

Cogstate Limited
ABN 80 090 975 723

Half-year report

for the half-year 31 December 2017

The interim financial statements are presented in United States dollars



Cogstate

Cogstate Limited

Appendix 4D

Preliminary Half-year Report

Half-year 31 December 2017

Name of entity: Cogstate Limited

ABN or equivalent company reference: ABN 80 090 975 723

Half-year 31 December 2017

(Previous corresponding period: 31 December 2016)

Results for announcement to the market

				US\$
Revenue from ordinary activities	Down	4.5%	To	13,400,820
Earnings before interest and taxation (EBIT)	Down		To	(540,546)
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	Down		To	(223,695)
Net Profit after tax (from ordinary activities) for the period attributable to members	Down		To	(1,289,999)

Dividends/Distributions

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 2017.

	31 December 2017	31 December 2016
Net tangible asset backing (per share) (\$US)	0.07	0.07

Explanation of results

Operating results for the year

A summary of revenue and results, include commentary on the segment results, is set out below:

Net profit/(loss) from principal activities - summary

For the half year ended 31 December 2017, the Group recorded a decrease of approximately \$1.1 million in revenue from the Clinical Trials segment compared to the previous corresponding period. The decrease in revenue and associated decrease in contribution from the Clinical Trials segment, in addition to increased expenditure associated with the commercial launch of Cognigram (within the Healthcare segment), resulted in a net loss before tax of \$0.52 million for the half year to 31 December 2017 (2016: profit before tax of \$1.10 million). All figures are noted are \$US.

	31 December 2016	30 June 2017	Half ended 31 December 2017
Clinical Trials			
Revenue	13,907,804	12,279,333	12,830,736
Cost of sales	(4,012,916)	(4,623,450)	(4,230,603)
Gross Margin	9,894,888	7,655,883	8,771,984
Selling, General & Admin costs	(1,735,704)	(1,435,540)	(1,757,758)
Pass-through costs, net of recovery	9,846	27,013	-
Clinical Trials contribution	8,169,030	6,247,356	6,843,132
Healthcare (incl Sport)			
Revenue	103,980	101,065	173,546
Cost of sales & Selling, General & Admin costs	(189,458)	(655,147)	(244,718)
Other operating expenditure	(143,589)	(148,413)	(757,467)
Healthcare contribution	(229,067)	(702,495)	(828,639)
R&D (incl. academic research studies, normative data studies and new technology validation)			
Revenue	-	12,771	374,136
Cost of sales	(17,271)	(51,136)	(25,233)
Other operating expenditure - Salaries & Wages	(202,980)	(309,445)	(400,756)
R&D contribution	(220,251)	(347,810)	(57,067)
Product Development & Quality Assurance	(2,177,541)	(1,956,329)	(2,269,430)
Less Capitalisation of software development costs	-	-	1,123,065
Net Product Development & Quality Assurance	(2,177,541)	(1,956,329)	(1,146,365)
IT Infrastructure	(534,850)	(649,784)	(841,781)
Share based payments (expense of Employee options)	(189,923)	(532,978)	(633,358)
Office & Facilities	(384,909)	(429,540)	(584,205)
Other operating expenditure	(3,560,442)	(2,881,377)	(3,374,310)
Other income, incl. R&D tax rebate	24,836	8,818	13,339
Interest Income	27,273	28,872	22,402
Net foreign exchange gains/(losses)	177,728	(548,062)	58,340
Other Expenditure (Net)	(6,617,828)	(6,960,380)	(6,489,524)
Net Profit/(Loss) before tax	1,101,884	(1,763,329)	(522,720)

Summary of Other Operating Expenditure

Other operating expenditure	31 December 2016	30 June 2017	31 December 2017
Employment expenses*	(2,550,779)	(1,602,533)	(2,223,980)
Depreciation	(148,841)	(178,090)	(138,138)
Professional Fees	(147,358)	(160,184)	(211,912)
Travel	(196,823)	(303,248)	(204,601)
Marketing	(150,941)	(228,770)	(142,275)
Insurance	(134,626)	(170,251)	(122,989)
ASX / Registry costs	(48,392)	(31,728)	(83,348)
General Admin	(182,682)	(206,573)	(247,067)
Other operating expenditure	(3,560,442)	(2,881,377)	(3,374,310)

* Employment Expenses were in respect of salary paid to Board, CEO, COO, Finance team, Legal team, Human Resources and administrative support, inclusive of all bonus accruals for executives. Also included within Employment Expenses are recruitment fees paid to search firms for services associated with talent identification and retention.

