CogState Limited

ABN 80 090 975 723

Financial Statements including Additional Appendix 4E Disclosures

For the year ended 30 June 2005

Contents

Appendix 4E (Rule 4.3A)
Preliminary Final Report
For The Year Ended 30 June 2005

RESULTS FOR ANNOUNCEMENT TO THE MARKET

(All comparisons to year ended 30 June 2004)

	2005 $	2004 $	Up/Down	% Movement
Revenue from ordinary activities	1,525,968	384,961	Up	296.4%
Profit/(Loss) from ordinary activities after tax attributable to members	(2,224,148)	(1,833,827)	Down	21.3%
Net Profit/(Loss) for the period attributable to members	(2,224,148)	(2,677,607)	Up	16.9%

Dividend Information

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 2005.

	30 June 2005	30 June 2004
Net tangible asset backing per share	$0.10	$0.16
Earnings per share	($0.062)	($0.081)

This report is based on the financial report which has been audited.

MANAGEMENT DISCUSSION AND ANALYSIS

The directors are pleased to report the results of CogState Limited (CGS) for the year ended 30 June 2005.

Results – Revenue

Total revenues, including sales revenue, interest received and grant income, increased by 296% up from $384,961 in 2004 to $1,525,968 in 2005 (total revenue is exclusive of $376,247 Research and Development Tax Rebate received during the year).

The Company recorded an increase in sales of its diagnostic product of 434%, up from $192,094 in 2004 to $1,025,770 in 2005.

Clinical Trials Technology

Sales of CogState Clinical totaled $839,998 for the year, in excess of 80% of total sales.

Customers in this market segment are biopharmaceutical companies and other research organizations, where the effect of drugs or interventions on the brain are measured and reported using our computer based testing products.

CogState has continued to develop and refine the CogState Clinical Trials product. CogState Clinical is the product of several years of trials and collaborative work between CogState and pharmaceutical companies. During the year, a 12 minute battery of tests has been refined specifically for use in Phase I Clinical Trials. The "Phase I Battery" is now being evaluated by a number of pharmaceutical companies for use in their drug development programs.

Concussion Management

Sales of the concussion management products, CogSport and Concussion Sentinel totaled $144,655, 14% of total sales.

In this market, customers use our products where concussions are likely and where objective methods of making a return-to-play decision are becoming not only crucial from a medico-legal perspective, but may, in future, become mandated as a standard of care.

Sales of concussion management products during the year to 30 June 2005 were predominantly made to elite sporting organizations, such as AFL clubs and International Rugby organizations.

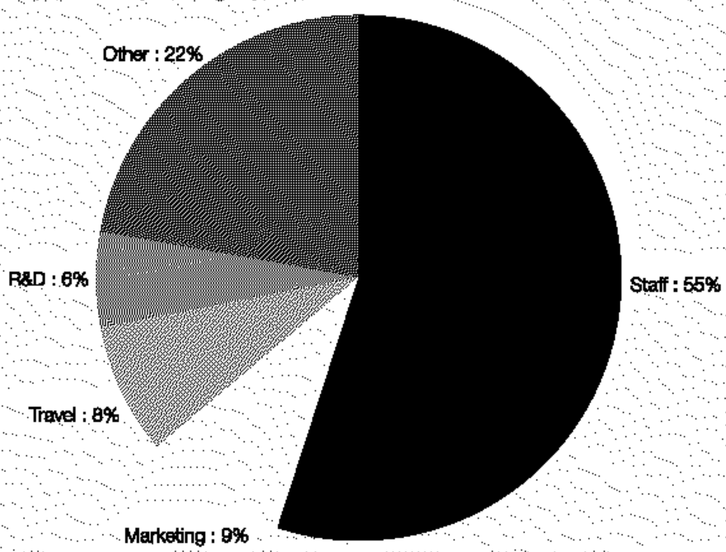
At 30 June 2005, the Concussion Sentinel free offer to high schools and colleges in the USA ceased. Over the course of the last year over 150 high schools and colleges took up the offer and submitted tests. The current focus in respect of Concussion Sentinel is ensuring that the maximum number of existing customers commit to using Concussion Sentinel again for the coming American Football season, which begins in September.

Results – Expenses

Overheads have increased by 53% over the year, up from $2,703,867 in 2004 to $4,147,532 in 2005.

The chart below provides a breakdown of operating expenses by category for the year ending 30 June 2005.

