

CogState Limited

ABN 80 090 975 723

Appendix 4E

Year Ended 30 June 2004

Contents

- Results for announcement to the market
- 30 June 2004 Financial Report
- Independent Audit Report

Appendix 4E

Preliminary final report

30 June 2004

Name of entity: COGSTATE LIMITED
ABN: 80 090 975 723

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Current Period	Prior Period	% Change
	30 June 2004	30 June 2003	Up/(Down)
2.1 Revenue from ordinary activities	384,961	613,138	(37.2%)
2.2 Profit/(loss) from ordinary activities after tax attributable to members	(1,833,827)	(1,311,795)	(39.8%)
2.3 Net profit/(loss) for the period attributable to members	(2,677,607)	(1,311,795)	(104.1%)

- 2.4 It is not proposed to pay dividends.
2.5 N/A
2.6 Net profit/(loss) for the period attributable to members includes \$843,780 Capital Raising Costs that have been recognised directly in equity.
3. Statement of financial performance – refer to the attached financial report
4. Statement of financial position – refer to the attached financial report
5. Statement of cash flows – refer to the attached financial report
6. No dividends paid or proposed.
7. No dividends paid or proposed.
8. Statement of retained earnings showing movements – refer to the attached financial report
9. Net tangible assets per security

	Current Period	Prior Period
	30 June 2004	30 June 2003
Net Assets	6,054,606	(1,273,867)
Less Intangible Assets	438,584	501,584
Net Tangible Assets	5,616,022	(1,775,451)
Total Securities on Issue	35,647,669	1,994,655
Net Tangible Assets Per Security	\$0.16	-

10. There are no entities over which control has been gained or lost during the period.
11. There are no associates and joint venture entities.

12. Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position:

CogState Limited listed on the Australian Stock Exchange on 13 February 2004.

The Company saw a 37% fall in gross revenues over the year, relative to the previous financial year. A contributing factor to the decline in sales from the Diagnostic Division was the time commitment required from the key executives of the company during the listing process.

Following listing, along with returning the focus of its executive team to increasing sales from the diagnostic division, the Company has recruited in the sales and marketing area.

The Company will continue to focus its efforts for the coming year on increasing sales in the Diagnostic division. Sales growth for the coming year is expected to come from sales to Pharmaceutical companies in the area of clinical trials.

13. For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Accounting Standards).

N/A

14. Commentary On Results:

14.1 EPS	Current Period	Prior Period
	30 June 2004	30 June 2003
Basic EPS (cents per share)	-8.1	-62.5
Diluted EPS (cents per share)	-8.1	-62.5

- 14.2 There were no returns to shareholders.

- 14.3 Overheads have increased by 39% over the year, up from \$1,940,475 in 2003 to \$2,703,867 in 2004. In excess of 78% of that increase is made up of borrowing costs, largely interest paid on shareholder convertible notes, which was up from \$31,035 in 2003 to \$255,983 in 2004, and salaries and employee benefits, which was up from \$1,123,195 in 2003 to \$1,498,235 in 2004.

It is noted that interest expense relating to convertible notes was not paid to convertible note holders, rather the interest expense was converted to equity upon the conversion of the convertible notes. All convertible notes were converted to ordinary shares prior to the Initial Public Offering of the Company, and as such, this interest is not a recurring expense.

- 14.4 N/A

- 14.5 CogState Limited will continue to fund research and development for the Therapeutics Division. Whilst the Company is focussed on developing its current two projects, it is cognisant of the risks associated with drug development so it continues to review and evaluate other in-licensing opportunities that have specific applications in neurodegenerative disorders with the aim to ensure that at least two lead drug development programs are in place at any one time.

The Company's workforce increased during the year and it would expect another small increase in the coming financial year. New staff are focussed on increased sales in the Diagnostic Division.

This report is based on accounts that have been audited and the audit report is attached.

Martyn Myer
Chairman
26th August 2004



CogState Limited
ABN 80 090 975 723

Annual Financial Report

For the year ended 30 June 2004

CORPORATE INFORMATION

ABN 80 090 975 723

Directors

Mr Martyn Myer (Chairman)
Dr Peter Bick (Chief Executive Officer)
Assoc Prof David Darby
Dr Geoff Brooke
Mr Richard Morgan
Dr Michael Wooldridge
Mr David Simpson

Company Secretary

Mr Bradley O'Connor

Registered Office

51 Leicester Street
Carlton, Victoria, 3053

Solicitors

Menzies & Partners

Bankers

National Australia Bank

Share Register

ASX Perpetual Limited
Level 4, 333 Collins Street, Melbourne, Victoria, 3000

Auditors

Ernst & Young

Internet Address

www.cogstate.com

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DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2004.

Directors

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

Names, qualifications, experience and special responsibilities

Mr Martyn Myer BMEng, MEng, MSM (Non Executive Chairman)

Mr Myer is Chairman of CogState Ltd. Mr Myer also Chairs the Remuneration and Nomination Committee and serves on the Audit and Compliance Committee. Mr Myer is also a board member of Coles Myer Ltd and Diversified United Investments Ltd. He is Vice President of the Howard Florey Institute of Experimental Physiology and Medicine. At the Howard Florey Institute he has participated in the transition of the Institute's research focus towards diagnostic and therapeutic neuroscience, including a focus on degenerative brain diseases. Mr Myer obtained his Master of Science in Management at MIT in Boston, and his Master of Engineering Science at Monash University, Melbourne.

Dr Peter Bick MBBS, MBA, MD (US), ABPN(Psych), MRCS LRCP, BSc, MAICD (Director and Chief Executive Officer)

Dr Bick is an Executive Director and Chief Executive Officer of CogState Ltd. Dr Bick qualified in medicine from the University of London, Royal Free Hospital and completed a residency and Board Certification in Psychiatry at SUNY, (Syracuse, New York) and MMHC (Harvard, Boston). He joined Bristol-Myers (London and Brussels) to conduct CNS clinical research trials on new pharmaceutical products under development. He continued this activity at Pfizer (New York), where he was part of the team which submitted Sertraline (Zoloft) for a NDA in the US. Whilst at Pfizer, he obtained an MBA at Columbia University and assumed a role at Pfizer in appraising the licensing of new chemical entities. Dr Bick then joined Quintiles Inc to open a new office for this contract research organisation in California and was subsequently promoted to President of Quintiles Inc. As a venture capitalist, he has approved investments and sat on the boards of CombiChem (acquired by Du Pont), R2 Technologies, and Vanguard Medica, (now Vernalis; LSE:VER). He subsequently assumed a role as President and CEO of Influence, a urology medical device company, which was later successfully sold to American Medical Systems (NASDAQ:AMS). Immediately before joining CogState Ltd as CEO, Dr Bick co-founded Artemis (a breast cancer medical device company) and NeuroGesx (a biopharmaceutical company focused on the treatment of pain).

Assoc Prof David Darby MBBS, PhD, FRACP (Director, Chief Medical Officer and Founder)

Assoc Prof Darby is an Executive Director and Chief Medical Officer of CogState Ltd. Assoc Prof Darby graduated in Medicine at the University of Melbourne in 1981, completing a PhD in neurology and neuropsychology in 1990 and his neurology training in 1991. Prof. Darby served as an instructor in Behavioural Neurology at Beth Israel Hospital, Harvard Medical School from 1992 to 1995. He was Chairman of the

Directors' Report continued

Memory Disorders Service at the Repatriation Campus of the Austin & Repatriation Medical Centre from 1997 to 2000. Prof. Darby has published over 40 research papers in international peer-reviewed scientific journals and has co-authored a neuropsychological textbook. He is a Director of the Behavioural Neurology Laboratory at the Mental Health Research Institute of Victoria. Dr. Darby has also managed a desktop publishing and software production business.

Dr. Geoff Brooke, MBBS, MBA (Non-Executive Director)

Dr Brooke is a Non-Executive Director of CogState Ltd. Dr Brooke also chairs the Audit and Compliance Committee and is a member of the Remuneration and Nomination Committee. Dr. Brooke is Managing Director of GBS Venture Partners Ltd (formerly Rothschild Bioscience Managers Ltd) and has over sixteen years of venture capital experience. He was formerly President of Medvest Inc., a US-based early stage venture capital group he founded with Johnson and Johnson. Dr Brooke's experience includes company formation, acquisitions and public listings. He earned his medical degree from the University of Melbourne, Australia and an MBA from IMEDE (now IMD) in Lausanne, Switzerland.