Clinical Trials Contracted Revenue

Clinical Trials revenue recognised during the year is a function of:

1. Revenue recognised from sales contracts on hand at the beginning of the financial year; and
2. Revenue recognised from sales contracts executed during the year.

For the half year to 31 December 2017, Cogstate executed US\$21.6m of Clinical Trials sales contracts, a 6% decrease on US\$23.0m sales contracts executed for the half year to 31 December 2016.

Cogstate enters into a contract with the customer for the provision of technology and services for each study. The contract value will differ for each contract, depending upon the scope of the technology and services provided as well as the complexity and length of the study. Revenue from clinical trials contracts is recognised over the life of the contract. The length of a clinical trial can vary from 9 months for a phase 1 study and up to 4-5 years for a phase 3 study. Invoices are issued and revenue is recognised based upon achievement of pre-determined milestones.

	31 December 2017	31 December 2016
Clinical Trials revenue Contracted at 1 July	\$28,694,351	\$24,926,189
Contracts signed during the period *	\$21,589,827	\$22,966,649
Revenue recognized (\$USD)	(\$12,830,736)	(\$13,907,804)
Adjustment for contracted study put on hold & other pass-through revenue	(\$2,434,124)	(\$2,258,774)
Contracted future Clinical Trial and Precision Recruitment revenue at 31 December	\$35,019,318	\$31,726,260

* Clinical trials contracts are predominantly denominated in \$US.

At 1 July 2017, Cogstate had \$28.7 million of contracted revenue that would be recognised in future periods, up 15.1% on the amount of future revenue contracted at 1 July 2016. During the half year to 31 December 2017, Cogstate signed \$21.6 million of new sales contracts, a small decrease from the previous corresponding period. After recognising \$12.8 million of revenue from those contracts during the half year, Cogstate had, at 31 December 2017, \$35.0 million of contracted revenue expected to be recognised in future periods.

As previously reported, Cogstate moved to US\$ reporting as at 1 July 2017. In the Appendix 4E that was lodged with the ASX on 22 August 2017, Cogstate reporting the following detail in respect of contracted revenue at 30 June 2017 in A\$:

“Of the A\$37.5 million clinical trials contracted revenue at 30 June 2017, A\$18.94m is expected to be recognised by 30 June 2018, A\$8.69m is expected to be recognised in the 2019 financial year and A\$9.85m in the 202-2025 financial years.”

To allow for analysis and comparison, the above statement has been converted into US\$, as follows:

Of the US\$28.7million clinical trials contracted revenue at 30 June 2017, US\$14.57m is expected to be recognised by 30 June 2018 (1HFY18 US\$8.2m, 2HFY18 US\$6.37m), US\$6.68m is expected to be recognised in the 2019 financial year and US\$7.57m in the 2020-2025 financial years (additional half year detail added for context in respect of the 2018 financial year).

As at 31 December 2017, the value of contracted future revenue had grown 22% to \$35.0 million, of which \$11.0m is expected to be recognised by 30 June 2018, \$10.96m is expected to be recognised in the 2019 financial year and \$13.05m in the 2020-2025 financial years.

* All Cogstate sales contracts are denominated in US\$

Results - Expenses

1. Employment expenses

Full Time Equivalent (FTE) employees totalled 161.50 at 31 December 2017, broken down as follows:

Business Unit	FTE at 31 December 2017	FTE at 30 June 2017	FTE at 31 December 2016
Clinical Trials	72.00	75.39	56.99
Business Development	14.70	13.90	11.00
Healthcare	10.40	5.25	5.50
Research & Development	6.60	6.60	5.80
Product Development	38.80	40.07	32.80
Administration	19.00	18.50	17.60
Total	161.50	159.71	129.69

As Cogstate has increased its commercial focus, staff numbers have grown predominantly in two areas; Clinical Trials and Product Development. Clinical Trials staff are allocated to Cost of Sales and therefore are included in the calculation of Gross Margin. The growth in the Product Development team reflects the investment in the next generation of Cogstate technology.

Cogstate Limited

ABN 80 090 975 723

Half-year Report

31 December 2017

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Cogstate Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

These interim financial statements are the consolidated interim financial statements of the consolidated entity consisting of Cogstate Limited and its subsidiaries. The interim financial statements are presented in United States dollars.

Cogstate Limited is a company limited by shares, incorporated and domiciled in Australia.

