the Company's operations.

The Company has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The main risks arising from the Company's financial instruments are interest rate risk, market risk, liquidity risk, and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

The Company also monitors the market price risk arising from all financial instruments. The magnitude of this risk that has arisen over the year is discussed in Note 19.

#### Market risk

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's cash at bank and short term deposits. Such risk is managed by using a mix of fixed and floating rate deposits.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

The details of exposures to interest rate risk of financial assets and liabilities, together with the maturity analysis are detailed in Note 19.

The Company is also exposed to securities price risk on investments held for trading over the medium to long term. Such risk is managed through diversification of investments across industries and geographical locations.

#### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or a counter party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers and cash at bank.

The Company trades only with recognised, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

The credit risk on liquid funds is limited because the counter party is a bank with high credit rating.

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial liabilities as and when they fall due. The Company manages liquidity risk by continually monitoring cash reserves and cashflow forecasts to ensure that financial commitments can be met when and as they fall due.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of finance leases and equity funding.

#### Fair values

The fair values of all financial assets and liabilities of the Company approximate their carrying values.

### 19. FINANCIAL INSTRUMENTS

#### Interest rate risk

The following table sets out the carrying amount, by maturity, of the financial instruments that are exposed to interest rate risk:

	< 1 year \$	Maturity > 1 - < 5 Years \$	+ 5 Years \$	Total \$	Weighted Average Interest Rate %
<b>Year ended 30 June 2012</b>					
Floating Rate					
Financial Assets					
Cash and cash equivalents	2,411,646	-	-	2,411,646	5.15
	2,411,646	-	-	2,411,646	
<b>Year ended 30 June 2011</b>					
Floating Rate					
Financial Assets					
Cash and cash equivalents	2,727,474	-	-	2,727,474	6.00
	2,727,474	-	-	2,727,474	

Interest on financial assets classified as floating rate is repriced at intervals of less than one year. Interest on financial assets classified as fixed rate is fixed until maturity of the instrument.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 19. FINANCIAL INSTRUMENTS (CONTINUED)

The other financial instruments of the Company that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

#### Financial Instruments Measured at Fair Value

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted prices in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

2012	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial assets:</b>				
Financial assets at fair value through profit or loss:				
– investments – held-for-trading	79,750	-	-	79,750

#### 2011

#### Financial assets

Financial assets at fair value through profit or loss:

– investments – held-for-trading	141,175	-	-	141,175
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#### Interest rate sensitivity

#### Interest rate risk sensitivity analysis:

Risk Variable	Sensitivity*	Effect On:		Effect On:	
		Profit 2012 \$	Profit 2011 \$	Equity 2012 \$	Equity 2011 \$
Interest Rate	+ 1.50%	36,171	33,750	36,171	33,750
	- 1.50%	(36,171)	(33,750)	(36,171)	(33,750)

\* The method used to arrive at the possible change of 150 basis points was based on the analysis of the average change of the Reserve Bank of Australia (RBA) monthly issued cash rate over the past 5 years. It is considered that 150 basis points is a 'reasonably possible' estimate as it accommodates for the maximum variations inherent in the interest rate movement over the past five years.

#### Equity price sensitivity

The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 10% higher/lower:

- profit for the year ended 30 June 2012 would increase/decrease by \$7,976 as a result of the changes in fair value of financial assets at fair value through profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 20. RELATED PARTY DISCLOSURE

During the year the Company made payments to Directors and their related entities for services provided. Details are disclosed at Note 21.

### 21. DIRECTORS AND KEY MANAGEMENT PERSONNEL

#### a) Remuneration of Directors and Key Management Personnel

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Company's Key Management Personnel for the year ended 30 June 2012.

The totals of remuneration paid to Key Management Personnel of the company and the Company during the year are as follows:

	2012 \$	2011 \$
Short-term employee benefits	220,511	268,865
Termination payments	25,000	
Post-employment benefits	2,296	-
Other long-term benefits	-	-
Share-based payments	-	-
	<u>247,807</u>	<u>268,865</u>

The remuneration payments to Mr D McAuliffe were made to a director-related entity, Concept Biotech Pty Ltd.

