



CogState Limited
ABN 80 090 975 723

Half-Year Financial Report

For the half-year ended 31 December 2005

CORPORATE INFORMATION

ABN 80 090 975 723

Directors

Mr Martyn Myer (Chairman)
Mr Bradley O'Connor (Chief Executive Officer)
Dr Geoff Brooke
Assoc Prof David Darby
Mr Richard Morgan
Mr David Simpson
Dr Michael Wooldridge

Company Secretary

Mr Bradley O'Connor

Registered Office

Level 7
21 Victoria Street
Melbourne Vic 3000

Share Register

Link Market Services
Level 4, 333 Collins Street, Melbourne, Victoria, 3000
Telephone: 1300 554 474

Auditors

Ernst & Young

Stock Exchange Listing

CogState Limited shares are listed on the Australian Stock Exchange.
Market code: CGS

Internet Address

www.cogstate.com

TABLE OF CONTENTS

Results for announcement to the market	4
Half year financial report	6

Results For Announcement To The Market

Revenue from ordinary activities <i>(Appendix 4D item 2.1)</i>	up	35.3%	to	\$899,583
Loss from ordinary activities after tax attributable to members <i>(Appendix 4D item 2.2)</i>	down	12.6%	to	(\$1,253,044)
Net Loss for the period attributable to members <i>(Appendix 4D item 2.3)</i>	down	12.6%	to	(\$1,253,044)

Dividends / Distributions*(Appendix 4D items 2.4, 2.5 and 2.6)*

No dividends have been paid or declared during the period and the Directors do not recommend the payment of a dividend in respect of the half-year ended 31 December 2005. Dividends are not expected to be paid or declared in the immediate term.

Explanation of Revenue*(Appendix 4D item 2.6)*

	2005	2004
Sales to customers	\$828,304	\$533,270
Interest received	\$71,279	\$131,476
	<u>\$899,583</u>	<u>\$664,746</u>

Revenue from contracted services, predominantly relating to the provision of cognitive testing services within clinical trials, is recognised according to the stage of completion of the work under each contract. There can be a timing difference between the issue of invoices by CogState to customers and the ultimate recognition of the revenue relating to the invoice. At 31 December 2005, Sales in Advance (amounts invoiced to customers, but not recognised as revenue) totalled \$567,261 (30 June 2005: \$106,950). "Sales in Advance" is shown as a liability (included within "Trade and other payables") on the Balance Sheet.

Explanation of Net Loss*(Appendix 4D item 2.6)*

Total operating expenses for the half year ended 31 December 2005 totalled \$2,456,148 (2004: \$2,139,643) and increase of 14.8% compared to the previous corresponding period.

Employment costs of \$1,596,587 (2004: \$975,948) accounted for 64.6% of total operating costs. Included within employment costs were one-off redundancy costs of \$277,462.

The redundancy payments reflect a shift within the business from development to commercialisation. The redundancies are expected to produce net decrease in total employment costs, after allowing for the cost of additional customer support and sales staff in both the USA & Europe.

Net Tangible Assets Per Security*(Appendix 4D item 3)*

2005	2004
6.8 cents	12.1 cents

COGSTATE LIMITED

HALF-YEAR REPORT – 31 DECEMBER 2005

Contents

DIRECTORS' REPORT	7
AUDITOR'S INDEPENDENCE DECLARATION	8
CONDENSED INCOME STATEMENT	9
CONDENSED BALANCE SHEET	10
CONDENSED CASH FLOW STATEMENT	11
CONDENSED STATEMENT OF CHANGES IN EQUITY	12
NOTES TO THE HALF YEAR FINANCIAL STATEMENTS	13
DIRECTORS' DECLARATION	24
INDEPENDENT REVIEW REPORT TO MEMBERS	25

DIRECTORS' REPORT

Your directors submit their report for the half year ended 31 December 2005.

DIRECTORS

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

Mr Martyn Myer	(Chairman)
Mr Bradley O'Connor	(Chief Executive Officer) (appointed 1 December 2005)
Dr Geoff Brooke	
Assoc. Prof David Darby	
Mr Richard Morgan	
Mr David Simpson	
Dr Michael Wooldridge	
Dr Peter Bick	(resigned 1 December 2005)

REVIEW AND RESULTS OF OPERATIONS

During the half year ended 31 December 2005, CogState restructured operations to focus on the commercialisation of its cognitive testing technology.

Revenue from the sale of cognitive testing technology has continued to grow during the half year. Revenue from the provision of cognitive testing services for the half year ended 31 December 2005 (\$828,304) increased 55.3% compared to the half year ended 31 December 2004 (\$533,270).