Its registered office is:

Cogstate Limited
Level 2, 255 Bourke Street
Melbourne Vic 3000

Corporate directory

Directors

Martyn Myer AO BE, MEdSc, MSM
Chairman

Brad O'Connor B Bus, CA
Chief Executive Officer

Richard van den Broek CFA
Non-Executive Director

David Dolby BSE, MBA
Non-Executive Director

Richard Mohs PhD
Non-Executive Director

Jane McAloon BEc (Hons), LLB, GDipGov, FAICD, FCIS
Non-Executive Director

David Simpson BA (Honours) FAICD (retired 25 October 2017)
Non-Executive Director

Secretary

Claire Newstead-Sinclair BBus, CA

Cindy Tilley BCom, CPA (resigned 30 November 2017)

Principal registered office in Australia

Level 2, 255 Bourke Street, Melbourne Vic 3000 Australia

Share register

Link Market Services

Tower 4, Collins Square, 727 Collins Street, Melbourne Vic 3008

Auditor

Pitcher Partners, Level 19, 15 William Street, Melbourne Vic 3000

Solicitors

Clayton Utz, 333 Collins Street, Melbourne Vic 3000

Bankers

National Australia Bank, Level 3/330 Collins Street, Melbourne Vic 3000

Stock exchange listings

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

Website

www.cogstate.com

Directors' report

Your directors present their report together with the condensed financial report of the consolidated entity (referred to hereafter as the Group) consisting of Cogstate Limited and the entities it controlled at the end of, or during, the half-year 31 December 2017 and the independent review report thereon. The financial report has been prepared in accordance with Australian Accounting Standards.

Directors

The following persons held office as directors of Cogstate Limited during the financial period:

- Martyn Myer AO
- Brad O'Connor
- Richard van den Broek
- David Dolby
- Richard Mohs
- Jane McAloon
- David Simpson (retired 25 October 2017)

Review of operations

Cogstate brings together science, innovation and operational excellence to optimise the measurement of cognition in clinical trials, academic research and healthcare. Through our enabling technologies and professional services, we provide quality-assurance solutions for traditional neuropsychological tests and commercialise rapid, reliable and highly sensitive digital brain health assessments. Cogstate customers include the world's leading biopharmaceutical companies; elite sporting organizations and military; physicians and patients; and renowned academic institutions and public-private partnerships.

The Group's principal continuing activity during the year was the sale of technology and services for the measurement of cognition, where services include scientific consultancy, project management, data management, statistical analysis and reporting. Principally Cogstate technology and associated services are utilised in three market segments; clinical trials, academic research and healthcare.

In the clinical trials segment, technology and services are sold to pharmaceutical and biotechnology companies

to quantify the effect of drugs or other interventions on human subjects participating in clinical trials. The technology and services encompass:

- computerised assessment of cognition as study endpoint;
- computerised assessment of cognition as a screening tool (online or at a clinical trial site) when recruiting study participants with specific levels of cognitive impairment;
- expert advice in respect of clinical trial design; and
- expert management, training, scoring and monitoring of standard neuro-psychological assessments of cognition.

In an academic research setting, Cogstate provides access to many of the features of Cogstate Clinical Trials at a discounted price, reflecting the value that Cogstate places upon participating in ongoing academic studies and public-private partnerships because of the access to validating data, relationships and profile building provided by the inclusion of Cogstate technology in these studies.

In healthcare, Cogstate technology is used by healthcare professionals in clinical practice or a hospital environment to allow for regular and standardised testing of cognitive function to detect even subtle changes that could be important in the context of neurological disorders (including dementia), concussion or treatment with medication or other types of interventions. After receiving clearance from the US Food and Drug Administration (FDA) in July 2017, Cogstate has begun commercialisation in the USA of its technology to healthcare professionals in private practice and hospitals. Branded as Cognigram, the Cogstate system is a computerised self-assessment that can be completed both in-clinic or at home, providing the healthcare professional with an objective measurement of cognition for use in individuals from ages 6 - 99.

There was no significant change in the nature of the activity of the Group during the year.

Cogstate has 5 primary offices in the following locations: an Australian head office based in Melbourne; three locations in the USA including a primary office in New Haven, CT and smaller offices in New York, NY and Boston, MA as well as office in London, UK. Staff who are not based in one of these offices work remotely.

For the half year ended 31 December 2017, total revenue decreased by 4.5%, compared to the previous corresponding half year. The revenue decrease can be attributed to the timing of when the Clinical Trials contracts were signed during the first half as compared to the prior year.

Full time equivalent employees at 31 December 2017 totalled 161 compared to 130 full time equivalent employees at 31 December 2016.

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the Group during the period ended 31 December 2017.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 11.

This report is made in accordance with a resolution of directors.

A handwritten signature in black ink, appearing to read 'Martyn Myer', with a stylized flourish at the end.

Martyn Myer AO, Chairman
Melbourne



COGSTATE LIMITED
AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF COGSTATE LIMITED

In relation to the independent auditor's review for the half-year ended 31 December 2017, to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contraventions of APES 110 *Code of Ethics for Professional Accountants*.