Mr Richard Morgan, C.Biol, M.I.Biol. Dip RC Path. (Non-Executive Director)

Mr Morgan is an independent Non-Executive Director. He sits on the Audit and Compliance Committee as well as the Remuneration and Nomination Committee. Mr Morgan was appointed to the Board of Directors on 14 July 2003. Mr Morgan has over 25 years experience in pharmaceutical research and development. He has held various senior management positions within Preclinical Safety, including Head of Toxicology at Wellcome plc and International Head of Toxicology and Preclinical Outsourcing for GlaxoWellcome plc, with responsibility for staff in the UK, USA and Italy. After leaving GlaxoSmithKline plc and after a period as Interim Head of Preclinical for PowderJect Pharmaceuticals, Mr Morgan established his own consultancy company (R&B HealthCare Ltd) providing advice on Toxicology and Preclinical Discovery and Development to client companies in the UK and Australia. Mr Morgan holds C.Biol. M.I.Biol (Laboratory Animal Pathology) from the Institute of Biology and Dip.RCPath (Toxicology) from the Royal College of Pathologists.

Dr Michael Wooldridge MBBS, MBA BSc (Non-Executive Director)

Dr Wooldridge is an independent non-executive Director. He sits on the Audit and Compliance Committee as well as the Remuneration and Nomination Committee. Dr Wooldridge was appointed to the Board of Directors on 12 May 2004. Dr Wooldridge is currently Chairman of Neurosciences Australia, Healthsource Australia (Ministerial Advisory Committee on AIDS, Sexual Health and Hepatitis), Resonance Health, and the Cooperative Research Centre in Oral Health Science. He is also Associate Professor at the University of Melbourne.

Directors' Report continued

Mr David Simpson BA (Honours) (Non-Executive Director)

Mr. Simpson is an independent non-executive Director. He is the CEO of the Bluearth Institute, a Melbourne based not-for-profit enterprise established to develop programs that promote health and fitness through increased physical activity. Previously he was Senior Partner at Doremus Communications, the largest US business to business agency. From 1985 to 2001 he held a series of senior management positions in Asia, South Africa and North America as well as Australia for the multinational advertising agency, J.WalterThompson.

Company Secretary**Mr Bradley O'Connor** B.Bus ACA Chief Financial Officer

Mr O'Connor was appointed as Company Secretary on 12 May 2004. A Chartered Accountant, Mr O'Connor previously held roles at Spherion Group, Australian Wine Exchange, Nextec Strategic Capital and PricewaterhouseCoopers.

Interests in the shares and options of the company

As at the date of this report, the interests of the directors in the shares and options of CogState Limited were:

	Ordinary Shares	Options over Ordinary Shares
Mr Martyn Myer	2,989,804	1,290,262
Dr Peter Bick	2,913,838	-
Assoc Prof David Darby	1,471,723	69,551
Dr Geoff Brooke *	-	-
Mr Richard Morgan	-	70,000
Dr Michael Wooldridge	-	70,000
Mr David Simpson	40,000	-

* Whilst Dr Brooke does not have a relevant or equitable interest in any securities of CogState Limited, Dr Brooke is the Managing Director of GBS Venture Partners Limited which is the manager of the Australian Bioscience Trust which holds securities in CogState Limited.

Corporate Information**Corporate Structure**

CogState Limited is a company limited by shares that is incorporated and domiciled in Australia. All activities of the business are conducted by CogState Limited, which has no subsidiaries.

Directors' Report continued

Nature of operations and principal activities

The principal activities of CogState Limited during the year were:

- Sale of diagnostic tools that are used to provide rapid and accurate measurement of cognitive function for pharmaceutical companies, sporting organisations, medical practitioners and occupational health organisations; and
- Therapeutic drug development.

There have been no significant changes in the nature of those activities during the year.

Employees

CogState Limited employed 11 employees as at 30 June 2004 (2003: 8).

Review and results of operations

Group Overview

CogState was established in 1999 with headquarters in Melbourne. It is involved in neuroscience, particularly the development and commercialisation of products for neurodegenerative disorders and conditions.

Diagnostic Division

CogState Limited's diagnostic tools provide a rapid and accurate measurement of cognitive function (decision making, problem solving, psychomotor function, learning and memory) for pharmaceutical companies, sporting organisations, medical practitioners and occupational health organisations.

The tests:

- are distributed and analysed via the internet,
- are independent of language and culture,
- provide an accurate measurement of change by comparing an individual's performance to themselves,
- do not require a skilled administrator,
- are sold on a contracted, per use basis,
- are cost effective.

First sales were achieved in October 2001.

Users now number over 50 and include major entities such as Pfizer, Johnson and Johnson, elite sporting bodies such as the Australian Football League, South African Rugby Football Union and the Jockey Club of Great Britain.

Directors' Report continued

Therapeutic Division

The Therapeutic Division is developing two drug projects, which have the potential to be used in the treatment of a number of neurodegenerative disorders including Alzheimer's disease and Parkinson's disease. The market for pharmacological treatments of neurodegenerative disorder is substantial and growing, with very few drugs available having the ability to prevent further decline in sufferers. The Company's strategy is to utilise internal resources and know-how to find, evaluate, negotiate and in-license compounds in the early preclinical stage of drug development that have the potential to treat these disorders. It is the intention of CogState Limited to subsequently on-license these products to commercialisation partners.

Dynamics of the Business

CogState Limited listed on the Australian Stock Exchange on 13 February 2004.

The Company saw a 37% fall in gross revenues over the year, relative to the previous financial year. A contributing factor to the decline in sales from the Diagnostic Division was the time commitment required from the key executives of the company during the listing process.

Following listing, along with returning the focus of its executive team to increasing sales from the diagnostic division, the Company has recruited in the sales and marketing area.

In April 2004, the Company employed Dr Adam Whybrew as Business Development Manager. Dr Whybrew has degrees from both Oxford and Cambridge universities in the UK, and his previous position was Sales & Marketing Director of Oxford Lasers Ltd (a British company), which sells high-tech measurement equipment into pharmaceutical and other markets. He has extensive experience of selling directly and through distributors in the USA, Japan and Europe as well as Australia.

In June 2004, the Company retained the services of Kim Weissenburger to manage the marketing of the Concussion Sentinel product launch in the USA. Ms Weissenburger has extensive experience marketing health products to consumers in the American market.

The Company will continue to focus its efforts for the coming year on increasing sales in the Diagnostic division. Sales growth for the coming year is expected to come from sales to Pharmaceutical companies in the area of clinical trials. The Company does not expect a large increase in sales for its CogSport products, including the newly branded Concussion Sentinel in the USA, until the 2005-06 financial year.

Operating Results for the Year

The Company recorded a decrease in sales of its diagnostic product of 36%, down from \$302,378 in 2003 to \$192,094 in 2004 and a decrease in total revenues of 37% down from \$613,138 in 2003 to \$384,961 in 2004.

Directors' Report continued

Overheads have increased by 39% over the year, up from \$1,940,475 in 2003 to \$2,703,867 in 2004. In excess of 78% of that increase is made up of borrowing costs, largely interest paid on shareholder convertible notes, which was up from \$31,035 in 2003 to \$255,983 in 2004, and salaries and employee benefits, which was up from \$1,123,195 in 2003 to \$1,498,235 in 2004.

Overall, the Company recorded a net loss of \$1,833,827 (2003: \$1,311,795).

It is noted that interest expense relating to convertible notes was not paid to convertible note holders, rather the interest expense was converted to equity upon the conversion of the convertible notes, as described in detail in note 14. All convertible notes were converted to ordinary shares prior to the Initial Public Offering of the Company, and as such, this interest is not a recurring expense.

During the year funds were allocated to Research & Development in respect of the Therapeutic Division, including an allocation of salaries and employee benefits, an allocation of general overheads as well as \$40,759 paid to external contractors. As was foreshadowed in the Company's prospectus, it is planned that further Research & Development will be undertaken in the coming financial year.

Shareholder Returns

The Company listed on the Australian Stock Exchange in February 2004 at \$0.50. The share price closed at \$0.25 on 30 June 2004. The Directors are extremely concerned about the performance of the share price over the period since listing. However, the Directors believe that the work done by management since listing will result in improvement in this area as the Company achieves further sales in the Diagnostic area and with further progress in the Therapeutics area.

	2004
Basic Earnings Per Share (cents)	-8.1
Return on Assets %	-38.5

Dividends

No dividend was paid during the year and the Directors do not recommend a dividend be paid in respect of the year ended 30 June 2004.

Investments for Future Performance

CogState Limited will continue to fund research and development for the Therapeutics Division. Whilst the Company is focussed on developing its current two projects, it is cognisant of the risks associated with drug development so it continues to review and evaluate other in-licensing opportunities that have specific applications

Directors' Report continued

in neurodegenerative disorders with the aim to ensure that at least two lead drug development programs are in place at any one time.

The Company's workforce increased during the year and it would expect another small increase in the coming financial year. New staff are focussed on increased sales in the Diagnostic Division.

The Company plans to re-locate Dr Alex Collie to London in the coming period to facilitate an increase in diagnostic sales to Europe, particularly with respect to European pharmaceutical companies and sporting organisations.