The remuneration payments to Mr M Robson were made to a director-related entity, Satus Texo Pty Limited.

The remuneration payments to Mr K Haynes were made to a director-related entity, Social Investments Pty Ltd.

The remuneration payments to Mr N Bassett were made to a director-related entity, Mandevilla Pty Ltd.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 21. DIRECTORS AND KEY MANAGEMENT PERSONNEL (CONTINUED)

#### b) Shareholdings

The numbers of shares in the Company held during the financial year by each Director and Key Management Personnel of NeuroDiscovery Limited, including their personally related parties, are set out below.

#### Ordinary Shares

	Balance at Start of Year	Granted During Year as Compensation	Issued During Year on Exercise of Options	Other Changes During the Year	Balance at End of Year
2012 Directors	01-07-2011				30-06-2012
Mr K Haynes <sup>(a)</sup>	5,400,000	-	-	(5,400,000)	-
Mr D McAuliffe	-	-	-	4,614,280	4,614,280
Mr Bret Mattes	-	-	-	600,000	600,000
Mr S O'Loughlin	-	-	-	175,000	175,000
	5,400,000	-	-	(1,210,720)	5,389,280

(a) Mr K Haynes resigned from the Board of NeuroDiscovery on 14 March 2012. At the date of resignation Mr Haynes had an interest in 6,650,000 ordinary shares in NeuroDiscovery Limited.

#### Ordinary Shares

	Balance at Start of Year	Granted During Year as Compensation	Issued During Year on Exercise of Options	Other Changes During the Year	Balance at End of Year
2011 Directors	01-07-2010				30-06-2011
Mr K Haynes	-	-	-	5,400,000	5,400,000
Dr J M Treherne <sup>(a)</sup>	2,808,457	-	-	(2,808,457)	-
Mr D McAuliffe <sup>(b)</sup>	3,197,018	-	-	(3,197,018)	-
Mr Harry Karelis <sup>(c)</sup>	10,033,530	-	-	(10,033,530)	-
	16,039,005	-	-	(10,639,005)	5,400,000

(b) Dr Treherne resigned from the Board of NeuroDiscovery on 28 July 2010.

(c) Mr McAuliffe resigned from the Board of NeuroDiscovery on 6 August 2010.

(d) Mr Karelis resigned from the Board of NeuroDiscovery on 7 October 2010.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 21. DIRECTORS AND KEY MANAGEMENT PERSONNEL (CONTINUED)

All equity transactions with Directors and Key Management Personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

### 22. RECONCILIATION FROM THE NET LOSS AFTER TAX TO THE NET CASH FLOWS USED IN OPERATIONS

	2012 \$	2011 \$
Loss for the year	(430,970)	(1,458,019)
Adjustments for:		
Depreciation	171	-
Change in fair value of financial assets at fair value through profit or loss	180,008	210,951
Loss on sale of subsidiary	-	841,000
Change in assets and liabilities:		
(Increase)/Decrease in trade and other receivables and prepayments	21,106	319,580
Increase/(Decrease) in trade and other payables	(97,289)	(242,492)
Increase/(Decrease) in accruals	21,191	12,315
Cash flows used in operating activities	(305,783)	(316,665)

### 23. SHARE-BASED PAYMENTS

The following share-based payment arrangements were in existence during the current reporting period:

	Number	Grant Date	Expiry Date	Exercise Price	Fair Value at grant date
Granted 16 March 2011 <sup>(a)</sup>	5,250,000	16/03/2011	31/01/2012	\$0.06	\$0.01
Granted 16 March 2011 <sup>(b)</sup>	1,250,000	16/03/2011	31/01/2012	\$0.06	\$0.01
Granted 23 May 2011 <sup>(c)</sup>	1,300,000	23/05/2011	31/01/2012	\$0.06	\$0.01

(a) 4,000,000 options were issued to consultants for services related to the placement of shares announced on 2nd December 2010, 1,250,000 options were issued to consultants for services related to the entitlement issued completed in February 2011.