This declaration is in respect of Cogstate Limited and the entities it controlled during the period.

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

S SCHONBERG
Partner

20 February 2018

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

PITCHER PARTNERS
Melbourne

Condensed consolidated statement of profit or loss and other comprehensive income

For the half-year 31 December 2017

	Notes	31 December 2017 \$US	Restated 31 December 2016 \$US
Operations			
Revenue	3	13,378,418	14,011,784
Finance income		22,402	27,273
Total Revenue		13,400,820	14,039,057
Cost of sales		(6,258,312)	(6,056,375)
Gross Profit		7,142,508	7,982,682
Other income	4	13,338	34,682
Employee benefits expense		(4,955,091)	(4,917,194)
Depreciation		(138,137)	(148,841)
Occupancy		(584,212)	(384,909)
Marketing		(105,114)	(243,251)
General Administration		(1,332,139)	(866,522)
Net foreign exchange gain/(loss)		58,340	177,728
Travel expenses		(297,119)	(312,407)
Finance expenses		(28,778)	(25,307)
Other expenses		(4,251)	(7,353)
Professional fees		(292,065)	(187,424)
Profit/(Loss) before income tax		(522,720)	1,101,884
Income tax benefit/(expense)		(767,279)	(396,905)
Profit/(Loss) for the period		(1,289,999)	704,979
Other comprehensive income/(loss)			
Total comprehensive income/(loss) for the period		(1,289,999)	704,979
Profit is attributable to:			
Owners of Cogstate Limited		(1,289,999)	704,979
Total comprehensive income for the period is attributable to:			
Owners of Cogstate Limited		(1,289,999)	704,979
Total comprehensive income for the year attributable to owners of Cogstate Limited arises from:			
Continuing operations		(1,289,999)	704,979

The above condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Condensed consolidated statement of profit or loss and other comprehensive income (cont.)

For the half-year 31 December 2017

	Cents (\$US)	Cents (\$US)
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:		
Basic earnings/(loss) per share	(1.1)	0.6
Diluted earnings/(loss) per share	(1.1)	0.6
Earnings per share for profit attributable to the ordinary equity holders of the company:		
Basic earnings/(loss) per share	(1.1)	0.6
Diluted earnings/(loss) per share	(1.1)	0.6

The above condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Condensed consolidated statement of financial position

As at 31 December 2017

	Notes	31 December 2017 \$US	30 June 2017 \$US
ASSETS			
Current assets			
Cash and cash equivalents		4,239,833	7,157,027
Trade and other receivables		6,124,318	3,890,282
Other current assets		2,841,372	923,409
Total current assets		13,205,523	11,970,718
Non-current assets			
Property, plant and equipment		1,506,508	1,610,290
Deferred tax assets	5	2,240,019	2,884,932
Intangible assets	6	1,431,963	308,898
Total non-current assets		5,178,490	4,804,120
Total assets		18,384,013	16,774,838
LIABILITIES			
Current liabilities			
Trade and other payables		5,062,880	3,546,995
Provisions		1,664,033	1,610,465
Other current liabilities		500,000	-
Total current liabilities		7,226,913	5,157,460
Non-current liabilities			
Deferred tax liabilities		458,149	475,633
Provisions		73,281	59,421
Total non-current liabilities		531,430	535,054
Total liabilities		7,758,343	5,692,514
Net assets		10,625,670	11,082,324
EQUITY			
Contributed equity	7	24,142,132	23,915,433
Other reserves		(1,107,430)	(1,714,077)
Accumulated losses		(12,409,032)	(11,119,032)
Capital and reserves attributable to owners of Cogstate Limited		10,625,670	11,082,324
Total equity		10,625,670	11,082,324