The company has made a decision to focus resources on its primary market, being cognitive testing in clinical trials, where the technologies are used to quantify the effect of disease and of drugs, devices or other interventions on human subjects participating in clinical trials conducted by pharmaceutical, biotechnology, nutraceutical and functional food companies. Net revenue from clinical trials (after direct costs of conducting trials) totalled \$517,395 for the half year ended 31 December 2005; an increase of 29.5% compared to the half year ended 31 December 2004 (\$399,659).

At the same time, action has been taken to reduce total operating costs. Employment costs of \$1,596,587 (2004: \$975,948) accounted for 64.6% of total operating costs for the half year to 31 December 2005. During the last six months, decisions have been made to reduce headcount and total employment costs. Full time employees at 31 December 2005 totalled 14, compared to 21 full time employees at 30 June 2005. The reduction in headcount is expected to produce net cost savings into the future, notwithstanding the fact that the company plans to employ additional sales and customer support resources in the USA & Europe in the coming period.

The company has ceased all activities in respect of the therapeutic drug development program and will seek to out-license these technologies.

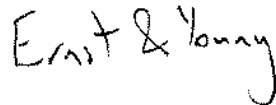
DIRECTORS' REPORT (continued)

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained the following independence declaration from our auditors, Ernst & Young.

Auditor's Independence Declaration to the Directors of CogState Limited

In relation to our review of the financial report of CogState Limited for the half-year ended 31 December 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



Tim Wallace
Partner

22 February 2006

Signed in accordance with a resolution of the directors.



Mr Martyn Myer
Chairman
Melbourne, 22 February 2006

CONDENSED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Note	2005 \$	2004 \$
Continuing Operations			
Revenue	2	899,583	664,746
Cost of Sales		(129,920)	-
Gross profit		769,663	664,746
Other Income	2	85,739	46,106
Other Expenses	2	(2,456,148)	(2,139,643)
Loss before income tax		(1,600,746)	(1,428,791)
Income tax (expense)/benefit		347,702	(5,378)
Net loss for the period		(1,253,044)	(1,434,169)
Basic earnings per share (cents per share)		-3.50	-4.02
Diluted earnings per share (cents per share)		-3.50	-4.02
Franked dividends per share (cents per share)		-	-

CONDENSED BALANCE SHEET

	Note	As at 31-Dec-05 \$	As at 30-Jun-05 \$
ASSETS			
CURRENT ASSETS			
Cash and Cash equivalents		2,278,329	3,429,392
Trade and Other Receivables		1,121,628	344,516
Prepayments		9,943	4,703
Other Assets		17,754	4,140
TOTAL CURRENT ASSETS		3,427,654	3,782,751
NON-CURRENT ASSETS			
Deferred income tax asset		37,981	54,870
Property, plant and equipment		164,666	138,895
Intangible assets		401,584	375,584
Other non-current assets		30,530	26,268
TOTAL NON-CURRENT ASSETS		634,761	595,617
TOTAL ASSETS		4,062,415	4,378,368
CURRENT LIABILITIES			
Trade and other Payables	3	885,871	385,014
Provisions		110,639	154,937
TOTAL CURRENT LIABILITIES		996,510	539,951
NON-CURRENT LIABILITIES			
Provisions		7,961	7,961
TOTAL NON-CURRENT LIABILITIES		7,961	7,961
TOTAL LIABILITIES		1,004,471	547,912
NET ASSETS		3,057,944	3,830,456
EQUITY			
Issued Capital	4	11,557,674	11,230,285
Retained earnings		(8,876,698)	(7,623,654)
Other reserves		376,968	223,825
TOTAL EQUITY		3,057,944	3,830,456

CONDENSED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Note	2005 \$	2004 \$
Cash flows from operating activities			
Receipts from customers		994,599	225,823
Payments to suppliers and employees		(2,492,657)	(1,945,855)
Receipt of government grants		15,739	-
Interest received		57,665	156,857
Net cash flows used in operating activities		(1,424,654)	(1,563,175)
Cash flows from investing activities			
Purchase of property, plant & equipment		(54,746)	(105,024)
Proceeds from sale of property, plant and equipment		-	-
Net cash flows used in investing activities		(54,746)	(105,024)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		300,000	-
Capital raising costs		-	-
Net cash flows from financing activities		300,000	-
Net increase/(decrease) in cash and cash equivalents		(1,179,400)	(1,668,199)
Net foreign exchange difference		28,337	(2,424)
Cash and cash equivalents at beginning of period		3,429,392	5,570,791
Cash and cash equivalents at end of period	6	2,278,329	3,900,168

**CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

	Issued Capital	Retained earnings \$	Share Option Reserve \$	Total
As at 1 July 2004	11,230,285	(5,175,680)	-	6,054,605
Profit/(Loss) for the period	-	(1,434,169)	-	(1,434,169)
Cost of share-based payment	-	-	107,083	107,083
At 31 December 2004	11,230,285	(6,609,849)	107,083	4,727,519
As at 1 July 2005	11,230,285	(7,623,654)	223,825	3,830,456
Profit/(Loss) for the period	-	(1,253,044)	-	(1,253,044)
Issue of Share Capital	327,389	-	-	327,389
Cost of share-based payment	-	-	153,143	153,143
At 31 December 2005	11,557,674	(8,876,698)	376,968	3,057,944

NOTES TO THE HALF YEAR FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT**

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of CogState Ltd as at 30 June 2005, which was prepared based on Australian Accounting Standards applicable before 1 January 2005 ('AGAAP').