Review of Financial Condition

Capital Structure

On 14 July 2003:

1. \$535,000 in convertible notes and \$29,119 in related interest were converted into 488,819 Ordinary Shares;
2. 829,992 Series A Preferred Shares were converted into 829,992 Ordinary Shares.

On 30 January 2004, the date of issue of shares under the Prospectus dated 3 December 2003:

1. \$2,215,000 in convertibles notes and \$226,961 in related interest were converted, under agreement, into 1,988,434 Series A Preferred Shares and 1,175,806 Options;
2. 2,405,097 Series A Preferred Shares were converted, under agreement, into 2,491,241 Ordinary Shares;
3. 100,000 B Class Shares were converted into 693,400 Ordinary Shares;
4. 5,151,452 Ordinary Shares on issue were split into 21,647,669 Ordinary Shares;
5. 14,000,000 Ordinary Shares were issued at \$0.50 per share, raising \$7,000,000 before capital raising costs.

The above movements in Share Capital are summarised below:

	Ordinary Shares Number	B Class Shares Number	Series A Preferred Shares Number
Shares Issued at 30 June 2003	648,000	100,000	1,246,655
Convertible Note Conversion	488,819	-	-
Series A Preferred Share Conversion	829,992	-	(829,992)
Convertible Note Conversion	-	-	1,988,434
Series A Preferred Share Conversion	2,491,241	-	(2,405,097)
B Class Share Conversion	693,400	(100,000)	-
Share Split	16,496,217	-	-
Issue of Shares under Prospectus	14,000,000	-	-
Shares Issued at 30 June 2004	35,647,669	-	-

Directors' Report continued

The Company has no debt and sufficient working capital with which to fund its operations.

Cash Flows From Operations

Net cash outflow from operating activities increased from \$1.110m in the previous year to \$1.585m in the current year.

There was an increase in receipts in the course of operations of approximately 3%.

Liquidity and Funding

The Company has \$5.57m in cash and cash investments at 30 June 2004. The Company has sufficient funds to finance operations.

Risk Management

The Company has established a Risk Management Committee, as a sub-committee of the Audit and Compliance Committee. The duties of the Risk Management Committee are:

- Monitoring corporate risk and implementing controls to manage those risks;
- Reporting to the Audit and Compliance Committee as to the development of risk action plans and the activities of management in monitoring the risks identified;
- Continuous review of risk management practices within the Company.

The Board has put in place the following mechanisms to ensure that management's objectives and activities are aligned with the risks identified:

- Implementation of board approved operating plans and budgets and Board monitoring of progress against these budgets;
- Implementation of board approved policy and procedures manual to ensure that management can act within defined parameters and risk levels before needing to seek board approval.

Statement of Compliance

This report is based on the guidelines in The Group of 100 Incorporated publication *Guide to the Review of Operations and Financial Condition*.

Significant Changes in the State of Affairs

Shareholders equity increased to \$6.055m from (\$1.274m), an increase of \$7.329m. The movement is largely the result of the issue of ordinary shares following the initial public offering of shares in the Company (\$7m), combined with the proceeds from the issue of Convertible Notes during the year (\$1m) and the loss recorded from operations during the year.

Directors' Report continued

Significant Events After The Balance Date

On 21st July 2004, the Company announced that Schutt Sports, a major US sporting goods manufacturer, has sponsored the Company's computerised concussion test to be given free to every US College and High School for one year. The free offer will be made to all 1,200 Colleges and 18,000 High Schools across the US.

Whilst the association with Schutt Sports is not expected to generate significant income in the 2004-05 financial year, the Company will work to retain a significant percentage of customers, leading to an increase in sales for the 2005-06 financial year.

After balance date, the Company entered into lease for premises with a term of three years. The lease is due to commence on 27th August 2004.

Likely Development and Expected Results

The directors foresee that the 2004/5 financial year will be a period of growth of revenues. The Company will continue to focus its attention on increasing sales within the Diagnostic division. Specifically, the most significant areas for change will be in:

- The launch of the "Concussion Sentinel" brand in the United States with associated marketing campaign featuring the association between the Company and Schutt, the largest manufacturer of US football helmets;
- Growth of the use of the diagnostic tools by pharmaceutical companies within their clinical trials programs;
- Continued advancement in respect of the drugs under development in the Therapeutics division.

Share Options

As at the date of this report, there were 7,848,668 unissued ordinary shares under options. Refer to note 14 of the financial statements for further details of the options outstanding.

Options holders do not have any right, by virtue of the option, to participate in any share issue of the Company.

Indemnification and Insurance of Directors and Officers

During the financial year, the Company has paid premiums in respect of a contract insuring all the directors of CogState Limited against costs incurred in defending proceedings for conduct involving any wrongful act by a director. The total amount of the insurance contract premium paid was \$5,643.

Directors' Report continued

Directors and Other Officers Emoluments

The Remuneration and Nomination Committee of the Board of Directors is responsible for reviewing and recommending compensation arrangements for the directors, the Chief Executive Officer and the executive team. The Remuneration and Nomination Committee assesses the appropriateness of the nature and the amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Further details on the remuneration of directors is provided in note 24 to the financial statements.

Details regarding the issue of Share Options under the Employee Share Incentive Plan are provided in note 20 to the financial statements.

Details of the nature and amount of each element of the emolument of each director of the company and each of the executive officers of the company receiving the highest emolument for the financial year are as follows:

Emoluments of directors of CogState Limited

	Annual Emolument	Long Term Emoluments Options			Superannuation	Total
		Number Granted	Amortised Cost	% of Remuneration		
	\$		\$		\$	\$
M Myer	13,874	81,524	14,277	48.6%	1,249	29,400
P Bick	277,359	-	-	-	91,150	368,509
D Darby	198,997	-	-	-	11,002	209,999
G Brooke *	-	-	-	-	-	-
R Morgan	18,715	70,000	11,937	38.9%	-	30,652
M Wooldridge	2,765	70,000	9,033	75.0%	249	12,047
Total	511,710	221,524	35,247	5.4%	103,650	650,607

* Whilst Dr G Brooke does not receive emoluments from the Company directly, Dr Brooke is the Managing Director of GBS Venture Partners Limited which is the manager of the Australian Bioscience Trust which received emoluments, in form of base fee for the sum of \$7,562, during the year to 30 June 2004.

The amortised cost of options issued during the year has been calculated by using a Black-Scholes option valuation model.

Directors' Report continued

Emoluments of the four most highly paid executive officers of the company

	Annual Emoluments Fees \$	Long Term Emoluments Options			Superannuation \$	Total \$
		Number Granted	Amortised Cost \$	% of Remuneration		
P Maruff	168,165	656,978	100,073	35.8%	11,002	279,240
A Collie	89,477	316,416	50,803	34.1%	8,841	149,121
A Whybrew	44,688	725,000	93,552	65.9%	3,645	141,885
B O'Connor	10,200	275,000	35,485	76.1%	918	46,603
Total	312,530	1,973,394	279,913	45.4%	24,406	616,849

Directors' Meetings

The number of meetings of directors (including meetings of Committees of directors) held during the year and the number of meetings attended by each director were as follows:

	Directors' Meetings		Meetings of Committees			
	Held	Eligible To Attend	Audit		Remuneration	
			Held	Eligible To Attend	Held	Eligible To Attend
Number of meetings held:	11		2		2	
Number of meetings attended:						
M Myer	11	11	2	2	2	2
P Bick	11	11	-	-	-	-
D Darby	10	11	-	-	-	-
G Brooke	11	11	2	2	2	2
R Morgan	11	11	1	2	-	1
M Wooldridge	2	2	1	1	-	-
D Simpson	-	-	-	-	-	-

Committee Membership

As at the date of this report, the Company had an Audit and Compliance Committee, and a Remuneration and Nomination Committee. Members acting on the committees during the year were:

Audit & Compliance	Remuneration & Nomination
G Brooke (c)	M Myer (c)
M Myer	G Brooke
R Morgan	R Morgan
M Wooldridge	M Wooldridge

(c) designates the Chairman of the committee.

Directors' Report continued

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of CogState Limited support and have adhered to the principles of Corporate Governance. The Company's Corporate Governance statement is contained in the following section of this annual report.

Signed in accordance with a resolution of the directors.

M Myer
Chairman

Melbourne, 26th August 2004

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of CogState Limited is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of CogState Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

The format of the Corporate Governance Statement is reflective of the Australian Stock Exchange Corporate Governance Council's (the Council's) "Principles of Good Corporate Governance and Best Practice Recommendations" (the Recommendations). In accordance with the Council's Recommendations, the Corporate Governance statement must contain certain specific information and must disclose the extent to which the Company has followed the guidelines during the period. Where a recommendation has not been followed, that fact must be disclosed, together with the reasons for the departure. CogState Limited's Corporate Governance Statement is structured with reference to the Corporate Governance Council's Recommendations, which are as follows:

Principle 1	Lay solid foundations for management and oversight
Principle 2	Structure the board to add value
Principle 3	Promote ethical and responsible decision making
Principle 4	Safeguard integrity in financial reporting
Principle 5	Make timely and balanced disclosures
Principle 6	Respect the rights of shareholders
Principle 7	Recognise and manage risk
Principle 8	Encourage enhanced performance
Principle 9	Remunerate fairly and responsibly
Principle 10	Recognise the legitimate interests of stakeholders

CogState Limited's Corporate Governance practices have been a work in progress since listing. The Company, since listing, has added two independent non-executive directors, Michael Wooldridge and David Simpson.

