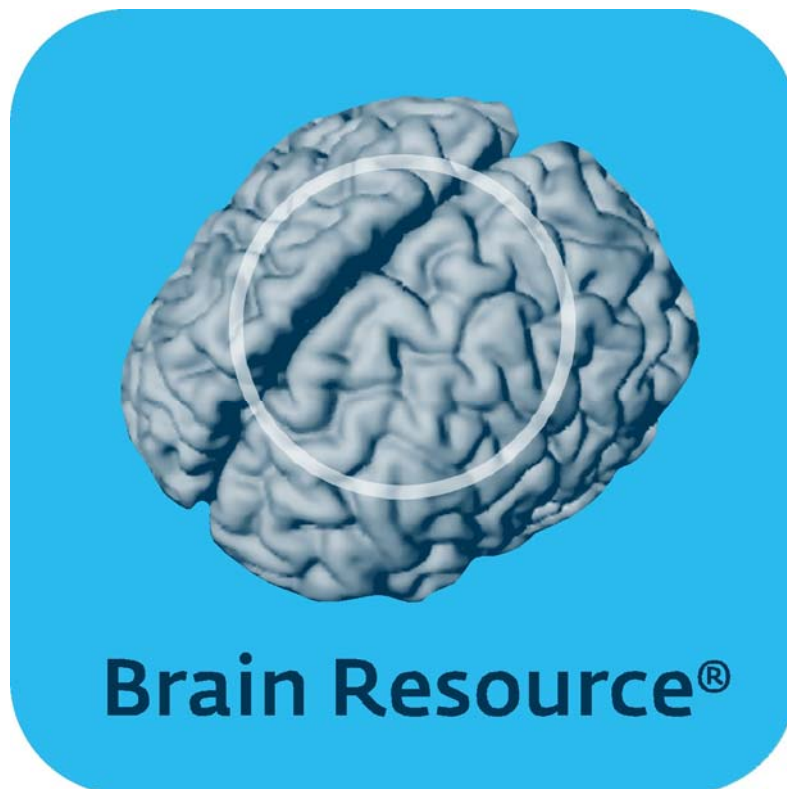


The Brain Resource Company Limited



Annual Report 2007

CORPORATE DIRECTORY

THE BRAIN RESOURCE COMPANY LIMITED (ABN 24 094 069 682)

BOARD OF DIRECTORS

Evian Gordon (Executive Chairman and CEO)
Dan Segal (Executive Director)
Nestor Hinzack (Non-Executive Director)
Russell Jamison (Non-Executive Director)
Brian Joffe (Non-Executive Director)
Paul Keating (Non-Executive Director)
Arthur Toga (Non-Executive Director)

COMPANY SECRETARY

Robert Waring

AUDITORS

Ernst & Young

REGISTERED AND PRINCIPAL ADMINISTRATIVE OFFICE

Level 12, 235 Jones Street, Ultimo, Sydney, NSW 2007

Telephone: +61 (0) 2 9211 7120

Facsimile: +61 (0) 2 9211 2710

Email: info@brainresource.com

Website: <http://www.brainresource.com>

SHARE REGISTRY

Registries Limited

Level 2, 28 Margaret Street, Sydney NSW 2000 / PO Box R67, Royal Exchange, Sydney NSW 1223

Telephone: +61 (0) 2 9290 9600

Facsimile: +61 (0) 2 9279 0664

STOCK EXCHANGE LISTING

Listed on Australian Stock Exchange Limited - ASX Code: **BRC**



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Chairman's Report

22 August 2007

Dear Shareholders

This has been a landmark year. The strengthening of our financial position could not have been better timed given the sectoral transformations now well underway. Appreciation of the necessity for a 'Personalised Medicine' approach is now mainstream, the focus on 'Wellbeing' is increasing and the deficits in the new drug development pipeline glaring.

BRC is uniquely positioned and continues to capitalise on these developments. Our capacity to connect personalised brain function information to solutions (treatments of any kind) is increasingly being recognised and used in the pharmaceutical, clinical and Wellbeing markets.

The recent \$18m contract, one of the largest of its kind, is expected to further leapfrog our capabilities to provide Personalised brain solutions that meet customer needs.

We are pleased to report on our sixth year of operations and would like to extend our appreciation for your ongoing support.

Yours sincerely,

A handwritten signature in black ink that reads "Evian Gordon". The signature is written in a cursive, flowing style.