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

Condensed consolidated statement of changes in equity

For the half-year 31 December 2017

	Attributable to owners of Cogstate Limited					Total equity \$US
	Notes	Contributed equity \$US	Share- based payments \$US	Foreign currency translation \$US	Retained earnings \$US	
Restated Balance at 1 July 2016		23,269,918	605,947	(3,150,750)	(10,475,693)	10,249,422
Profit for the period as reported in the interim financial statements		-	-	-	704,979	704,979
Other comprehensive income		-	-	(457,305)	-	(457,305)
Total comprehensive income for the period		-	-	(457,305)	704,979	247,674
Transactions with owners in their capacity as owners:						
Issue of Share Capital		256,279	-	-	-	256,279
Transfer between share based payments reserve and retained earnings		246,502	(246,502)	-	-	-
Cost of share- based payment		-	357,656	-	-	357,656
		502,781	111,154	-	-	613,935
Restated Balance at 31 December 2016		23,772,699	717,101	(3,608,055)	(9,770,714)	11,111,031
Balance at 1 July 2017		23,915,433	1,230,722	(2,944,737)	(11,119,033)	11,082,385
Loss for the period as reported in the interim financial statements		-	-	-	(1,289,999)	(1,289,999)
Total comprehensive loss for the period		-	-	-	(1,289,999)	(1,289,999)
Transfer between share-based payments reserve and retained earnings						
Exercise of options		137,475	-	-	-	137,475
Transfer to share capital on exercise of options		89,224	(89,224)	-	-	-
Cost of share- based payment		-	695,809	-	-	695,809
		226,699	606,585	-	-	833,284
Balance at 31 December 2017		24,142,132	1,837,307	(2,944,737)	(12,409,032)	10,625,670

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

Consolidated statement of cash flows

For the half-year 31 December 2017

	Notes	31 December 2017 \$	Restated 31 December 2016 \$
Cash flows from operating activities			
Receipts from customers		12,717,469	15,212,407
Payments to suppliers and employees		(15,562,450)	(12,495,833)
		(2,844,981)	2,716,574
Net cash (outflow) inflow from operating activities	8	(2,844,981)	2,716,574
Cash flows from investing activities			
Payments for property, plant and equipment		(236,237)	(433,028)
Interest received		26,549	25,057
Net cash (outflow) from investing activities		(209,688)	(407,971)
Cash flows from financing activities			
Proceeds from issues of shares		137,475	256,279
Net cash inflow from financing activities		137,475	256,279
Net (decrease) increase in cash and cash equivalents		(2,917,194)	2,564,882
Cash and cash equivalents at the beginning of the financial year		7,157,027	5,548,176
Cash and cash equivalents at end of period		4,239,833	8,113,058

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

Notes to the consolidated financial statements

1 Basis of preparation (interim report)

These condensed consolidated financial reports for the half-year reporting period ended 31 December 2017 have been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Act 2001*.

These condensed consolidated financial reports do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for 30 June 2017 and any public announcements made by Cogstate Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Cogstate Ltd is a for profit entity for the purposes of preparing the financial statements.

The accounting policies applied in this half-year financial report are consistent with those of the annual financial report for the year ended 30 June 2017 and the corresponding half-year except as described below in Note 1(a) and (b).

(a) Impact of standards issued but not yet applied by the entity

The following standards and interpretations have been issued at the reporting date but are not yet effective. The directors' assessment of the impact of these standards and interpretations is set out below.

AASB 9 Financial Instruments improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139

Financial Instruments Recognition and Measurement.

The key changes that may affect the Group on initial application of AASB 9 and associated amending Standards include:

- simplifying the general classifications of financial assets into those carried at amortised cost and those carried at fair value;

- permitting entities to irrevocably elect on initial recognition to present gains and losses on an equity instrument that is not held for trading in other comprehensive income (OCI);
- simplifying the requirements for embedded derivatives, including removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in OCI, except when it would create an 'accounting mismatch';
- introducing a new model for hedge accounting that permits greater flexibility in the ability to hedge risk, particularly with respect to non-financial items; and
- requiring impairment of financial assets carried at amortised cost to be based on an expected loss approach.

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

AASB 15 Revenue from contracts with customers will provide (except in relation to some specific exceptions, such as lease contracts and insurance contracts) a single source of accounting requirements for all contracts with customers, thereby replacing all current accounting pronouncements on revenue.

These Standards provide a revised principle for recognising and measuring revenue. Under AASB 15, revenue is recognised in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the provider of the goods or services expects to be entitled. To give effect to this principle, AASB 15 requires the adoption of the following 5-step model:

1 Basis of preparation (interim report) (cont.)

(a) Impact of standards issued but not yet applied by the entity (cont.)

- Step 1: Identify the contracts with the customer;
- Step 2: Identify the separate performance obligations;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price; and
- Step 5: Recognise revenue when a performance obligation is satisfied.

AASB 15 also provides additional guidance to assist entities in applying the revised principle to licences of intellectual property, warranties, rights of return, principal/agent considerations and options for additional goods and services.

Although the directors anticipate that the adoption of AASB 15 may have an impact on the Group's reported revenue, it is impracticable at this stage to provide a reasonable estimate of such impact.