The Company has also appointed Mr Anthony Lewis as a permanent adviser to the Audit & Compliance Committee, as described in more detail below.

The management and directors of the Company have also adopted a policies and procedures manual to give management clear guidance in relation to levels of decision making.

Structure of the Board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report on page 5. Directors of CogState Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to interfere with – the exercise of their unfettered and independent judgement.

Corporate Governance Statement continued

In accordance with the definition of independence above, Richard Morgan (non-executive director), Michael Wooldridge (non-executive director) and David Simpson (non-executive director) are considered to be independent. Therefore 3 of the 7 directors of CogState Limited are independent.

There are procedures in place, agreed by the board, to enable directors, in furtherance of their duties, to seek independent professional advice at the Company's expense.

The term in office held by each director in office at the date of this report is as follows:

Name	Term in Office
M Myer	4 years 8 months
P Bick	2 years 10 months
D Darby	4 years 8 months
G Brooke	4 years 4 months
R Morgan	1 year 1 month
M Wooldridge	3 months
D Simpson	Less than 1 month

Audit & Compliance Committee

The Board has established an Audit and Compliance Committee, which operates under a charter approved by the board. 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, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information as well as non-financial considerations. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the Company to the audit committee.

The committee also provides the board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the audit committee are non-executive directors.

The members of the audit committee during the year were:

G Brooke
M Myer
R Morgan
M Wooldridge

The Company has appointed Anthony Lewis as a permanent adviser to the Audit Committee. Mr Lewis is a former partner at Arthur Andersen. He holds a Bachelor of Economics and is a Fellow of the Institute of Chartered Accountants, a member of the Australian Institute of Company Directors and a member of the Australian Society of Certified Practicing Accountants.

Corporate Governance Statement continued

Performance

The performance of the board and key executives is reviewed regularly. This review was performed prior to the Company listing on the ASX in February 2004. The performance criteria against which directors and executives are assessed is aligned with the financial and non-financial objectives of CogState Limited. Directors whose performance is consistently unsatisfactory may be asked to retire.

Remuneration

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Remuneration and Nomination Committee links the nature and amount of directors' and officers' emoluments to the company's financial and operational performance. The expected outcomes of the remuneration structure are:

- Retention and motivation of key executives
- Attraction of quality management to the company
- Performance incentives which allow the executives to share the rewards of the success of CogState Limited.

For details on the amount of remuneration and all monetary and non-monetary components for each of the four highest paid (non-director) executives during the year and for all directors, refer to page 14 and 15 of the Directors Report. Given the performance of the Company, no bonus or other incentives payments have been made during the year. In relation to the grant of options, discretion is exercised by the board, having regard to the overall performance of CogState Limited and the desire to motivate the individual.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves and the chief executive officer and the executive team. The Board has established the Remuneration and Nomination Committee to make recommendations to the Board. The Remuneration and Nomination Committee comprises four non-executive directors. Members of the Remuneration and Nomination Committee throughout the year were:

M Myer
G Brooke
R Morgan
M Wooldridge

For details on the number of meetings of the remuneration committee held during the year and the attendances at those meetings, refer to page 15 of the Directors Report.

STATEMENTS OF FINANCIAL PERFORMANCE**For the year ended 30 June 2004**

	Note	2004 \$	2003 \$
REVENUES FROM ORDINARY ACTIVITIES	2	384,961	613,138
Expenses from Ordinary Activities			
Salaries and employee benefits expense		1,498,235	1,123,195
Depreciation and amortisation	3	91,467	85,212
Borrowing costs	3	271,891	31,035
Rent & outgoing expense		49,464	48,515
Advertising, promotion & marketing expense		96,151	75,499
Accounting expense		111,607	77,950
Audit expense	22	39,820	14,510
Telephone, printing and computer expenses		98,038	31,343
Contractors and consultants		4,734	100,627
Legal expenses	3	166,296	133,347
Insurance		31,500	27,936
Travel expenses		155,820	103,285
Research and development		40,759	51,688
Other expenses from ordinary activities		48,086	36,333
Total Expenses		<u>2,703,867</u>	<u>1,940,475</u>
LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(2,318,906)	(1,327,337)
Income tax credit relating to operating activities		6,707	15,542
Research and development tax rebate received		<u>478,372</u>	<u>-</u>
INCOME TAX (EXPENSE)/BENEFIT RELATING TO ORDINARY ACTIVITIES	4	485,079	15,542
NET LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX		(1,833,827)	(1,311,795)
Capital Raising Costs	15	(843,780)	-
Total revenues, expenses and valuation adjustments attributable to members of CogState Limited and recognised directly in equity		<u>(843,780)</u>	<u>-</u>
Total changes in equity other than those resulting from transactions with owners as owners attributable to members		<u>(2,677,607)</u>	<u>(1,311,795)</u>
Basic earnings per share (cents per share)		-8.10	-62.5
Diluted earnings per share (cents per share)		-8.10	-62.5
Franked dividends per share (cents per share)		-	-

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2004

	Note	2004 \$	2003 \$
CURRENT ASSETS			
Cash assets	5	320,791	59,833
Receivables	6	121,784	124,631
Other current assets	7	48,591	11,525
Investments	8	5,250,000	-
TOTAL CURRENT ASSETS		5,741,166	195,989
NON-CURRENT ASSETS			
Plant and equipment	9	65,724	38,867
Intangibles	10	438,584	501,584
Deferred tax assets	7	33,701	26,994
TOTAL NON-CURRENT ASSETS		538,009	567,445
TOTAL ASSETS		6,279,175	763,434
CURRENT LIABILITIES			
Payables	11	131,804	233,922
Interest-bearing liabilities	12	-	1,750,000
Provisions	13	92,765	53,379
TOTAL CURRENT LIABILITIES		224,569	2,037,301
TOTAL LIABILITIES		224,569	2,037,301
NET ASSETS		6,054,606	(1,273,867)
EQUITY			
Contributed equity	14	11,230,286	2,067,986
Accumulated losses	16	(5,175,680)	(3,341,853)
TOTAL EQUITY		6,054,606	(1,273,867)

STATEMENTS OF CASH FLOWS**For the year ended 30 June 2004**

	Note	2004 \$	2003 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		189,970	397,236
Cash receipts from grant income		55,509	306,204
Cash receipts from tax rebates		478,372	-
Cash payments to suppliers and employees		(2,419,150)	(1,821,794)
Interest received		109,970	8,791
NET CASH FLOW USED IN OPERATING ACTIVITIES	17	(1,585,329)	(1,109,563)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant & equipment		(55,324)	(20,253)
Proceeds from disposals of assets		-	9,786
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(55,324)	(10,467)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		9,750,098	18,000
Capital raising costs		(843,780)	-
Proceeds/(Conversion) from issue of convertible notes		(1,750,000)	800,000
NET CASH FLOWS FROM FINANCING ACTIVITIES		7,156,318	818,000
NET INCREASE/(DECREASE) IN CASH HELD		5,515,665	(302,030)
Add opening cash brought forward		59,833	370,830
Effects of exchange rate changes on cash		(4,707)	(8,967)
CLOSING CASH CARRIED FORWARD	17	5,570,791	59,833

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

(a) Basis of accounting

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report has been prepared in accordance with the historical cost convention.

(b) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year.

(c) Foreign Currencies

Transactions in foreign currencies are converted to local currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date are translated using the spot rate at the end of the financial year.

All resulting exchange differences arising on settlement or restatement are recognised as revenues and expenses for the financial year.

(d) Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at their nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily converted to cash within 2 working days.

(e) Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollected debts. An estimate of doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

(f) Investments

Term Deposits are recorded at their face value. Interest income is accrued.

(g) Recoverable Amount

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where a carrying value exceeds this recoverable amount, the asset is written down. In determining recoverable amount, the expected net cash flows have not been discounted to their present value.

Notes To The Financial Statements

Summary of Significant Accounting Policies continued

(h) Plant & Equipment

All classes of plant and equipment are measured at cost.

Items of plant and equipment are depreciated over their estimated useful lives. The depreciation rates and methods used for each class of asset, for the current year are as follows:

	Depreciation Rate	Depreciation Method
2004 Plant and equipment	40%	Diminishing value
2003 Plant and equipment	40%	Diminishing value

(i) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

At 30 June 2004, the Company had not entered into any leases, either operating or finance.

Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

(j) Intangibles*Patents and licences*

Patents and licences are expensed in the year that costs are incurred.