(b) Options were issued in lieu of cash for Company secretarial services for the period 1 April 2011 to 30 June 2011.

(c) Options were issued in lieu of cash for Company secretarial services for the period 1 December 2010 to 31 March 2011.

#### Fair value of share options granted in the year

The weighted average fair value of the share options granted during the financial year is \$0.01. Options were priced on the issue price of the same class of option issued under the previous entitlement issue undertaken in March 2011.

### 24. EVENTS AFTER BALANCE SHEET DATE

There have been no significant events that occurred after balance date which may affect either the Company's operations or results of those operations or the Company's state of affairs.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 25. COMPANY DETAILS

The registered office of the Company is:

Unit 16, 589 Stirling Highway  
Cottesloe WA 6011  
AUSTRALIA

The principal place of business is:

Unit 16, 589 Stirling Highway  
Cottesloe WA 6011  
AUSTRALIA

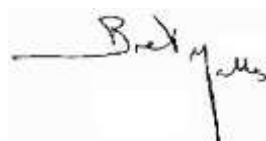
## DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of NeuroDiscovery Limited, I state that:

In the opinion of the Directors:

- (a) the financial statements and notes as set out on pages 14 to 39, of the Company are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Company's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and Corporations Regulations 2001;
- (b) the financial report also complies with International Financial Reporting Standards as set out in Note 1;
- (c) the Executive Director and Financial Officer have each declared that:
  - (i) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - (ii) the financial statements and notes for the financial year comply with the Accounting Standards; and
  - (iii) the financial statements and notes for the financial year give a true and fair view.
- (d) the remuneration report disclosures contained in the Director's Report comply with Australian Accounting Standard 124 *Related Party Transactions*, the Corporations Act 2001 and the Corporations Regulation 2001; and
- (e) 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.

On behalf of the Board



**BRET MATTES**  
**NON-EXECUTIVE CHAIRMAN**

**Perth, Western Australia, 31 August 2012**



## INDEPENDENT AUDIT REPORT TO MEMBERS OF NEURODISCOVERY LIMITED

### REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of NeuroDiscovery Ltd, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

#### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

#### *Independence*

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

#### *Auditor's Opinion*

In our opinion:

- (a) the financial report of NeuroDiscovery Ltd is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.



## **REPORT ON THE REMUNERATION REPORT**

We have audited the Remuneration Report included in pages 9 to 11 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Opinion*

In our opinion, the Remuneration Report of NeuroDiscovery Ltd for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in dark ink that reads "Crowe Horwath Perth".

CROWE HORWATH PERTH

A handwritten signature in dark ink that reads "Sean McGurk".

SEAN MCGURK  
Partner

Signed at Perth, 31 August 2012

## BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

The Board of Directors of NeuroDiscovery Limited (NeuroDiscovery or Company) is responsible for the Corporate Governance of the Company and is committed to applying the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations (ASX Principles). The Board guides and monitors the business and affairs of NeuroDiscovery on behalf of the shareholders by whom they are elected and to whom they are responsible.

To ensure the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of Directors and for the operation of the Board.

### THE BOARD OF DIRECTORS

#### Composition of the Board

The composition of the Board is determined in accordance with the following principles and guidelines:

- The Board should comprise at least three Directors; and
- The Board should comprise Directors with an appropriate range of qualifications and expertise; and
- The Board shall meet regularly and follow meeting guidelines set down to ensure all Directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

The Directors in office at the date of this statement are:

Name	Role	Non-Executive	Independent
Mr Bret Mattes	Non-Executive Chairman	Yes	Yes
Mr David McAuliffe	Executive Director	No	No
Mr Simon O'Loughlin	Non-Executive Director	Yes	Yes

#### Board Responsibilities

As the Board acts on behalf of and is accountable to the shareholders, the Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. The Board seeks to discharge these responsibilities in a number of ways.

The responsibility for the operation and administration of the Company lies with the Board and Key Management Personnel. The Board is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Company and Key Management Personnel.