AASB 16 will replace AASB 117: Leases and introduces a single lessee accounting model that will require a lessee to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Right-of-use assets are initially measured at their cost and lease liabilities are initially measured on a present value basis. Subsequent to initial recognition:

- right-of-use assets are accounted for on a similar basis to non-financial assets, whereby the right-of-use asset is accounted for in accordance with a cost model unless the underlying asset is accounted for on a revaluation basis, in which case if the underlying asset is:
 - investment property, the lessee applies the fair value model in AASB 140: Investment Property to the right-of-use asset; or
 - property, plant or equipment, the lessee can elect to apply the revaluation model in AASB 116: Property, Plant and Equipment to all of the right-of-use assets that relate to that class of property, plant and equipment; and
- lease liabilities are accounted for on a similar basis as other financial liabilities, whereby interest expense is recognised in respect of the liability and the carrying amount of the liability is reduced to reflect lease payments made.

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, under AASB 16 a lessor would continue to classify its leases as operating leases or finance leases subject to whether the lease transfers to the lessee substantially all of the risks and rewards incidental to ownership of the underlying asset, and would account for each type of lease in a manner consistent with the current approach under AASB 117.

Although the directors anticipate that the adoption of AASB 16 may have an impact on the Group's accounting for its operating leases, it is impracticable at this stage to provide a reasonable estimate of such impact.

(b) Change in Accounting Policy

As previously advised to the market and consistent with AASB 121 "The effects of change in foreign exchange rates", Cogstate Limited and its subsidiaries changed their functional and presentation currencies to the US dollar effective 1 July 2017. The change in reporting currency is to most transparently represent the economic effects of the underlying transactions, events and conditions that are relevant to the Group. Prior to 1 July 2017, the Group reported its annual and half year consolidated statement of financial position and the related consolidated statements of operations and cashflows in the Australian dollar. In making this change in functional and presentation currency, the Group followed the requirements of AASB 121 "The effects of change in foreign exchange rates". In accordance with AASB 121, the financial statements for all years and periods presented have been translated into the new presentation currency. Under this method, the statements of comprehensive income and cash flow statement items for each year and period have been translated into the presentation currency using the average exchange rates prevailing during each reporting period. All assets and liabilities have been translated using the exchange rate prevailing at the reporting dates. Shareholders' equity transactions have been translated using the rates of exchange in effect as of the dates of the various capital transactions.

All resulting exchange differences arising from the translation are included as a separate component of other comprehensive income. All comparative information has been restated to reflect the Group's results as if they had been historically reported in US dollars.

From 1 July 2017 forward there will be no amounts taken to the Foreign Currency Translation Reserve (FCTR), given that from this point the functional currency equals the presentation currency.

2 Segment information

(a) Description of segments

Identification of reportable segments

The consolidated entity has three reportable segments as described below:

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (deemed the chief operating decision maker) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the market the services are provided in (i.e. cognitive testing in clinical trials, cognitive assessment in academic research and cognitive assessment in healthcare). Discrete financial information is reported to the executive management team on at least a monthly basis, as these are the source of the Group's major risks and have the most effect on the rates of return.

The following items are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Interest revenue
- Interest expense
- Foreign exchange gain/(loss)
- Profit/(loss) on disposal of assets
- Royalty income
- Finance costs
- Depreciation
- Other income/(expenses)
- Research and Development Grant
- Administration costs

Types of services

Cogstate's first operating segment is cognitive testing in clinical trials, which includes precision recruitment. In this market, Cogstate's technology and associated services are used to quantify the effect of disease and of drugs, devices or other interventions on human subjects participating in clinical trials primarily conducted by pharmaceutical, and biotechnology companies.

The second operating segment is the healthcare market. In this market, the technology and associated services are provided as a tool for healthcare professionals in clinical practice and/or hospitals to assess cognition.

The third identified segment is provision of technology and associated services to academic researchers; however, this market is not currently significant to Cogstate's results and is not reported as a separate operating segment.

Although sales in each market are conducted in different geographic regions, none have been determined as operating or reporting segments as often the geographic source of the revenue can differ to the geographic source of the costs for the same project. Therefore, management currently review internal reports based on worldwide revenue and results.

2 Segment information (cont.)

(b) Segment information

The following table's present revenue and profit information regarding the segments of Clinical Trials and Healthcare for the periods ended 31 December 2017 and 31 December 2016.