Expenses by Category - FY05

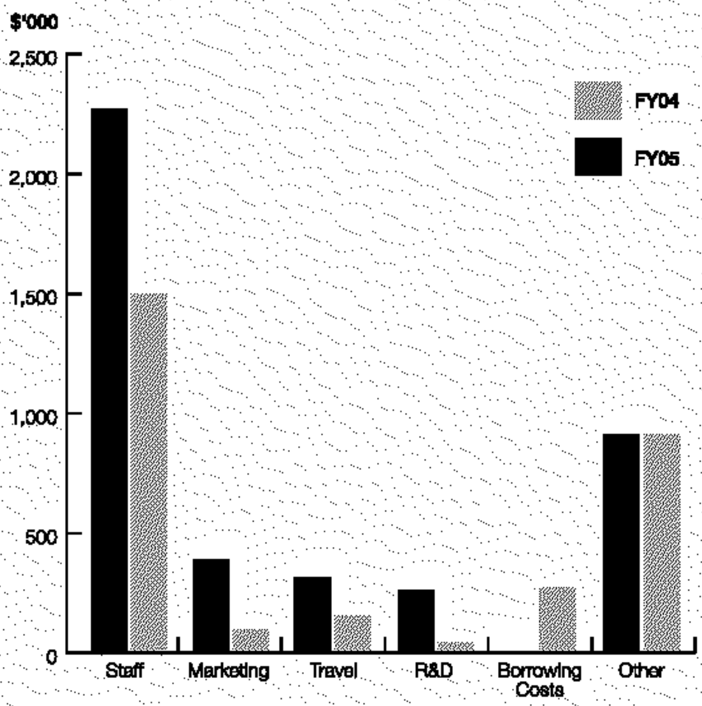


Salaries and employee benefits increased by 51% from the previous year; up from $1,498,235 in 2004 to $2,272,929 in 2005. This increase reflects the increase in the number of employees from 11 at 30 June 2004 to 20 at 30 June 2005.

During the year, CogState was successful in its application for a $250,000 Biotechnology Innovation Fund ("BIF") Grant from the Federal Government (AusIndustry). The BIF Grant provides matching funding for agreed development costs undertaken in respect of CogState's novel therapeutic strategy focused on potential treatment of Parkinson's disease, NLT. This matching funding should be taken into account when reviewing increased research and development costs for the year to 30 June 2005.

The graph below illustrates the movement of major expense categories from the previous financial year.

Expenses by Category - Prior Year Comparison

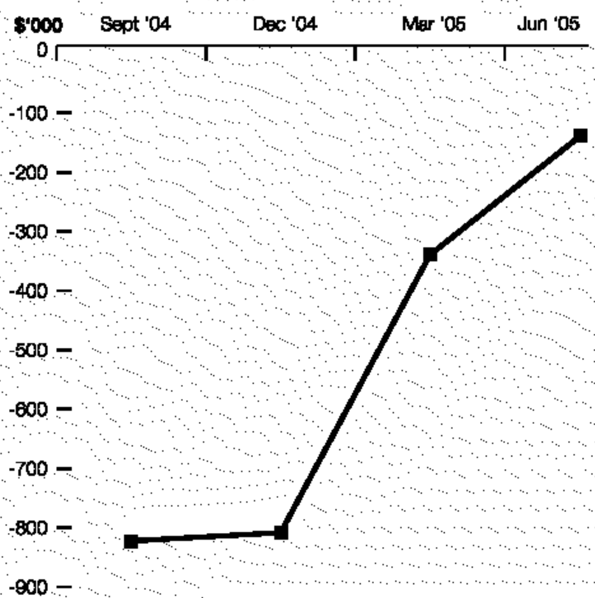


Results – Cash Flow

CogState's cash balance at 30 June 2005 was $3.4 million, a decrease of $2.1 million for the 12 months to 30 June 2005. However, the net decrease in cash for the six months from 1 January 2005 to 30 June 2005 was $0.5 million, compared to $1.6 million for the six months from 1 July 2004 to 31 December 2004.

The graph below illustrates the improving quarterly net cash flows for the company for the year to 30 June 2005.

Net Cash Flow (Quarter by Quarter)