Intellectual Property

The Intellectual Property of CogState is comprised of a series of patents and applications originating with Founders of the Company and their collaborators property, a series of patents and applications that have been licensed in by CogState and unregistered intellectual property rights.

Acquired Intellectual Property has been acquired from Founders of the Company and is amortised on a straight line basis over the period in which the benefits are expected to be received. This is taken as being 10 years.

(k) Other non-current assets*Research and Development Costs*

Research and development costs are expensed as incurred.

(l) Payables

Liabilities for trade creditors and other amounts are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

Notes To The Financial Statements

Summary of Significant Accounting Policies continued

(m) Provisions

Provisions are recognised when the Company has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required, and a reliable estimate can be made of the amount of the obligation.

(n) Interest-bearing liabilities

Convertible notes are carried at the principal amount, being the amount of consideration received on the date of issue. Interest on the convertible notes is only due and payable by the Company on the date when the convertible notes are actually redeemed in accordance with the convertible note deed. Interest is therefore only recognised as an expense when the convertible notes are actually redeemed.

(o) Contributed Equity

Issued and paid-up capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(p) Revenue Recognition

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

Rendering of Services

Where a contract outcome can be reliably measured, control of the right to be compensated for the services and the stage of completion can be reliably measured.

Sale of Tests

Control of the right to be compensated for provision of test results.

Grant Income

Control of the right to receive the rebate. These rebates are recognised as an income tax credit.

Research & Development Tax Rebate

Control of the right to receive the income.

Interest

Control of the right to receive the interest payment.

(q) Taxes*Income Taxes*

Tax effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent that timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless it is virtually certain of being realised.

Notes To The Financial Statements

Summary of Significant Accounting Policies continued

Goods and Services Tax (GST)

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

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

Cash flows are included in the Statement of Cash Flows on a gross basis and 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.

(r) Employee Benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, and sick leave.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within 12 months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled.

Employee benefit expenses arising in respect of the following categories:

- Wages and salaries, non-monetary benefits, annual leave, sick leave and other leave benefits; and
- Other types of employee benefits

are recognised against profits on a net basis in their respective categories.

The value of the equity based compensation scheme described in note 20 is not being recognised as an employee benefits expense.

(s) Earnings per share

Basic EPS is calculated as a net profit (loss) attributable to members, adjusted to exclude costs of servicing equity, divided by the weighted average number of ordinary shares.

Diluted EPS is calculated as net profit (loss) attributable to members, adjusted for:

- Costs of servicing equity
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from dilution of potential ordinary shares;

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

(t) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

Notes To The Financial Statements

2. Revenue From Ordinary Activities

	2004	2003
	\$	\$
Revenue from operating activities		
Revenue from sale of goods	192,094	302,378
Total revenues from operating activities	<u>192,094</u>	<u>302,378</u>
Revenues from non-operating activities		
Interest		
- Interest received - director related entity	817	8,791
- Other corporations	141,248	-
Total Interest	<u>142,065</u>	<u>8,791</u>
Grant Income		
- Research & Development Start Grant	-	274,717
- Export Market Development Grant	55,509	31,487
Total Grant Income	<u>55,509</u>	<u>306,204</u>
Profit from disposal of property, plant and equipment	-	4,732
Foreign Exchange Gain/(loss)	(4,707)	(8,967)
Total revenue from ordinary activities	<u>384,961</u>	<u>613,138</u>

During the year, a Research & Development Tax Rebate of \$478,372 was received in respect of the 2002 and 2003 income tax years. This receipt of monies has not been treated as Revenue, but classified as a credit to income tax expense (see note 4).

3. Expenses And Losses/(Gains)

	2004	2003
	\$	\$
Depreciation of non-current assets		
- Plant and Equipment	28,467	22,212
Amortisation of non-current assets		
- Intellectual Property	63,000	63,000
Total depreciation and amortisation	<u>91,467</u>	<u>85,212</u>

Notes To The Financial Statements

3. Expenses And Losses/(Gains) continued

Borrowing costs expense	2004	2003
	\$	\$
Interest		
- Convertible note expense - related parties	255,983	31,035
- Other	548	-
	<u>256,531</u>	<u>31,035</u>
Other borrowing costs	15,360	-
Total borrowing costs expense	<u>271,891</u>	<u>31,035</u>
Operating Lease Rental		
- Minimum lease payments	36,300	36,300
- Contingent Rentals	13,164	12,215
Total operating lease rental	<u>49,464</u>	<u>48,515</u>
Legal Fees		
- patent applications	113,541	101,823
- other	52,755	31,524
Total legal expenses	<u>166,296</u>	<u>133,347</u>

4. Income Tax

The prima facie tax payable on operating loss is reconciled to the income tax benefit in the accounts as follows:

Prima facie income tax benefit at 30% on operating loss from ordinary activities	(695,672)	(398,201)
Adjust for tax effect of:		
Non allowable items	(46,975)	34,067
Tax Losses not carried forward as a FITB	728,146	270,661
Other Assessable Income	7,793	77,931
Cash received from research & development tax rebate	(478,372)	-
Income tax benefit attributable to ordinary activities	<u>(485,079)</u>	<u>(15,542)</u>
Future income tax benefit not taken to account	905,123	364,477

The potential future income tax benefit, arising from timing differences and tax losses has not been recognised as an asset because recovery of tax losses is not recoverable beyond reasonable doubt.

Notes To The Financial Statements

4. Income Tax continued*Benefit of income tax losses not brought to account*

As at 30 June 2004, the company has estimated unrecouped income tax losses of approximately \$3,017,076 (2003: \$1,214,922) available to offset against future years' taxable income. The benefit of these losses of approximately \$905,123 (2003: \$364,477) has not been brought to account as realisation is not virtually certain. The benefit will only be obtained if:

- (i) The company derives future assessable income of a nature and of an amount sufficient to enable the benefits from the deductions for the losses to be realised;
- (ii) The company continues to comply with the conditions for deductibility imposed by law; and
- (iii) No changes in tax legislation adversely affect the company in realising the benefit from the deductions for the losses.

5. Cash Assets

	Note	2004 \$	2003 \$
Deposits at Call - General		-	3,729
Cash at Bank		311,185	48,745
Cash at Bank - USD account		9,406	7,359
Petty Cash		200	-
	17(b)	320,791	59,833

6. Receivables**Current**

Trade Debtors	(1)	91,730	118,355
Other Debtors	(1)	30,054	6,276
		121,784	124,631

⁽¹⁾ Trade and other debtors are non-interest bearing and generally on 30 day terms.

7. Other Assets**Current**

Fringe Benefits Tax Instalment	728	765
Goods & Services Tax receivable	15,768	10,760
Accrued Income	32,095	-
	48,591	11,525

Non-current

Future Income Tax Benefit - timing differences	33,701	26,994
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Notes To The Financial Statements

8. Investments

	Note	2004	2003
Term Deposits		\$	\$
Term Deposit 30 Day Maturity		2,250,000	-
Term Deposit 90 Day Maturity		1,500,000	-
Term Deposit 6 Month Maturity		1,500,000	-
	17(b)	<u>5,250,000</u>	<u>-</u>

Term deposits are recorded at their face value. Interest income is accrued.

9. Plant And Equipment**Office Furniture & Equipment****Cost**

Carrying Amount at Beginning	94,283	79,219
Additions	55,324	20,253
Disposals	-	(5,189)
Closing Balance	<u>149,607</u>	<u>94,283</u>

Accumulated depreciation

Carrying Amount at Beginning	55,416	33,340
Depreciation for the year	28,467	22,211
Disposals	-	(135)
Closing Balance	<u>83,883</u>	<u>55,416</u>

Net book value	<u>65,724</u>	<u>38,867</u>
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10. Intangibles**Non Current**

Intellectual Property at Cost	630,000	630,000
Less: Accumulated Deprecation	(191,416)	(128,416)
	<u>438,584</u>	<u>501,584</u>

11. Payables**Current**

Trade Creditors ⁽¹⁾	44,651	-
Goods & Services Tax Payable	1,998	632
Sundry Creditors ⁽¹⁾	37,171	233,290
Accrued Expenses	47,984	-
	<u>131,804</u>	<u>233,922</u>

⁽¹⁾ Trade and sundry creditors are non-interest bearing and are normally settled on 30 day terms.

Notes To The Financial Statements

12. Interest Bearing Liabilities

	Note	2004	2003
Current		\$	\$
Convertible notes		-	1,750,000

Terms and conditions relating to the above financial instruments:

Interest

- The convertible note does not bear interest up to and including the redemption date, being the date twelve months after the issue of the note.
- The convertible note, to the extent that it has not been converted or redeemed, bears interest at the rate of 10% per annum calculated on a daily basis commencing on the date immediately following the redemption date until the date of actual conversion or redemption.
- All interest accrued will be due and payable on the date when the convertible note is actually redeemed in accordance with the convertible note deed.