2017	Clinical Trials \$US	Healthcare market \$US	Administration \$US	Total \$US
Sales to external customers	12,830,736	173,546	374,136	13,378,418
Revenue from external customers	12,830,736	173,546	374,136	13,378,418
Cost of Sales	(5,987,604)	(244,718)	(25,911)	(6,258,312)
Total Segment Gross Profit	6,843,132	(71,172)	348,145	7,120,106
Interest revenue	-	-	22,402	22,402
Total gross profit per statement of comprehensive income				7,142,508
Operating profit/(loss)	6,843,132	(828,639)	(6,437,725)	(423,232)
Depreciation expenses	-	-	(138,137)	(138,137)
Foreign exchange gain/(loss) realised and unrealised	-	-	58,340	58,340
Profit/(loss) on disposal of assets	-	-	(4,251)	(4,251)
Royalty income	-	-	6,798	6,798
Finance costs	-	-	(28,778)	(28,778)
Other income / (Expenses)	-	-	6,540	6,540
Segment result	6,843,132	(828,639)	(6,537,213)	(522,720)
Profit/(loss) before tax per statement of comprehensive income	6,843,132	(828,639)	(6,537,213)	(522,720)

Restated 2016	Clinical Trials \$US	Healthcare market \$US	Administration \$US	Total \$US
Sales to external customers	13,907,804	103,980	-	14,011,784
Revenue from external customers	13,907,804	103,980	-	14,011,784
Cost of Sales	(5,748,620)	(189,458)	(118,297)	(6,056,375)
Total Segment Gross Profit	8,159,184	(85,478)	(118,297)	7,955,409
Interest revenue	-	-	27,273	27,273
Total gross profit per statement of comprehensive income				7,982,682
Net Pass-through Recovery	9,846	-	-	9,846
Operating profit/(loss)	8,169,030	(229,067)	(6,871,239)	1,068,724
Depreciation expenses	-	-	(148,841)	(148,841)
Foreign exchange gain/(loss) realised and unrealised	-	-	177,728	177,728
Profit/(loss) on disposal of assets	-	-	(5,102)	(5,102)
Royalty income	-	-	11,151	11,151
Finance costs	-	-	(25,307)	(25,307)
Other income / (Expenses)	-	-	13,685	13,685
Segment result	8,169,030	(229,067)	(6,847,925)	1,101,884
Profit/(loss) before tax per statement of comprehensive income	8,169,030	(229,067)	(6,847,925)	1,101,884

3 Revenue

	31 December 2017 \$US	Restated 31 December 2016 \$US
From continuing operations		
Sales revenue		
Sale of services and licenses in clinical trials	12,830,736	13,907,804
Sale of services and licenses in healthcare	173,546	103,980
Sale of services and licenses in research	374,136	-
	13,378,418	14,011,784

4 Other income

	Notes	31 December 2017 \$US	Restated 31 December 2016 \$US
Other income		6,540	13,685
Royalty revenue		6,798	11,151
Net pass-through recovery		-	9,846
		13,338	34,682

5 Non-current assets - Deferred tax assets

	31 December 2017 \$US	Restated 30 June 2017 \$US
The balance comprises temporary differences attributable to:		
Tax losses	670,051	1,058,612
R&D tax offsets	959,333	768,286
Employee benefits	438,915	581,386
Accrued expenses	140,891	411,580
Unrealised foreign exchange loss	9,630	43,869
Doubtful debts	21,199	21,199
	2,240,019	2,884,932

In Cogstate Ltd tax losses of \$393,340 are available for future use at 31 December 2017, an increase of US\$15,864 from the balance of US\$377,476 (A\$492,531) at 30 June 2017. The increase in the available tax losses within Cogstate Ltd represents tax losses that have been booked during the period.

In Cogstate Inc tax losses of \$276,711 are available for future use at 31 December 2017, a decrease of US\$404,425 from the balance of US\$681,136 (A\$888,747) at 30 June 2017. The balance of Cogstate Inc tax losses has been adjusted to reflect future reduction of the corporate income tax rate in the United States from 40% to 21% from 1 January 2018.

The deferred tax asset of \$670,051 represents all available tax losses for use within Australian and the United States at the applicable tax rate.

Tax losses incurred in Canada and Spain have not yet been recognised as a deferred tax asset for future use.

Of the \$767,279 charge to income tax expense at 31 December 2017, \$169,040 relates to the restatement of deferred tax balances in relation to the change in the corporate income tax rate in the United States. On a like for like basis of income tax rates, there was a \$488,328 charge to income tax expense for the movement in deferred tax balances due to movement in balance sheet accounts such as accrued expenses, employee provisions and the tax base treatment of the foreign exchange component of the inter-company loan between Cogstate Ltd and Cogstate Inc.

5 Non-current assets - Deferred tax assets (cont.)

A further \$101,917 of United States state based income tax payments has also been included in the income tax expense.

The remainder of the balance relates to a small taxable profit following the add-back of non-deductible items including share-based payments and unrealized foreign exchange gains.