Statement of Financial Performance

For the year ended 30 June 2005

	Note	2005 $	2004 $
REVENUES FROM ORDINARY ACTIVITIES	2	1,525,968	384,961
Expenses from Ordinary Activities			
Salaries and employee benefits expense		2,272,929	1,498,235
Depreciation and amortisation	3	114,052	91,467
Borrowing costs	3	-	271,891
Rent & outgoing expense	3	74,860	49,464
Advertising, promotion & marketing expense		389,882	96,151
Accounting expense		131,895	111,607
Audit expense	22	33,024	39,820
Telephone, printing and computer expenses		111,756	98,038
Contractors and consultants		139,738	4,734
Legal expenses	3	88,586	166,296
Insurance		46,034	31,500
Travel expenses		314,482	155,820
Research and development		260,308	40,759
Other expenses from ordinary activities		169,986	48,086
Total Expenses		4,147,532	2,703,867
LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX BENEFIT		(2,621,564)	(2,318,906)
Income tax credit relating to operating activities		21,169	6,707
Research and development tax rebate received		376,247	478,372
INCOME TAX BENEFIT RELATING TO ORDINARY ACTIVITIES	4	397,416	485,079
NET LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX BENEFIT		(2,224,148)	(1,833,827)
Capital Raising Costs	14	-	(843,780)
Total revenues, expenses and valuation adjustments attributable to members of CogState Limited and recognised directly in equity		-	(843,780)
Total changes in equity other than those resulting from transactions with owners as owners attributable to members of CogState Limited		(2,224,148)	(2,677,607)
Basic earnings per share (cents per share)		-6.24	-8.10
Diluted earnings per share (cents per share)		-6.24	-8.10
Franked dividends per share (cents per share)		-	-

Statement of Financial Position

As at 30 June 2005

	Note	2005 $	2004 $
CURRENT ASSETS			
Cash assets	5	1,118,703	320,791
Receivables	6	344,516	121,784
Other current assets	7	46,923	46,593
Investments	8	2,310,688	5,250,000
TOTAL CURRENT ASSETS		3,820,830	5,739,168
NON-CURRENT ASSETS			
Plant and equipment	9	138,896	65,724
Intangibles	10	375,584	438,584
Deferred tax assets	7	54,870	33,701
TOTAL NON-CURRENT ASSETS		569,350	538,009
TOTAL ASSETS		4,390,180	6,277,177
CURRENT LIABILITIES			
Payables	11	396,824	129,806
Provisions	12	154,937	92,765
TOTAL CURRENT LIABILITIES		551,761	222,571
NON-CURRENT LIABILITIES			
Provisions	12	7,961	-
TOTAL NON-CURRENT LIABILITIES		7,961	-
TOTAL LIABILITIES		559,722	222,571
NET ASSETS		3,830,458	6,054,606
EQUITY			
Contributed equity	13	11,230,286	11,230,286
Accumulated losses	15	(7,399,828)	(5,175,680)
TOTAL EQUITY		3,830,458	6,054,606

Statement of Cash Flows

For the year ended 30 June 2005

	Note	2005 $	2004 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		871,730	189,970
Cash receipts from grant income		289,369	55,509
Cash receipts from tax rebates		376,247	478,372
Cash payments to suppliers and employees		(3,793,306)	(2,419,150)
Interest received		248,942	109,970
NET CASH FLOW USED IN OPERATING ACTIVITIES	16	(2,007,018)	(1,585,329)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant & equipment		(124,224)	(55,324)
Proceeds from disposals of assets		-	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(124,224)	(55,324)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	9,750,098
Capital raising costs		-	(843,780)
Proceeds/(Conversion) from issue of convertible notes		-	(1,750,000)
NET CASH FLOWS FROM FINANCING ACTIVITIES		-	7,156,318
NET INCREASE/(DECREASE) IN CASH HELD		(2,131,242)	5,515,665
Add opening cash brought forward		5,570,791	59,833
Effects of exchange rate changes on cash		(10,158)	(4,707)
CLOSING CASH CARRIED FORWARD	16	3,429,391	5,570,791

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.

(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
2005 Plant and equipment	40%	Diminishing value
2004 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 2005, the Company had entered into an operating lease in respect of its premises in Melbourne. The lease is for a term of three years and the company entered into the lease on 27 August 2004. The Company has an option to extend the term of the lease for a further three years by providing a written request to the landlord at least six months before the end of the lease term.

1. Summary of Significant Accounting Policies (continued)

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.

(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 grant.

Research & Development Tax Rebate

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

Interest

Control of the right to receive the interest payment.

1. Summary of Significant Accounting Policies (continued)

(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.

The Research and Development tax rebate is bought to account upon receipt of the cash rebate.

Goods and Services Tax (GST)

Revenues, expenses and assets (except receivables) 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 19 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 (interest on convertible notes)
- 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.