It is also recommended that the half-year financial report be considered together with any public announcements made by CogState Ltd during the half-year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of accounting

The half-year 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 AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

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

(b) Statement of Compliance

The half-year financial report complies with Australian Accounting Standards, which comprise Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the half-year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

This is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of CogState under AIFRS are disclosed in Note 1(c) below.

Reconciliations of:

- AIFRS equity as at 1 July 2004, 31 December 2004 and 30 June 2005; and
 - AIFRS profit for the half-year 31 December 2004 and full year 30 June 2005,
- to the balances reported in the 31 December 2004 half-year report and 30 June 2005 full-year financial report prepared under AGAAP are detailed in Note 1(e) below

Notes to the Half-Year Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (ctd.)****(c) Summary of significant revised accounting policies****(i) Foreign Currencies**

Both the functional and presentation currency of CogState Limited is Australian dollars.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(ii) Property, plant and equipment

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

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 is as follows:

	Depreciation Rate	Depreciation Method
2005 Plant and equipment	40%	Diminishing value
2004 Plant and equipment	40%	Diminishing value

Impairment

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

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

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

(iii) Intangible assets***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

Notes to the Half-Year Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (ctd.)**

and applications that have been licensed in by CogState and unregistered intellectual property rights.

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Intangible assets created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists and in the case of indefinite lived intangibles annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

(iv) 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.

(v) Trade and other 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.

(vi) Investments

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

(vii) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where CogState expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Notes to the Half-Year Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (ctd.)****(viii) Share-based payment transactions**

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

There is currently one plan in place to provide these benefits:

(i) the Employee Share Option Plan (ESOP), which provides benefits to directors and senior Executives.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of CogState Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects

- (i) the extent to which the vesting period has expired and
- (ii) the number of awards that, will ultimately vest.

This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Notes to the Half-Year Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (ctd.)****(ix) 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.

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.

(x) 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.

(xi) 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.

(xii) 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.

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.

(xiii) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

(xiv) Income tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Notes to the Half-Year Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (ctd.)**

Deferred income tax liabilities are recognised for all taxable temporary differences: except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised: except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

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.

(d) AASB 1 Transitional exemptions

CogState has made its election in relation to the transitional exemptions allowed by AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' as follows:

Share-based payment transactions

AASB 2 'Share-Based Payments' is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

Notes to the Half-Year Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (ctd.)****(e) Impact of adoption of AIFRS****(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS**

	30-Jun-05 \$	31-Dec-04	01-Jul-04 \$
Total equity under AGAAP	3,830,456	4,727,519	6,054,605
Adjustments to retained earning			
Recognition of share based payment expense (A)	(223,825)	(107,083)	(55,314)
Adjustments to other reserves			
Recognition of share based payment expense (A)	223,825	107,083	55,314
Total equity under AIFRS	<u>3,830,456</u>	<u>4,727,519</u>	<u>6,054,605</u>

(A) Share-based payment costs are charged to the income statement with a corresponding adjustment to equity under AASB 2 'Share-based Payment', but not under AGAAP.

(ii) Reconciliation of profit after tax under AGAAP to that under AIFRS

	Year ended 30-Jun-05 \$	Half Year ended 31-Dec-04 \$
Loss after tax as previously reported	(2,224,148)	(1,327,086)
Recognition of share based payment expense (A)	<u>(223,825)</u>	<u>(107,083)</u>
Loss after tax under AIFRS	<u>(2,447,973)</u>	<u>(1,434,169)</u>

(A) Share-based payment costs are charged to the income statement under AASB 2 'Share-based Payment', but not under AGAAP.

(iii) Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

Notes to the Half-Year Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**2 REVENUE AND EXPENSES****(a) Specific Items**

Loss before income tax includes the following revenue and expenses whose disclosure is relevant in explaining the performance of the entity:

	2005	2004
	\$	\$
(i) Revenue		
Provision of Cognitive Testing services		
- Clinical trials	647,315	399,659
- Concussion management	129,094	117,440
- CogHealth	1,895	16,171
	778,304	533,270
- Funded research & development	50,000	-
	828,304	533,270
 Interest	 71,279	 131,476
	899,583	664,746
 (ii) Other income		
Government Grant	85,739	46,106
	85,739	46,106

During the year, a Research & Development Tax Rebate of \$364,592 was lodged with the Australian Tax Office in respect of the 2005 income tax year. The rebate was received January 12, 2006 and has not been treated as Revenue, but classified as a credit to income tax expense in the period to December 31, 2005.