6 Non-current assets - Intangible assets

	Software Development - WIP*	Intellectual Property – indefinite life	Total
Half-year 31 December 2017			
Opening net book amount - restated	-	308,898	308,898
Additions - internal software development	1,123,065	-	1,123,065
Closing net book amount	1,123,065	308,898	1,431,963
At 31 December 2017			
Cost	1,123,065	308,898	1,431,963

* Software includes capitalised development costs being an internally generated intangible asset.

During the reporting period, Cogstate has been developing a new database platform infrastructure for use within the clinical trials segment. The new platform will replace a custom-built infrastructure that was launched in 2006. Following internal review, it was determined that the existing infrastructure was inefficient to maintain and did not provide necessary functionality for Cogstate's future commercial plans.

From the new platform, once completed, Cogstate will launch the various cognitive tests, process raw data and produce necessary reports. The platform will incorporate a commercial electronic data capture (EDC) system to store and manage both cognitive test outcomes as well as other clinical outcomes collected as part of Cogstate's current service offering.

As part of the development, it has been necessary to develop a custom-built integration layer to synchronise data between the commercial EDC system and Cogstate's proprietary computerised cognitive assessments.

The platform, once implemented commercially, is expected to provide operational efficiency through better and easier management and reporting of data. The platform will also provide Cogstate a more scalable and flexible system from which Cogstate will be able to incorporate other technologies and/or assessment modalities that, in the future, may be complementary to Cogstate's commercial solutions. The development of the platform is being undertaken by Cogstate employees and the amount capitalised to 31 December reflects the labour effort expended in building the new platform. The work is ongoing during the 2018 financial year and will be available for use in the 2019 financial year, upon which the capitalised balance will commence amortisation.

Amounts capitalised include the total cost of any external products or services and labour costs directly attributable to development. Management judgement is involved in determining the appropriate internal costs to capitalise and the amounts involved.

7 Contributed equity

(a) Share capital

	31 December 2017 Shares	Restated 30 June 2017 Shares	31 December 2017 \$US	Restated 30 June 2017 \$US
Ordinary shares				
Ordinary shares - fully paid	114,260,182	113,676,848	24,142,132	23,915,433

7 Contributed equity (cont.)

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue Price \$
1 July 2017	Opening balance	113,676,848	23,915,433
31 December 2017	Exercise of options	583,334	137,475
	Transfer to share capital on exercise of options	-	89,224
31 December 2017	Balance	114,260,182	24,142,132

8 Reconciliation of profit after income tax to net cash inflow from operating activities

	31 December 2017 \$US	Restated 31 December 2016 \$US
Profit/(loss) for the year	(1,289,999)	704,979
Depreciation	316,762	332,565
Write off of assets	(4,251)	(5,102)
Non-cash employee benefits expense - share-based payments	633,358	189,923
Net exchange differences	78,823	(204,315)
Change in operating assets and liabilities:		
(Increase) in trade debtors and other receivables	(2,234,036)	(503,333)
(Increase) decrease in prepayments	(576,353)	(130,080)
(Increase) decrease in other operating assets	(1,341,245)	(405,033)
(Increase) decrease in deferred tax assets	644,913	331,043
(Increase) decrease in intellectual property	(1,123,065)	-
(Decrease) increase in trade and other payables	1,091,400	609,408
(Decrease) increase in unearned revenue	924,485	1,697,728
(Decrease) increase in provision for income taxes payable	(15,717)	(64,976)
(Decrease) increase in deferred tax liabilities	(17,484)	70,810
(Decrease) increase in other provisions	67,428	92,957
Net cash inflow (outflow) from operating activities	(2,844,981)	2,716,574

9 Commitments & Contingencies

No new commitments or contingent liabilities have arisen.

10 Events occurring after the reporting period

No matter or circumstance has occurred subsequent to period end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial periods.

Directors' declaration

In the directors' opinion:

- (a) the interim financial statements and notes set out on pages 12-23 to are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date, 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.

This declaration is made in accordance with a resolution of directors.



Martyn Myer AO, Chairman
Melbourne

Independent auditor's review report to the members to the members of Cogstate Limited



**COGSTATE LIMITED
ABN 80 090 957 723
AND CONTROLLE ENTITIES**

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF COGSTATE LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Cogstate Limited "the Company" and its controlled entities "the Group", which comprises the condensed consolidated statement of financial position as at 31 December 2017, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Cogstate Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

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**COGSTATE LIMITED
ABN 80 090 957 723
AND CONTROLLE ENTITIES**

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF COGSTATE LIMITED**

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

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

S SCHONBERG
Partner

A handwritten signature in black ink, appearing to be 'P. Pitcher Partners', written in a cursive style.

PITCHER PARTNERS
Melbourne

20 February 2018