2. Revenue From Ordinary Activities

	2005 $	2004 $
Revenue from operating activities		
Revenue from sale of goods	1,025,770	192,094
Total revenues from operating activities	1,025,770	192,094
Revenues from non-operating activities		
Interest		
- Interest received - director related entity	-	817
- Other corporations	220,987	141,248
Total Interest	220,987	142,065
Grant Income		
- Export Market Development Grant	67,608	55,509
- Biotechnology Innovation Fund Grant	221,761	-
Total Grant Income	289,369	55,509
Foreign exchange gain/(loss)	(10,158)	(4,707)
Total revenue from ordinary activities	1,525,968	384,961

During the year, a Research & Development tax cash rebate of $376,247 was received in respect of the 2004 income tax year. 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)

	2005 $	2004 $
Depreciation of non-current assets		
- Plant and Equipment	51,052	28,467
Amortisation of non-current assets		
- Intellectual Property	63,000	63,000
Total depreciation and amortisation	114,052	91,467
Borrowing costs expense		
Interest		
- Convertible note expense - related parties	-	255,983
- Other	-	548
	-	256,531
Other borrowing costs	-	15,360
Total borrowing costs expense	-	271,891
Operating Lease Rental		
- Minimum lease payments	55,125	36,300
- Outgoings and relocation costs	19,735	13,164
Total operating lease rental	74,860	49,464
Legal Fees		
- patent applications	69,990	113,541
- other	18,596	52,755
Total legal expenses	88,586	166,296

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	(786,470)	(695,672)
Adjust for tax effect of:		
Non allowable items	(63,817)	(46,975)
Tax Losses not carried forward as a FITB	829,118	728,146
Other Assessable Income	-	7,793
Cash received from Research & Development tax rebate*	(376,247)	(478,372)
Income tax benefit attributable to ordinary activities	(397,416)	(485,079)
Future income tax benefit not taken to account	1,416,360	905,123

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

* 2004 Research and Development tax rebate of $478,372 included $194,437 relating to the income tax year ended 30 June 2003 and $283,935 relating to the income tax year ended 30 June 2002.

4. Income Tax (continued)

Benefit of income tax losses not brought to account

As at 30 June 2005, the company has estimated unrecouped income tax losses of approximately $4,721,200 (2004: $2,582,474) available to offset against future years' taxable income. The benefit of these losses of approximately $1,416,360 (2004: $774,742) 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	2005 $	2004 $
Cash at Bank		579,191	311,185
Cash at Bank - USD account		539,112	9,406
Petty Cash		400	200
	16(b)	1,118,703	320,791

6. Receivables

	Note	2005 $	2004 $
Current			
Trade Debtors	(1)	342,684	91,730
Other Debtors	(1)	1,832	30,054
		344,516	121,784

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

7. Other Assets

	2005 $	2004 $
Current		
Fringe Benefits Tax Instalment	4,703	728
Net Goods & Services Tax receivable	11,811	13,770
Accrued Income	4,140	32,095
Deposits Paid	26,269	-
	46,923	46,593
Non-current		
Future Income Tax Benefit - timing differences	54,870	33,701

8. Investments

	Note	2005 $	2004 $
Term Deposits			
Term Deposit 30 Day Maturity		2,310,688	2,250,000
Term Deposit 90 Day Maturity		-	1,500,000
Term Deposit 6 Month Maturity		-	1,500,000
	16(b)	2,310,688	5,250,000

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

A Term deposit of $80,000 is provided as security against the company's credit card facility.

9. Plant And Equipment

	2005	2004
Office Furniture & Equipment		
Cost		
Carrying Amount at Beginning	149,607	94,283
Additions	124,224	55,324
Disposals	-	-
Closing Balance	273,831	149,607
Accumulated depreciation		
Carrying Amount at Beginning	83,883	55,416
Depreciation for the year	51,052	28,467
Disposals	-	-
Closing Balance	134,935	83,883
Net book value	138,896	65,724

10. Intangibles

	2005	2004
Non Current		
Intellectual Property at Cost	630,000	630,000
Less: Accumulated Amortisation	(254,416)	(191,416)
	375,584	438,584

11. Payables

	2005	2004
Current		
Trade Creditors (1)	132,304	44,651
Sundry Creditors (1)	1,331	37,171
Payroll Liabilities	106,239	-
Accrued Expenses	50,000	47,984
Revenue in Advance (2)	106,950	-
	396,824	129,806

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

(2) Revenue in Advance represents amounts that have been invoiced and paid during the year but which have not been recorded as revenue during the year because of obligations under the particular sales contracts that have not been performed at year end.