The Board is responsible for ensuring the management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved. These mechanisms include the following:

- Board approval of a strategic plan, which encompasses the Company's vision, mission and strategy statements and is designed to meet stakeholders' needs and manage business risk;
- The strategic plan is a dynamic document and the Board is actively involved in developing and approving initiatives and strategies designed to ensure the continued growth and success of the entity;

## ASX ADDITIONAL INFORMATION (CONTINUED)

### BOARD OF DIRECTORS AND CORPORATE GOVERNANCE (CONTINUED)

#### THE BOARD OF DIRECTORS (CONTINUED)

##### Board Responsibilities (continued)

- Implementation of operating plans and budgets by management and Board monitoring of progress against budget – this includes the establishment and monitoring of key performance indicators (both financial and non-financial) for all significant business processes;
- Management of environmental issues and concerns, and occupational health and safety; and
- The review and approval of acquisitions and disposals of business and assets, and the approval of contracts and financial arrangements within defined limits.

The Board as a whole is responsible for selecting candidates for the position of Director, and also for determining and reviewing compensation arrangements for Executive Directors and Key Management Personnel.

It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes. This includes the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators.

##### Monitoring of the Board's Performance and Communication to Shareholders

In order to ensure that the Board continues to discharge its responsibilities in an appropriate manner, the performance of all Directors is reviewed annually by the chairperson. Directors whose performance is unsatisfactory are asked to retire.

The Board of Directors aims to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the Directors. Information is communicated to the shareholders through:

- The annual report which is distributed to all shareholders;
- The half-yearly report available to all shareholders; and
- The annual general meeting and other meetings so called to obtain approval for Board action as appropriate.

#### THE ASX PRINCIPLES

The ASX principles are an important regulatory guide for listed companies reporting on their corporate governance practices. Under ASX Listing Rule 4.10.3, listed companies must disclose the extent to which they have followed ASX Principles, and if any of the recommendations have not been followed then the company must explain why not.

## ASX ADDITIONAL INFORMATION (CONTINUED)

### THE ASX PRINCIPLES (CONTINUED)

The requirements under ASX Listing Rule 4.10.3 apply to NeuroDiscovery and below the Company sets out and explains NeuroDiscovery's compliance with the ASX Principles.

Item	ASX Best Practice Recommendation	Comment
<b>1.</b>	<b>Lay solid foundations for management and oversight</b>	
1.1	Formalise and disclose the functions reserved to the board and those delegated to management.	<p>The Corporate Governance Policy includes a formal charter, which discloses the specific responsibilities of the Board and provides that the Board shall delegate responsibility for the day-to-day operations and administration of the Company to the Executive Director.</p> <p>The charter also includes those tasks delegated to the Executive Director by the Board.</p> <p>The Chairman is responsible for leading the Board in its duties, facilitating effective discussions at Board meetings, ensuring procedures are in place to evaluate Board performance and overseeing shareholder communications. The Directors and Key Management Personnel responsible for the efficient and effective operation of the NeuroDiscovery Company, and for bringing material and other relevant matters to the attention of the Board in an accurate and timely manner.</p>
<b>2.</b>	<b>Structure the board to add value</b>	
2.1	A majority of the board should be independent directors.	<p>A majority of the Board is considered independent.</p> <p>An independent Director is a Non-Executive Director and:</p> <ul style="list-style-type: none"> <li>▪ is not a substantial shareholder of the Company or an officer of, or directly or indirectly associated with, a substantial shareholder of the Company;</li> <li>▪ within the last three years has not been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment;</li> <li>▪ within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another group member, or an employee material associated with the service provided;</li> <li>▪ is not a material contractual relationship with the Company or another group member other than as a Director of the Company;</li> <li>• has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interest of the Company;</li> <li>• is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.</li> </ul>
<b>Item</b>	<b>ASX Best Practice Recommendation</b>	<b>Comment</b>
2.2	The chairperson should be an independent director.	The Chairperson is an independent director.
2.3	The roles of chairperson and chief executive officer should not be exercised by the same individual.	The Chairperson and Executive Directors role are held by different individuals.
2.4	The board should establish a nomination committee.	Due to the size of the Company, a nomination committee has not been formed.
2.5	Process for evaluating the performance of the board, its committees and individual directors.	The Company's Performance Evaluation Practices Policy sets out the evaluation process for the Board, individual Directors, board committees and senior executives of the Company.