Security

- The convertible note is secured against the obligations of the company, in accordance with the terms of the mortgage debenture.
- The charge is a fixed and floating charge over all the company's present and future interest in all assets acquired and other mortgaged property.
- The rights of the note holder are subordinated.

Redemption

- By way of an agreement made between the company and each of the note holders, all of the convertible notes were converted with effect from 30 January 2004.
- The company has no other right or obligation to convert the convertible note.
- Upon redemption, the company calculated the number of shares the note holder would have received, as if the convertible note were converted in accordance with a formula detailed in the convertible note deed, and issued to the note holders that number of options calculated in accordance with a formula detailed in the convertible note deed.

13. Provisions

Current		
Employee entitlements	92,765	53,379

Notes To The Financial Statements

14. Contributed Equity

	Note	2004	2003
		\$	\$
Ordinary Shares (a)		11,230,286	648,000
Series A Preferred Shares (a)		-	1,419,986
Total Contributed Equity		<u>11,230,286</u>	<u>2,067,986</u>

Movements in contributed equity for the year:

	Number of Ordinary Shares		Number of B Class Ordinary Shares		Number of Series A Preferred Shares	
	2004	2003	2004	2003	2004	2003
Beginning of the financial year	648,000	630,000	100,000	100,000	1,246,655	1,246,655
Convertible note conversion (i)	488,819	-	-	-	-	-
Series A Preferred Share conversion (ii)	829,992	-	-	-	(829,992)	-
Convertible note conversion (iii)	-	-	-	-	1,988,434	-
Series A Preferred Share conversion (iv)	2,491,241	-	-	-	(2,405,097)	-
B Class Ordinary Share conversion (v)	693,400	-	(100,000)	-	-	-
Share split (vi)	16,496,217	-	-	-	-	-
Issued of Ordinary Shares - IPO (vii)	14,000,000	-	-	-	-	-
Shares issued during the year	-	18,000	-	-	-	-
End of the financial year	<u>35,647,669</u>	<u>648,000</u>	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>1,246,655</u>

Movement in contributed equity for the year (a):

	Ordinary Shares		Series A Preferred Shares	
	2004	2003	2004	2003
Beginning of the financial year	\$648,000	\$630,000	\$1,419,986	\$1,419,986
Convertible note conversion (i)	\$564,119	-	-	-
Series A Preferred Share conversion (ii)	\$944,991	-	-\$944,991	-
Convertible note conversion (iii)	-	-	\$2,441,961	-
Series A Preferred Share conversion (iv)	\$2,916,956	-	-\$2,916,956	-
Issue of Ordinary Shares - IPO (vii)	\$7,000,000	-	-	-
Capital Raising Costs	-\$843,780	-	-	-
Shares issued during the year	-	\$18,000	-	-
On issue at end	<u>\$11,230,286</u>	<u>\$648,000</u>	<u>\$0</u>	<u>\$1,419,986</u>

Notes To The Financial Statements

14. Contributed Equity continued

- (i) On 14 July 2003, \$535,000 in convertible notes and \$29,119 in related interest were converted into 488,819 Fully Paid Ordinary Shares.
- (ii) On 14 July 2003, 829,992 Series A Preferred Shares were converted into 829,992 Fully Paid Ordinary Shares.
- (iii) On 30 January 2004, \$2,215,000 in convertible notes and \$226,961 in related interest were converted into 1,988,434 Fully Paid Series A Preferred Shares and 1,175,806 options.
- (iv) On 30 January 2004, 2,405,097 Series A Preferred Shares were converted into 2,491,241 Fully Paid Ordinary Shares.
- (v) On 30 January 2004, 100,000 B Class Shares were converted into 693,400 Fully Paid Ordinary Shares
- (vi) On 30 January 2004, the 5,151,452 shares on issue were split into 21,647,669 shares.
- (vii) On 30 January 2004 the company issued 14,000,000 shares at \$0.50 each pursuant to an Initial Public Offer, under a prospectus dated 3 December 2003.

Convertible Notes and Preference Shares

The Company has previously raised loan funds and capital by the issue of a series of convertible notes. The terms on which the convertible notes were granted provided for conversion prior to the issue of shares under the Initial Public Offer. The terms of the convertibles notes provided that they would convert into Preference Shares and also provided for the grant of options.

Immediately prior to the issue of shares under the Initial Public Offering, the capital of the Company was reconstructed. Under the reconstruction:

- a) the convertible notes issued under the various convertible note deeds were converted into preference shares with options to acquire shares being granted in accordance with the terms thereof;
- b) such preference shares were converted into ordinary shares;
- c) each ordinary share, including ordinary shares resulting from the conversion of preference shares, were consolidated and divided into approximately 4.20224570 ordinary shares;
- d) each option to acquire an ordinary share (whether granted on conversion of the convertible notes or pursuant to the Company's Executive Share Option Plan) was subdivided in like manner as the ordinary shares

The ordinary shares issued on conversion of the convertible notes rank equally with all other ordinary shares.

Ordinary Shares

Holders of Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

Notes To The Financial Statements

14. Contributed Equity continued**Share Options**

Options over ordinary shares reconciled as follows:

	Executive Options	Investor Options	Total
Balance at 1 July 2003	104,100	-	104,100
The issue of 235,900 options in accordance with the Employee Share Option Scheme, prior to the issue of shares under the prospectus dated 3 December 2003	235,900	-	235,900
The issue of 1,175,806 options from the conversion of \$2,215,000 in convertible notes and \$226,961 in related interest, on 30 January 2004, being the date of issue of shares under the Prospectus dated 3 December 2003	-	1,175,806	1,175,806
	<u>340,000</u>	<u>1,175,806</u>	<u>1,515,806</u>
Conversion of all options on issue at 30 January 2004 (4.2022457 : 1)	1,428,764	4,941,026	6,369,790
Options cancelled during the year	(168,088)	-	(168,088)
The Issue of 1,646,966 options in accordance with the Employee Share Option Scheme on 18 May 2004	1,646,966	-	1,646,966
	<u>2,907,642</u>	<u>4,941,026</u>	<u>7,848,668</u>

15. Capital Raising Costs

	2004 \$	2003 \$
Initial Public Offer Costs	<u>(843,780)</u>	-

16. Accumulated Losses**Accumulated Losses**

Accumulated losses at the beginning of the financial year	(3,341,853)	(2,030,058)
Ordinary loss after income tax attributable to members	(1,833,827)	(1,311,795)
Accumulated losses at the end of the financial year	<u>(5,175,680)</u>	<u>(3,341,853)</u>

Notes To The Financial Statements

17. Statement of Cashflows**(a) Reconciliation of loss from ordinary activities after income tax to net cash provided by operating activities**

	Note	2004 \$	2003 \$
Loss from ordinary activities after income tax		(1,833,827)	(1,311,795)
Non-cash items			
Depreciation of non-current assets		28,467	22,212
Amortisation of non-current assets		63,000	63,000
Net (Profit)/Loss on Disposal of Fixed Assets		-	(4,732)
Net foreign currency (gains)/losses		4,707	8,967
Interest on convertible notes		255,983	
Net cash used in operating activities before change in assets and liabilities		(1,481,670)	(1,222,348)
Change in assets and liabilities			
(Increase)/decrease in receivables		2,846	104,234
(Increase)/decrease in GST Refundable		(5,008)	(30,078)
(Increase)/decrease in deferred tax assets		(6,707)	(15,542)
(Increase)/decrease in other assets		(32,058)	(765)
Increase/(decrease) in provisions		87,370	19,706
Increase/(decrease) in payables		(150,102)	35,230
Net cash used in operating activities		(1,585,329)	(1,109,563)

(b) Reconciliation of cash

Cash	5	320,791	59,833
Investments - term deposits	8	5,250,000	-
Total		<u>5,570,791</u>	<u>59,833</u>

18. Segment Information**Business segments**

The company operates in the research and technology sector and provides one cognitive testing product to the market place. The Company also undertakes research and development activities relating to therapeutic drug development.

The therapeutic drug development and associated research and development activities do not generate income for the Company and are not expected to generate any revenues for the short/medium term.

Notes To The Financial Statements

18. Segment Information continued**Geographical segments**

Geographically, the Company's operations are based in Australia, with some sales to international companies.

All assets are all located in Australia.