12. Provisions

Current		
Employee entitlements	154,937	92,765
Non-Current		
Employee entitlements	7,961	-

13. Contributed Equity

Ordinary Shares (a)	11,230,286	11,230,286
Total Contributed Equity	11,230,286	11,230,286

Movements in contributed equity for the year:

	Number of Ordinary Shares		Number of B Class Ordinary Shares		Number of Series A Preferred Shares	
	2005	2004	2005	2004	2005	2004
Beginning of the financial year	35,647,669	648,000	-	100,000	-	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	-	-	-	-
End of the financial year	35,647,669	35,647,669	-	-	-	-

13. Contributed Equity (continued)

Movement in contributed equity for the year (a):

	Ordinary Shares		Series A Preferred Shares	
	2005 $	2004 $	2005 $	2004 $
Beginning of the financial year	11,230,286	648,000	-	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)
Issued of Ordinary Shares - IPO (vii)	-	7,000,000	-	-
Capital Raising Costs	-	(843,780)	-	-
On issue at end	11,230,286	11,230,286	0	0

(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.

13. Contributed Equity (continued)

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.

Share Options

Options over ordinary shares reconciled as follows:

	Executive Options	Investor Options	Total
Balance at 1 July 2004	2,907,642	4,941,026	7,848,668
The Issue of 238,750 options in accordance with the Employee Share Option Scheme on 15 October 2004	238,750	-	238,750
The Issue of 125,000 options in accordance with the Employee Share Option Scheme on 21 December 2004	125,000	-	125,000
The Issue of 68,750 options in accordance with the Employee Share Option Scheme on 9 February 2005	68,750	-	68,750
The Issue of 432,872 options in accordance with the Employee Share Option Scheme on 30 May 2005	432,872	-	432,872
The Issue of 75,000 options in accordance with the Employee Share Option Scheme on 30 June 2005	75,000	-	75,000
	3,848,014	4,941,026	8,789,040

14. Capital Raising Costs

	2005 $	2004 $
Initial Public Offer Costs	-	(843,780)

15. Accumulated Losses

Accumulated Losses		
Accumulated losses at the beginning of the financial year	(5,175,680)	(3,341,853)
Ordinary loss after income tax attributable to members	(2,224,148)	(1,833,827)
Accumulated losses at the end of the financial year	(7,399,828)	(5,175,680)

16. Statement of Cashflows

(a) Reconciliation of loss from ordinary activities after income tax to net cash provided by operating activities

	Note	2005 $	2004 $
Loss from ordinary activities after income tax		(2,224,148)	(1,833,827)
Non-cash items			
Depreciation of non-current assets		51,052	28,467
Amortisation of non-current assets		63,000	63,000
Net foreign currency (gains)/losses		10,158	4,707
Interest on convertible notes		-	255,983
Net cash used in operating activities before change in assets and liabilities		(2,099,938)	(1,481,670)
Change in assets and liabilities			
(Increase)/decrease in receivables		(222,732)	2,846
(Increase)/decrease in GST Refundable		1,959	(5,008)
(Increase)/decrease in deferred tax assets		(21,169)	(6,707)
(Increase)/decrease in other assets		(2,289)	(32,058)
Increase/(decrease) in provisions		70,133	87,370
Increase/(decrease) in payables		267,018	(150,102)
Net cash used in operating activities		(2,007,018)	(1,585,329)

(b) Reconciliation of cash

	Note	2005 $	2004 $
Cash	5	1,118,703	320,791
Investments - term deposits	8	2,310,688	5,250,000
Total		3,429,391	5,570,791

17. 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.

Geographical segments

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

All assets are located in Australia.

17. Segment Information (continued)

Primary Reporting	2005 $	2004 $
Revenue		
Cognitive testing revenue	1,025,770	192,094
Non-Segment Revenue		
Interest Revenue	220,987	142,065
Profit on the sale of fixed assets	-	-
Other	279,211	50,802
Segment Result	(2,621,664)	(2,318,906)
Assets		
Segment Assets	4,390,180	6,277,177
Other Segment Information		
Acquisition of property, plant & equipment, intangible assets and other non-current assets	124,224	55,324
Depreciation - cognitive segment	51,052	28,467
Amortisation - cognitive intellectual property	63,000	63,000
Liabilities		
Segment liabilities	559,722	222,571

Geographic Segments - Revenue	2005 $	2004 $
Australia & New Zealand	71,234	28,493
USA & Canada	781,394	64,727
Europe	153,191	98,276
Japan	13,129	-
South Africa	6,822	598
Total	1,025,770	192,094

In January 2005, the Company opened its first sales office outside Australia, in London. It is planned to open a second office in the USA during the 2005/06 financial year.