## ASX ADDITIONAL INFORMATION (CONTINUED)

### THE ASX PRINCIPLES (CONTINUED)

Item	ASX Best Practice Recommendation	Comment
<b>3.</b>	<b>Promote ethical and responsible decision-making</b>	
3.1	Establish a code of conduct as to: (a) the practices necessary to maintain confidence in the company's integrity; (b) the practices necessary to take into account legal obligations and the reasonable expectations of their stakeholders; and (c) the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	The Corporate Governance Policy includes a Corporate Code of Conduct, which provides a framework for decisions and actions in relation to ethical conduct in employment.
3.2	Establish a policy concerning trading in company securities by directors, senior officers and employees.	The Corporate Governance Policy includes a Securities Trading Policy which provides guidelines for buying and selling securities in the Company.
<b>4.</b>	<b>Safeguard integrity in financial reporting</b>	
4.1	The board should establish an audit committee.	Due to the size of the Company, an audit committee has not been formed. The Board as a whole is responsible for the integrity of the financial reporting.
4.2	Structure the audit committee so that it consists of: (a) only non-executive directors; (b) a majority of independent directors; (c) an independent chairperson, who is not chairperson of the board; and (d) at least three members.	Due to the stage of development of the Company and resources available the board does not see the need to establish a subcommittee of the Board to review the integrity of the NeuroDiscovery Group's financial and external reporting, and as such the Board as a whole is responsible for the integrity of the reporting function.  The board comprises three member the majority of whom are independent
4.3	The audit committee should have a formal charter.	The Company has established procedures for the selection, appointment and rotation of its external auditor. The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises, as recommended by the Audit Committee. Candidates for the position of external auditor must demonstrate independence from the Company through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Board.  NeuroDiscovery has a structured six-monthly reporting process, culminating in Board sign-off and release of financial results to the market. The Executive Director and Financial Officers provide letters of assurance to the Board for each half-year and full-year result. NeuroDiscovery also releases unaudited quarterly cashflow statements to the market.
<b>5.</b>	<b>Make timely and balanced disclosure</b>	
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.	The Company has a Continuous Disclosure Policy in place designed to ensure the factual presentation of the Company's position at all times.

## ASX ADDITIONAL INFORMATION (CONTINUED)

### THE ASX PRINCIPLES (CONTINUED)

Item	ASX Best Practice Recommendation	Comment
<b>6.</b>	<b>Respect the rights of shareholders</b>	
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	<p>NeuroDiscovery aims to provide good quality, clear communication with shareholders, using available methods and technologies.</p> <p>NeuroDiscovery views shareholder meetings as an opportunity for shareholders to meet with and question the Board and management of NeuroDiscovery. NeuroDiscovery's external auditor attends the annual general meeting and is available to answer shareholder questions.</p> <p>NeuroDiscovery's website is a key source of information for NeuroDiscovery shareholders and prospective shareholders. NeuroDiscovery places Company announcements on the site immediately following confirmation of their release to the market.</p> <p>Further communication with shareholders occurs with the distribution of the annual report (unless shareholders have chosen not to receive these). Email is also an important method of communication for investors. Key announcements and updates can be received by email where shareholders provide their details to NeuroDiscovery or the appointed share registrar.</p>
<b>7.</b>	<b>Recognise and manage risk</b>	
7.1	Establish policies on risk oversight and management of material business risk.	The Company's Corporate Governance Policy includes a Risk Management and Internal Compliance and Control Policy. Under this policy the Board determines the Company's "risk profile" and is responsible for overseeing and approving risk management strategy and policies for internal compliance and internal control.
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and to report to the board on whether those risks are being managed effectively.	<p>The Executive Director is responsible for the implementation and monitoring of business risk. He is required to report to the board on a monthly basis regarding any identified risks.</p> <p>The risk management and internal control system is reviewed annually, at the completion of the Financial Statements reporting.</p>
7.3	The Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) should state to the Board in writing that declaration in accordance with section 295A of the Corporations Act is founded on the Company's risk management, internal compliance and control system is operating efficiently and effectively in all material respects.	The Board will request that the relevant Directors and Company Secretary provide such a statement at the relevant time.
<b>8.</b>	<b>Remunerate fairly and responsibly</b>	
8.1	The board should establish a remuneration committee.	The Board considers that the Company is not currently of a size or complexity to justify the formation of a remuneration committee. The Board as a whole is responsible for the remuneration arrangements for Directors, Executive Director and executives of the Company.
8.2	Clearly distinguish the structure of non-executive directors' remuneration from that of executives.	<p>NeuroDiscovery's Board has put in place a number of measures to implement this principle.</p> <p>Discussion on NeuroDiscovery's remuneration policies of Non-Executive Directors, the Executive Directors and Senior Executives of the Group and the relationship between such policy and the Company's performance is provided in the Directors' report on page 8.</p>