Primary reporting

	2004	2003
Revenue		
Cognitive testing revenue	192,094	302,378
Non-Segment Revenue		
Interest Revenue	142,065	8,791
Profit on the sale of fixed assets	-	4,732
Other	50,802	297,237
Segment Result	(2,318,906)	(1,327,337)
Assets		
Segment assets	6,279,175	763,434
Other Segment Information		
Acquisition of property, plant & equipment, intangible assets and other non-current assets	55,324	20,253
Depreciation - cognitive segment	28,467	22,212
Amortisation - cognitive intellectual property	63,000	63,000
Liabilities		
Segment liabilities	224,569	2,037,301

All operations are based in Australia.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

Geographic Segments	Australia	New Zealand	USA	UK	South Africa	Total
Segment Revenue	27,543	950	64,727	98,276	598	192,094

Notes To The Financial Statements

19 Financial Instruments**(a) Interest Rate Risk**

The Company's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the reporting date, are as follows:

Financial Instruments	Floating interest rate		Fixed interest rate maturing in 1 year or less		Non-interest bearing		Weighted average effective interest rate	
	2004	2003	2004	2003	2004	2003	2004	2003
	\$	\$	\$	\$	\$	\$	%	%
(i) Financial Assets								
Cash	320,791	59,833					4.5	4.2
Short Term Deposits			5,250,000	-			4.9	N/A
Trade and other receivables					121,784	124,631	N/A	N/A
Total Financial Assets	<u>320,791</u>	<u>59,833</u>	<u>5,250,000</u>	<u>-</u>	<u>121,784</u>	<u>124,631</u>		
(ii) Financial Liabilities								
Trade Creditors					44,651	-		
Other Creditors					87,153	233,922		
Convertible Notes			-	1,750,000			N/A	10.0
Total Financial Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,750,000</u>	<u>131,804</u>	<u>233,922</u>		

(b) Credit Risk Exposure

Credit risk exposure represents the extent of credit related losses that the company may be subject to on amounts to be exchanged from financial assets.

The Company, while exposed to credit related losses in the event of non-performance by counterparties to financial instruments, does not expect any counterparties to fail to meet their obligations. The company minimises credit risk by investing with major Australian banks.

(c) Net Fair Value of Financial Instruments

The carrying amounts of financial assets and liabilities approximate their fair values except for convertible note liabilities which are carried at the principle amount, being the amount of consideration received by the Company on the date of issue.

Notes To The Financial Statements

20. Employee Share Incentive Scheme*Employee Shares Incentive Scheme*

An employee share scheme has been established where CogState Limited may, at the discretion of the Board, grant options over the ordinary shares of CogState Limited to directors, executives and certain members of staff of the Company. The options, issued for nil consideration directly to employees, are granted in accordance with performance guidelines established by the directors of CogState Limited, with a recommendation from the management of CogState Ltd, although the directors retain the final discretion on the issue of options. The options are issued for a term of 10 years. One third of the options are exercisable on the first anniversary of the date of the grant. The remaining two thirds of the options are progressively exercisable on a monthly basis over the following 24 months. The options cannot be transferred and will not be quoted on the ASX. There are currently 3 directors and 8 executives/staff eligible for this scheme.

Information in respect to the number of options granted under the employee share incentive scheme is as follows:

	Note	2004		2003	
		Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	20(a)	104,100	\$1.21	119,350	
- granted (pre capital reconstruction)	20(b)	235,900	\$1.60		
- granted due to capital reconstruction	20(b)	1,088,764	-		
- granted (post capital reconstruction)	20(b)	1,646,966	\$0.28	24,750	
- forfeited		(168,088)	\$0.38	(22,000)	
- exercised		-	-	(18,000)	
Balance at end of year	20(c)	2,907,642	\$0.32	104,100	\$1.21
Exercisable at end of year		281,970	\$0.26		

(a) Options held at the beginning of the reporting period:

The following table summarises information about options held by employees as at 1 July 2003:

Number of options	Grant Date	Vesting Date	Expiry Date	Exercise Price
55,350	9 May 2001	9 May 2004	9 May 2011	\$1.00
11,750	14 Jan 2001	14 Jan 2004	14 Jan 2011	\$1.50
18,000	30 Jan 2002	30 Jan 2005	30 Jan 2012	\$1.50
19,000	13 May 2003	13 May 2006	13 May 2013	\$1.50
<u>104,100</u>				

Notes To The Financial Statements

20. Employee Share Incentive Scheme continued**(b) Options granted during the reporting period:**

The following table summarises information about options granted by CogState Limited during the year:

Options Issued Prior To Capital Reconstruction

Number of options	Grant Date	Vesting Date	Expiry Date	Exercise Price
15,000	13 July 2003	13 July 2006	13 July 2013	\$1.60
19,400	2 Nov 2003	2 Nov 2006	2 Nov 2013	\$1.60
201,500	27 Jan 2004	27 Jan 2007	27 Jan 2014	\$1.60
<u>235,900</u>				

Options Issued Due To Capital Reconstruction

Options on issue at 1 July 2003	104,100
Options granted prior to capital reconstruction	<u>235,900</u>
Options on issue at 30 January 2004	<u>340,000</u>
Conversion of all options on issue at 30 January 2004 (4.2022457 : 1)	<u>1,428,764</u>

Options Issued After Capital Reconstruction

Number of options	Grant Date	Vesting Date	Expiry Date	Exercise Price
1,646,966	18 May 2004	18 May 2007	18 May 2014	\$0.28

(c) Options held as at the end of the reporting period:

The following table summarises information about options held by employees at 30 June 2004:

Number of options	Grant Date	Vesting Date	Expiry Date	Exercise Price
232,594	9 May 2001	9 May 2004	9 May 2011	\$0.24
49,376	14 Jan 2001	14 Jan 2004	14 Jan 2011	\$0.36
75,640	30 Jan 2002	30 Jan 2005	30 Jan 2012	\$0.36
79,845	13 May 2003	13 May 2006	13 May 2013	\$0.36
63,034	13 July 2003	13 July 2006	13 July 2013	\$0.38
81,524	2 Nov 2003	2 Nov 2006	2 Nov 2013	\$0.38
678,663	27 Jan 2004	27 Jan 2007	27 Jan 2014	\$0.38
1,646,966	18 May 2004	18 May 2007	18 May 2014	\$0.28
<u>2,907,642</u>				

Notes To The Financial Statements

21. Earnings Per Share

The following reflects the income and share data used in the calculation of basic diluted earnings per share:

	2004	2003
	\$	\$
Net Profit / (Loss)	(1,833,827)	(1,311,795)
Adjustment: Interest paid on convertible notes	255,983	31,035
Earnings used in calculating basic and diluted earnings per share	<u>(1,577,844)</u>	<u>(1,280,760)</u>
	Number of	Number of
	Shares	Shares
Weighted average number of ordinary shares used in calculating basic earnings per share:	19,470,821	2,049,986
Share Options ⁽¹⁾	7,848,668	104,100
Adjusted weighted average number of ordinary shares	<u>27,319,489</u>	<u>2,154,086</u>

⁽¹⁾ These options are not included in the calculation of dilutive Earnings Per Share as the company has recorded a net loss for the year.

22. Auditors' Remuneration

	2004	2003
	\$	\$
Amounts received or due and receivable by auditors in relation to:		
- an audit or review of the financial report of CogState Limited	26,820	8,540
- Independent Accountants' Report dated 1 December 2003 ⁽¹⁾	20,091	-
- Other Services	-	5,970
Total	<u>46,911</u>	<u>14,510</u>

⁽¹⁾ Includes \$7,091 that has been classified as Capital Raising Costs (see note 15).

23. Expenditure Commitments**Lease Expenditure Commitments**

Operating Leases (non-cancellable)

	2004	2003
	\$	\$
Minimum lease payments:		
- not later than one year	35,547	-
- later than one year and not later than five years	123,229	-
- later than five years	-	-
	<u>158,776</u>	<u>-</u>

There are no other known commitments.

Notes To The Financial Statements

24. Director and Executive Disclosures**(a) Details of Specified Directors and Specified Executives***Specified Directors*

Mr M Myer	Chairman (non-executive)
Dr P Bick	Chief Executive Officer
Assoc Prof D Darby	Director (executive)
Dr G Brooke	Director (non-executive)
Mr R Morgan	Director (non-executive)
Dr M Wooldridge	Director (non-executive)
Mr D Simpson	Director (non-executive)

Specified Executives

Prof P Maruff	Chief Scientific Officer
Dr A Collie	Manager, CogSport
Dr A Whybrew	Business Development Manager
Mr B O'Connor	Chief Financial Officer

(b) Remuneration of Specified Directors and Specified Executives*Emoluments of directors of CogState Limited*

	Annual Emolument	Long Term Emoluments Options			Superannuation	Total
		Number Granted	Amortised Cost	% of Remuneration		
	\$		\$		\$	\$
M Myer	13,874	81,524	14,277	48.6%	1,249	29,400
P Bick	277,359	-	-	-	91,150	368,509
D Darby	198,997	-	-	-	11,002	209,999
G Brooke *	-	-	-	-	-	-
R Morgan	18,715	70,000	11,937	38.9%	-	30,652
M Wooldridge	2,765	70,000	9,033	75.0%	249	12,047
Total	511,710	221,524	35,247	5.4%	103,650	650,607

* Whilst Dr G Brooke does not receive emoluments from the Company directly, Dr Brooke is the Managing Director of GBS Venture Partners Limited which is the manager of the Australian Bioscience Trust, which received emoluments, in form of base fee for the sum of \$7,562, during the year to 30 June 2004.