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

18. Financial Instruments

(a) Financial Instruments

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	
	2005 $	2004 $	2005 $	2004 $	2005 $	2004 $	2005 %	2004 %
(i) Financial Assets								
Cash	1,118,703	320,791	-	-	-	-	4.9	4.5
Short Term Deposits	-	-	2,310,688	5,250,000	-	-	5.3	4.9
Trade and other receivables	-	-	-	-	344,516	121,784	N/A	N/A
Total Financial Assets	1,118,703	320,791	2,310,688	5,250,000	344,516	121,784		
(ii) Financial Liabilities								
Trade Creditors	-	-	-	-	132,304	44,651		
Other Creditors	-	-	-	-	51,331	85,155		
Total Financial Liabilities	-	-	-	-	183,635	129,806		

(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.

19. 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 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 4 directors and 12 executives/staff eligible for this scheme.

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

		2005		2004	
	Note	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	20(a)	2,907,642	$0.32	104,100	$1.21
- 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)	940,372	$0.16	1,646,966	$0.28
- forfeited		-	-	(168,088)	$0.38
- exercised		-	-	-	-
Balance at end of year	20(c)	3,848,014	$0.27	2,907,642	$0.32
Exercisable at end of year		1,411,572	$0.31	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 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
2,907,642				

(b) Options granted during the reporting period:

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

Number of options	Grant Date	Vesting Date	Expiry Date	Exercise Price
238,750	15 Oct 2004	15 Oct 2007	15 Oct 2014	$0.240
125,000	21 Dec 2004	21 Dec 2007	21 Dec 2014	$0.245
68,750	9 Feb 2005	9 Feb 2008	9 Feb 2015	$0.190
432,872	30 May 2005	30 May 2008	30 May 2015	$0.100
75,000	30 June 2005	30 June 2008	30 June 2015	$0.105
940,372				

19. Employee Share Incentive Scheme (continued)

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

The following table summarises information about options held by employees at 30 June 2005:

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
238,750	15 Oct 2004	15 Oct 2007	15 Oct 2014	$0.240
125,000	21 Dec 2004	21 Dec 2007	21 Dec 2014	$0.245
68,750	9 Feb 2005	9 Feb 2008	9 Feb 2015	$0.190
432,872	30 May 2005	30 May 2008	30 May 2015	$0.100
75,000	30 June 2005	30 June 2008	30 June 2015	$0.105
3,848,014				

20. Economic Dependency

During the year to 30 June 2005, CogState received approximately 55% of its revenue from contracts with Pfizer Inc. ("Pfizer"). CogState contracts with different divisions within Pfizer in both North America and Europe. Pfizer is a pharmaceutical company with head quarters in North America. In 2004, Pfizer spent US$7.7 billion on research and development and has a market capitalisation in excess of US$190 billion.

21. Earnings Per Share

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

	2005 $	2004 $
Net Profit / (Loss)	(2,224,148)	(1,833,827)
Adjustment: Interest paid on convertible notes	-	255,983
Earnings used in calculating basic and diluted earnings per share	(2,224,148)	(1,577,844)

	Number of Shares	Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share:	35,647,669	19,470,821
Share Options (1)	8,789,040	7,848,668
Adjusted weighted average number of ordinary shares	44,436,709	27,319,489

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

22. Auditors' Remuneration

	2005 $	2004 $
Amounts received or due and receivable by auditors in relation to:		
- an audit or review of the financial report of CogState Limited	33,024	26,820
- Independent Accountants' Report dated 1 December 2003 (1)	-	20,091
- Other Services (AIFRS opening balance sheet)	25,000	-
Total	58,024	46,911

(1) Includes $7,091 that has been classified as Capital Raising Costs (see note 14).

23. Expenditure Commitments

Lease Expenditure Commitments
Operating Leases (non-cancellable)

	2005 $	2004 $
Minimum lease payments:		
- not later than one year	55,125	35,547
- later than one year and not later than five years	68,906	123,229
- later than five years	-	-
	124,031	158,776

There are no other known commitments.

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
Dr G Brooke	Director (non-executive)
Assoc Prof D Darby	Director (executive)
Mr R Morgan	Director (non-executive)
Mr D Simpson	Director (non-executive)
Dr M Wooldridge	Director (non-executive)

Specified Executives

Prof P Maruff	Chief Scientific Officer
Mr B O'Connor	Chief Financial Officer
Dr A Whybrew	Business Development Manager
Dr A Collie	Senior Clinical Scientist
Mr G Morley	Drug Development Manager

24. Director and Executive Disclosures (continued)

(b) Remuneration of Specified Directors and Specified Executives

Specified Directors

30 June 2005	Primary Benefits	Post Employment		Equity	Total
	Salary & Fees	Super'n	Retirement Benefits	Options	
M Myer	32,223	22,900	-	5,323	60,446
P Bick	253,704	95,980	-	-	349,684
G Brooke *	-	-	-	-	-
D Darby	198,415	11,585	-	-	210,000
R Morgan	32,973	-	-	3,917	36,890
D Simpson	7,645	10,688	-	3,181	21,514
M Wooldridge	21,114	1,900	-	5,291	28,305
Total	546,074	143,053	-	17,712	706,839