Notes to the Half-Year Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	2005	2004
	\$	\$
(iii) Expenses		
Depreciation	31,160	18,931
Amortisation	-	31,500
Advertising & Promotion	51,663	237,786
Employee Benefits	1,596,587	975,948
Expense of share-based payments	101,741	107,083
Legal Fees	53,378	34,517
Temporary Staff	-	107,109
Research and development*	210,181	146,697
Travel	120,111	151,626
Operating Lease	58,269	27,006

*Research and development expenses relating to CogState's therapeutic drug program were incurred and expensed in the period to 31 December, 2005

3 TRADE AND OTHER PAYABLES

	31-Dec-2005	30-Jun-2005
	\$	\$
Trade Creditors ¹	84,801	132,305
Sundry Creditors ¹	-	1,331
Payroll Liabilities ²	120,964	106,239
Accrued Expenses ¹	84,726	50,000
Revenue in Advance ³	567,261	106,950
Net Goods and Services Tax Payable ²	28,119	(11,811)
	<u>885,871</u>	<u>385,014</u>

¹Trade and Sundry Creditors and Accrued Expenses are non-interest bearing and are normally settled on 30 day terms.

²Payroll Liabilities and Net Goods and Services Tax Payable are normally settled in the month proceeding recognition unless they relate to income taxes payable to an international jurisdiction in which case they are paid annually.

³Revenue in advance represents amounts that have been invoiced during the period 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 31 December.

Notes to the Half-Year Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**4 ISSUED CAPITAL**

	2005	2004
	\$	\$
<i>Ordinary Shares</i>		
Issued and fully paid	11,230,285	11,230,285
<i>Movements in ordinary shares on issue</i>		
At 1 July	11,230,285	11,230,285
3 million fully paid shares issued 15 Dec 05 at \$0.10 per share	300,000	-
Less: cost of shares issued	(15,000)	
326,068 fully paid shares issued 15 Dec 05 at \$0.13 per share*	42,389	
	<u>11,557,674</u>	<u>11,230,285</u>

* Ordinary shares were issued as non cash consideration for licensed technologies and consulting services provided as part of the Therapeutic drug development program

5 SEGMENT REPORTING

	2005	2004
	\$	\$
	Continuing Operations	
Cognitive Testing		
Sales	828,304	533,270
Other Revenue	157,018	177,582
Segment Result	(1,268,044)	(1,434,169)
Geographic Segments	Australia & New Zealand	USA & Canada
		Europe
		Singapore
		South Africa
		Total
Segment Revenue	52,687	280,615
		481,917
		6,549
		6,536
		828,304

In January 2005 the company opened its first sales office outside Australia, in London. A second office in the USA is currently being sought and is expected to be fully operational in the second half of the 2005/06 financial year.

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

Notes to the Half-Year Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**6 ADDITIONAL INFORMATION**

2005	2004
\$	\$

For the purposes of the Condensed Cash Flow Statement, cash and cash equivalents comprise the following at 31 December:

Cash at Bank	590,819	208,558
Cash at Bank – USD account	287,110	108,297
Petty Cash	400	647
Term Deposits	1,400,000	3,582,666
	<u>2,278,329</u>	<u>3,900,168</u>

7 Economic Dependency

During the period to 31 December, 2005 CogState received approximately 39% of its revenue from contracts with a Belgium based food company and 34% of its revenue from contracts with Pfizer Inc. (“Pfizer”). CogState contracts with different divisions within Pfizer in North America, Europe and Australia.

DIRECTORS' DECLARATION

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

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity:

(i) give a true and fair view of the financial position as at 31 December 2005 and the performance for the half-year ended on that date of the consolidated entity; and

(ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the 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

A handwritten signature in black ink, appearing to be 'Martyn Myer', written in a cursive style.

Martyn Myer
Chairman

A handwritten signature in black ink, appearing to be 'Bradley O'Connor', written in a cursive style.

Bradley O'Connor
Chief executive Officer

Melbourne, 22 February 2006

Independent review report to members of CogState Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for CogState Limited (the company), for the six months ended 31 December 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 *AASB 134 "Interim Financial Reporting"*, 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.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard *AASB 134 "Interim Financial Reporting"* and other mandatory financial reporting requirements in Australia, so as to present 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.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

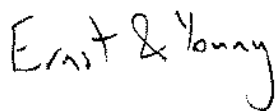
Independence

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.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of CogState Limited is not in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of CogState Limited at 31 December 2005 and of its performance for the six months ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



Tim Wallace
Partner
Melbourne

22 February 2006