The amortised cost of options issued during the year has been calculated by using a Black-Scholes option valuation model.

Notes To The Financial Statements

24. Director and Executive Disclosures continued

Emoluments of the four most highly paid executive officers of the company

	Annual Emoluments Fees \$	Long Term Emoluments Options			Superannuation \$	Total \$
		Number Granted	Amortised Cost \$	% of Remuneration		
P Maruff	168,165	656,978	100,073	35.8%	11,002	279,240
A Collie	89,477	316,416	50,803	34.1%	8,841	149,121
A Whybrew	44,688	725,000	93,552	65.9%	3,645	141,885
B O'Connor	10,200	275,000	35,485	76.1%	918	46,603
Total	312,530	1,973,394	279,913	45.4%	24,406	616,849

(c) Remuneration Options: Granted and Vested During the Year

During the financial year, options were granted as equity compensation benefits to certain specified directors and specified executives as disclosed below. The options were issued for nil consideration. Each option entitles the holder to subscribe for one fully paid ordinary share in the Company at the specified exercise price. One third of the options may be exercised after one year. The remaining two thirds can be exercised progressively over the following two years. The options expire after ten years.

The amortised cost of options issued during the year has been calculated by using a Black-Scholes option valuation model.

	Vested Number	Terms and Conditions for each grant					
		Number	Grant date	Fair Value per option at grant date	Ex Price per share \$	First Exercise Date	Last Exercise Date
Specified Directors							
M Myer	39,291	81,524	2 Nov 03	\$0.18	\$0.38	2 Nov 04	2 Nov 13
R Morgan		63,034	31 July 03	\$0.18	\$0.38	31 July 04	31 July 13
		6,966	18 May 04	\$0.13	\$0.28	18 May 05	18 May 14
M Wooldridge		70,000	18 May 04	\$0.13	\$0.28	18 May 05	18 May 14
Specified Executives							
P Maruff	63,500	331,978	27 Jan 04	\$0.18	\$0.38	27 Jan 05	27 Jan 14
		325,000	18 May 04	\$0.13	\$0.28	18 May 05	18 May 14
A Collie	18,263	216,416	27 Jan 04	\$0.18	\$0.38	27 Jan 05	27 Jan 14
		100,000	18 May 04	\$0.13	\$0.28	18 May 05	18 May 14
A Whybrew		725,000	18 May 04	\$0.13	\$0.28	18 May 05	18 May 14
B O'Connor		275,000	18 May 04	\$0.13	\$0.28	18 May 05	18 May 14
Total	121,054	2,194,918					

Notes To The Financial Statements

24. Director and Executive Disclosures continued**(d) Shares issued on exercise of remuneration options**

No shares were issued on exercise of remuneration options.

(e) Option holdings of specified directors and specified executives

	Balance at beginning of period 1 July 2003	Granted as Remuneration	Net Change Other *	Balance at end of period 30 June 2004	Vested at 30 June 2004		
					Total	Subject to Escrow	Exercisable
Specified Directors							
M Myer	450,901	81,524	757,837	1,290,262	1,208,738	546,699	662,039
D Darby	-	-	69,551	69,551	69,551	25,451	44,100
R Morgan	-	70,000	-	70,000	-	-	-
M Wooldridge	-	70,000	-	70,000	-	-	-
Specified Executives							
P Maruff	193,303	656,978	-	850,281	151,746	-	151,746
A Collie	77,741	316,416	-	394,157	77,741	-	77,741
A Whybrew	-	725,000	-	725,000	-	-	-
B O'Connor	-	275,000	-	275,000	-	-	-
Total	721,945	2,194,918	827,388	3,744,251	1,507,776	572,150	935,626

* The change represents the conversion of convertible notes into ordinary shares and options, and the subsequent share split prior to listing on the ASX.

(f) Shareholdings of Specified Directors and Specified Executives

	Balance	Granted as Remuneration		Acquired On-Market ⁽³⁾	Net Change Other ⁽¹⁾	Balance
	1 July 2003	Vested	Not Vested			30 June 2004
Specified Directors						
M Myer	104,000	-	-	35,000	2,850,804	2,989,804
P Bick ⁽²⁾	2,913,837	-	-	-	-	2,913,837
D Darby	1,323,707	-	-	-	149,016	1,471,723
D Simpson	-	-	-	40,000	-	40,000

⁽¹⁾ The change represents the conversion of convertible notes or preference shares into ordinary shares and the subsequent share split prior to listing on the ASX.

⁽²⁾ Peter Bick was issued with 100,000 B Class shares on 31 October 2001, pursuant to the terms of a consultancy agreement. Under the terms of issue of the B Class Shares, they converted into 2,913,837 ordinary shares upon the listing of the Company.

⁽³⁾ These shares were acquired after balance date.

Notes To The Financial Statements

25. Related Party Transactions**Director-related entity transactions**

Directors of the Company and their director-related entities, conduct transactions with the Company within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonable to expect the Company would have adopted if dealing with a director or director-related entity at arms length in similar circumstances. These transactions include the following:

Services

Provision of accounting services by The Myer Family Office Pty Ltd to the value of \$34,650 during the previous period (2003), a company which is 100% owned by the Myer Family Company Pty Ltd in which Martyn Myer was a director.

Provision of consulting services by Skagus LLC to the value of \$34,960 during the previous period (2003), a US limited partnership in which Peter Bick is a partner.

26. Subsequent Events

On 21st July 2004, the Company announced that Schutt Sports, a major US sporting goods manufacturer, has sponsored the Company's computerised concussion test to be given free to every US College and High School for one year. The free offer will be made to all 1,200 Colleges and 18,000 High Schools across the US.

Whilst the association with Schutt Sports is not expected to generate significant income in the 2004-05 financial year, the Company will work to retain a significant percentage of customers, leading to an increase in sales for the 2005-06 financial year.

After balance date, the Company entered into lease for premises with a term of three years. The lease is due to commence on 27th August 2004.

27. Impact of Adopting AASB Equivalents to IASB Standards

CogState Ltd has commenced transitioning its accounting policies and financial reporting from current Australian Standards to Australian equivalents of International Financial Reporting Standards (IFRS).

The audit committee will oversee the program and timetable of works. As CogState Ltd has a 30 June year end, priority has been given to considering the preparation of an opening balance sheet in accordance with AASB equivalents to IFRS as at 1 July 2004. This will form the basis accounting for Australian equivalents of IFRS in the future, and is required when CogState Ltd prepares its first fully IFRS compliant financial report for the year ended 30 June 2006. Set out below are the key areas where accounting policies will change and may have an impact on the financial report.

Notes To The Financial Statements

27. Impact of Adopting AASB Equivalents to IASB Standards continued*Impairment of Assets*

Under the Australian equivalent to IAS 36 *Impairment of Assets* the recoverable amount of an asset is determined as the higher of net selling price and value in use. Under the new policy it is likely that impairment of assets will be recognised sooner and that the amount of write-downs will be greater. Reliable estimation of the future financial effects of this change in accounting policy is impracticable because the conditions under which impairment will be assessed are not yet known.

Intangible Assets

Under the Australian equivalent to IAS 38 *Intangible Assets*, costs incurred in the research phase of the development of an internally generated intangible must be expensed. Currently, all research and development costs are expensed in the year in which the costs are incurred. However, the Company has recognised \$630,000 of intellectual property (carrying value \$438,584), which may be required to be adjusted against opening retained earnings if it does not meet the recognition requirements under IFRS.

Share based payments

Under AASB 2 *share based Payments*, the company will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the Statement of Financial Performance. This standard is not limited to options and also extends to other forms of equity based remuneration. It applies to all share-based payments issued after 7 November 2002, which have not vested as at 1 January 2005. Reliable estimation of the future financial effects of this change in accounting policy is impracticable as the details of future equity based remuneration plans are unknown.

Income taxes

Under the Australian equivalent to IAS 12 *Income Taxes*, the company will be required to use a balance sheet liability method, which focuses on the tax effects of transactions and other events that affect amounts recognised in either the Statement of Financial Position or a tax-based balance sheet. The total adjustment that will result from this change has not yet been calculated.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of CogState Limited, we state that:

- 1) In the opinion of the directors:
 - a) The financial statements and notes 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 2004 and of its performance for the year ended on that date; and
 - ii) Complying with Accounting Standards and Corporations Regulations 2001; and
 - b) 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

Martyn Myer
Chairman

Peter Bick
Chief Executive Officer

Melbourne, 26th August 2004

Independent audit report to members of CogState Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for CogState Limited, for the year ended 30 June 2004.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit opinion

In our opinion, the financial report of CogState Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of CogState Limited at 30 June 2004 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

Ernst & Young



Tim Wallace
Partner
Melbourne
26 August 2004