30 June 2004	Primary Benefits	Post Employment		Equity	Total
	Salary & Fees	Super'n	Retirement Benefits	Options	
M Myer	13,874	1,249	-	14,277	29,400
P Bick	277,359	91,150	-	-	368,509
G Brooke *	-	-	-	-	-
D Darby	198,997	11,002	-	-	209,999
R Morgan	18,715	-	-	11,937	30,652
D Simpson	-	-	-	-	-
M Wooldridge	2,765	249	-	9,033	12,047
Total	511,710	103,650	-	35,247	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 $20,000, during the year to 30 June 2005.

The amortised cost of options granted as part of director remuneration have been valued using a binomial option pricing model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option.

Specified Executives

30 June 2005	Primary Benefits	Post Employment		Equity	Total
	Salary & Fees	Super'n	Retirement Benefits	Options	
P Maruff	182,665	11,585	-	61,291	255,541
B O'Connor	151,401	11,562	-	25,500	188,463
A Whybrew	138,415	11,585	-	54,799	204,799
A Collie	120,755	5,925	-	29,656	156,336
G Morley	83,691	7,529	-	4,291	95,511
Total	676,927	48,186	-	175,537	900,650

30 June 2004	Primary Benefits	Post Employment		Equity	Total
	Salary & Fees	Super'n	Retirement Benefits	Options	
P Maruff	168,165	11,002	-	100,073	279,240
B O'Connor	10,200	918	-	35,485	46,603
A Whybrew	44,688	3,645	-	93,552	141,885
A Collie	89,477	8,841	-	50,803	149,121
G Morley	-	-	-	-	-
Total	312,530	24,406	-	279,913	616,849

24. Director and Executive Disclosures (continued)

(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 Binomial option pricing model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option.

Terms and Conditions for each grant

	Vested Number	Granted Number	Grant date	Fair Value per option at grant date	Ex Price per share $	First Exercise Date	Last Exercise Date
Specified Directors							
D Simpson	-	70,000	15 Oct 04	$0.1929	$0.24	15 Oct 05	14 Oct 14
Specified Executives							
P Maruff	-	407,872	30 May 05	$0.0802	$0.10	30 May 06	29 May 15
B O'Connor	-	68,750	15 Oct 04	$0.1929	$0.24	15 Oct 05	14 Oct 14
	-	68,750	09 Feb 05	$0.1525	$0.19	09 Feb 06	08 Feb 15
G Morley	-	125,000	21 Dec 04	$0.1968	$0.25	21 Dec 05	20 Dec 14
Total	-	740,372					

(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 2004	Granted as Remuneration	Balance at end of period 30 June 2005	Vested at 30 June 2005 Total	Subject to Escrow	Exercisable
Specified Directors						
M Myer	1,290,262	-	1,290,262	1,251,765	589,726	662,039
D Darby	69,551	-	69,551	69,551	25,451	44,100
R Morgan	70,000	-	70,000	42,787	40,272	2,515
D Simpson	-	70,000	70,000	-	-	-
M Wooldridge	70,000	-	70,000	25,278	-	25,278
Specified Executives						
P Maruff	850,281	407,872	1,258,153	454,591	-	454,591
B O'Connor	275,000	137,500	412,500	99,306	-	99,306
A Whybrew	725,000	-	725,000	261,806	-	261,806
A Collie	394,157	-	394,157	216,049	-	216,049
G Morley	-	125,000	125,000	-	-	-
Total	3,744,251	740,372	4,484,623	2,421,133	655,449	1,765,684

24. Director and Executive Disclosures (continued)

(f) Shareholdings of Specified Directors and Specified Executives

	Balance	Granted as Remuneration		Acquired On-Market	Balance
	1 July 2004	Vested	Not Vested		30 June 2005
Specified Directors					
M Myer	2,989,804	-	-	100,000	3,089,804
P Bick	2,913,838	-	-	-	2,913,838
D Darby	1,471,723	-	-	-	1,471,723
R Morgan	-	-	-	90,000	90,000
D Simpson	40,000	-	-	100,000	140,000

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.

During the year to 30 June 2005, Richard Morgan provided consulting services to the Therapeutics Divisions of CogState Ltd. The consulting time is charged at an agreed hourly rate. During the year to 30 June 2005, Mr Morgan was paid $17,973 in respect of consulting services.