## ASX ADDITIONAL INFORMATION (CONTINUED)

### ASX ADDITIONAL INFORMATION

Additional information required by the ASX Limited Listing Rules not disclosed elsewhere in this Annual Report is set out below.

### SHAREHOLDINGS

The issued capital of the Company at 241 August 2012 is 96,989,274 ordinary fully paid shares. All ordinary shares carry one vote per share.

### TOP 20 SHAREHOLDERS AS AT 24 AUGUST 2012

		No. of Shares Held	% Held
1	GALLIN NICOLE JOAN	4,875,000	5.03
2	AUSTIN 4 PL	4,400,000	4.54
3	CELAC PL	3,750,000	3.87
4	LIVINGSTON MARGARET	3,362,500	3.47
5	GEMELLI NOM PL	3,185,000	3.28
6	CELUS PL	3,000,000	3.09
7	RIVERVIEW CORP PL	3,000,000	3.09
8	STRONSAY PL	3,000,000	3.09
9	TREHERNE JONATHAN MARK	2,008,457	2.07
10	MCCARTHY STEVEN JOHN	2,000,000	2.06
11	HONDRIS JUSTIN	1,990,032	2.05
12	LEE KEVIN	1,899,995	1.96
13	GEMELLI NOM PL	1,815,000	1.87
14	SILVER KNIGHT HLDGS PL	1,500,000	1.55
15	STRONG CAMPBELL	1,475,000	1.52
16	SPINKS ANDREW PETER	1,200,000	1.24
17	BAKER SUZANN ELIZABETH	1,200,000	1.24
18	MANDOLIN PL	1,178,401	1.21
19	ANNEMC PL	1,157,000	1.19
20	BROOKES DAVID LIONEL + E	1,121,327	1.16
		47,117,712	48.58

#### Shares Range

	No. of Holders	No. of Shares
1 – 1,000	45	6,454
1,001 – 5,000	38	129,199
5,001 – 10,000	53	492,667
10,001 – 100,000	228	8,717,777
100,001 and over	129	87,643,177
	493	96,979,274

Number holding less than a marketable parcel  
size of 17,857 shares at \$0.0210 per share

	218	1,935,536
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## ASX ADDITIONAL INFORMATION (CONTINUED)

### Shareholders by Location

Australian holders

Overseas holders

No. of Holders	No. of Shares
455	87,644,388
38	9,344,886
493	96,979,274

## VOTING RIGHTS

In accordance with the Company's Constitution, on a show of hands every shareholder present in person or by proxy, attorney or representative of a shareholder has one vote and on a poll every shareholder present in person or by proxy, attorney or representative of a shareholder has in respect of fully paid shares, one vote for every share held. No class of option holder has a right to vote, however the shares issued upon exercise of options will rank pari passu with the then existing issued fully paid ordinary shares.

## SUBSTANTIAL SHAREHOLDERS AS AT 24 AUGUST 2012

	No. of Shares Held	% Held
1 TOWNER ROBERT & RELATED ENTITIES	5,760,401	5.94
2 GALLIN NICOLE JOAN	4,875,000	5.03