26. Subsequent Events

No Significant events occurred after balance date.

27. Impact of Adopting Australian Equivalents to IFRS

CogState Ltd is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS) which will be applicable for the financial year ended 30 June 2006. The Company has allocated resources to conduct impact assessments to identify key areas that would be impacted by the transition to AIFRS. Priority has been given to the preparation of an opening balance sheet in accordance with AIFRS as at 1 July 2004, CogState's transition date to AIFRS. This will form the basis of accounting for AIFRS in the future, and is required when CogState prepares its first fully compliant financial report for the year ended 30 June 2006.

Set out below are the key areas where accounting policies are expected to materially change on adoption of AIFRS and our best estimate of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005 and on net profit for the year ended 30 June 2005.

The figures disclosed are management's best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from the estimates disclosed due to (a) ongoing work being undertaken; (b) potential amendments to AIFRS and Interpretations thereof being issues by the standard setters and IFRIC; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

27. Impact of Adopting Australian Equivalents to IFRS (continued)

(a) Reconciliation of equity as presented under AGAAP to that under AIFRS

	Notes	30 June 2005** $	1 July 2004* $
Total equity under AGAAP		3,830,458	6,054,606
Adjustments to retained earnings			
Recognition of share based payment expense	(i)	(223,825)	(55,314)
Adjustments to other reserves			
Recognition of share based payment expense	(i)	223,825	55,314
Total equity under AIFRS		3,830,458	6,054,606

*This column represents the adjustments as at the date of transition to AIFRS.

** This column represents the cumulative adjustments as at the date of transition to AIFRS and those for the year ended 30 June 2005.

(i) Under AASB2 Share Based Payments, the company would recognise the fair value of options granted to employees as remuneration as an expense on a pro-rata basis over the vesting period in the income statement with a corresponding adjustment to equity. Share based payment costs are not recognised under AGAAP.

(ii) Mangement has decided to apply the exemption provided in AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards which permits entities not to apply the requirements of AASB 132 Financial Instruments: Presentation and Disclosures and AASB 139 Financial Instruments: Recognition and Measurements for the financial year ended 30 June 2005. The standards will be applied from 1 July 2005. The Financial Instruments project team is in the process of determining the impact that adopting the standards would have on the financial statements of the Company.

(iii) Under AASB 138, costs incurred in the research phase of the development of an internally generated intangible asset would be expensed. The Company's current accounting policy allows for the capitalisation of such costs where future benefits are expected beyond reasonable doubt. Currently no research and development costs have been capitalised, therefore there is no quantitative impact on total equity as at the date of transition to AIFRS or on net profit for the year ended 30 June 2005.

(iv) AASB 112 *Income Taxes* requires the Company to use a balance sheet liability method, rather than the current income statement method which recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base. Under AGAAP, the tax effects of differences between cost base and tax base for an asset or liability is not recognised.

In relation to tax losses carried forward, AASB 112 *Income Taxes* requires recognition of a deferred tax asset to the extent that it is probable there will be future taxable profits available against which the unused losses can be utilised. By contrast, AGAAP permits recognition of a deferred tax asset where recovery is virtually certain. At this time management do not believe that it is probable that there will be future taxable profits available which the tax losses can be utilised and therefore there is no quantitative impact on total equity as at the date of transition to AIFRS or on net profit for the year ended 30 June 2005.

(b) Reconciliation of net loss under AGAAP to that under AIFRS

	Notes	30 June 2005 $
Net loss as reported under AGAAP		(2,224,148)
Share based payments expense	(i)	(223,825)
Net loss under AIFRS		(2,447,973)

(i) Under AASB2 Share Based Payments, the company would recognise the fair value of options issued to employees as remuneration as an expense on a pro-rata basis in the income statement. Share based payment costs are not recognised under AGAAP. This would result in a decrease in profit from AGAAP to AIFRS.

(c) Restated AIFRS Statement of cash flows for the year ended 30 June 2005

No material impacts are expected to the cash flows presented under AGAAP on adoption of AIFRS.

Director's 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 2005 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.

2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2005.

On behalf of the Board

Martyn Myer
Chairman

Peter Bick
Chief Executive Officer

Melbourne, 24th August 2005

ERNST & YOUNG

120 Collins Street
Melbourne VIC 3000
Australia

GPO Box 67
Melbourne VIC 3001

Tel 61 3 9288 8000
Fax 61 3 9654 6166
DX 293 Melbourne

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 (the company), for the year ended 30 June 2005.

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*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

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 2005 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

Ernst & Young

Tim Wallace
Partner
Melbourne
24 August 2005