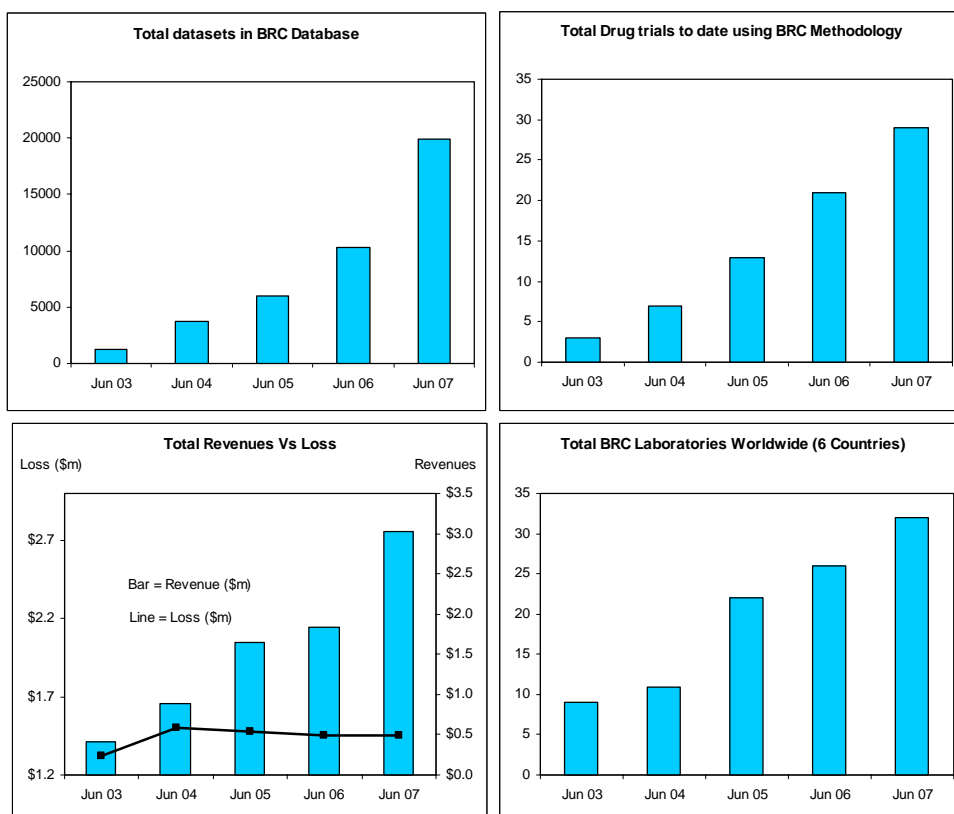
Dr Evian Gordon
Chairman of Directors

Operational Review

Highlights – BRC in the strongest position since inception

- \$18m contract to develop Brain Biomarkers for Depression and Attention Deficit Hyperactivity Disorder.
- Drug trial revenues doubled, with new trials added from both existing and new pharmaceutical company clients.
- Report revenues and equipment sales increased around 50%, reflecting ongoing growth in users.
- Total revenues increased 65% to just over \$3m, with the loss held to prior year levels despite the ongoing investment in growth.
- BRC began working with Managed Care (that is companies in the US that provide private health care management and insurance).
- Database growth continued as did the associated scientific publications.
- BRC continues to be uniquely aligned with the transformative 'Personalised Medicine' market trends now underway.
- Strong cash position, with a closing balance of above \$21m, significantly enhancing our ability to efficiently consolidate our business focus and deliver shareholder returns.

Summary Data



Operational Review

BRC's Corporate Vision is to build a sustainable competitive advantage in enabling optimal solutions for Brain health.

Market opportunity for BRC's unique methodology and database

Market opportunity. New technologies are transforming pharmaceutical trials and clinical management. This is particularly needed in the brain where many disorders are difficult to objectively diagnose and treat. Billions of dollars are spent annually on brain drug development, 'wellbeing' and clinical treatment.

BRC's unique methodology and intellectual property (IP). BRC standardised process allows users, anywhere in the world, to access these technologies to collect brain data in exactly the same way. This data is combined in BRC's central database, which together with BRC's new analysis methods forms BRC's IP. There have been more than 100 scientific publications directly generated from the current database.

BRC current revenues from testing brain performance. BRC offers web, touchscreen and laboratory based data acquisition platforms to allow third parties to access BRC's data analysis services and database from anywhere in the world. Current users include pharmaceutical companies, clinicians, Managed Care (health care management and insurance providers) and researchers. BRC has delivered services to 12 global pharma companies and just under 30 R&D trials. BRC services are also being used in more than 150 clinical and other sites in 9 countries.

BRC generating novel IP. BRC is developing Brain Biomarkers* for delivering Personalized Medicine in psychiatric disorders. Biomarkers are being sought that could reduce the reliance on the interview based 'signs and symptoms' approach currently dominating psychiatry. Biomarkers that are better able to identify patients who are more likely to benefit from a given therapy would significantly increase treatment efficiencies. BRC's biomarker development program, based on extracting insights from its unique database and new analysis methods, covers a number of disorders including depression, schizophrenia, bipolar disorder, attention deficit hyperactivity disorder and anxiety disorders. The database includes standardised environmental, genetic, brain and cognitive information collected from many thousands of subjects. BRC's approach is explicitly aligned with the direction being heralded by the US Food & Drug Administration (Critical Path Initiative) and American Psychiatric Association (Diagnostic and Statistical Manual of Mental Disorders – DSM V).

**Biomarkers are characteristics that can be objectively measured and evaluated as an indicator of (a) biologic processes or (b) drug response. Biomarkers allow identification of who will benefit from which treatment and is at risk of adverse side effects ('Personalised Medicine'). Brain Biomarkers can be derived from measures including from genetics, brain and cognitive functions.*

Operational Review

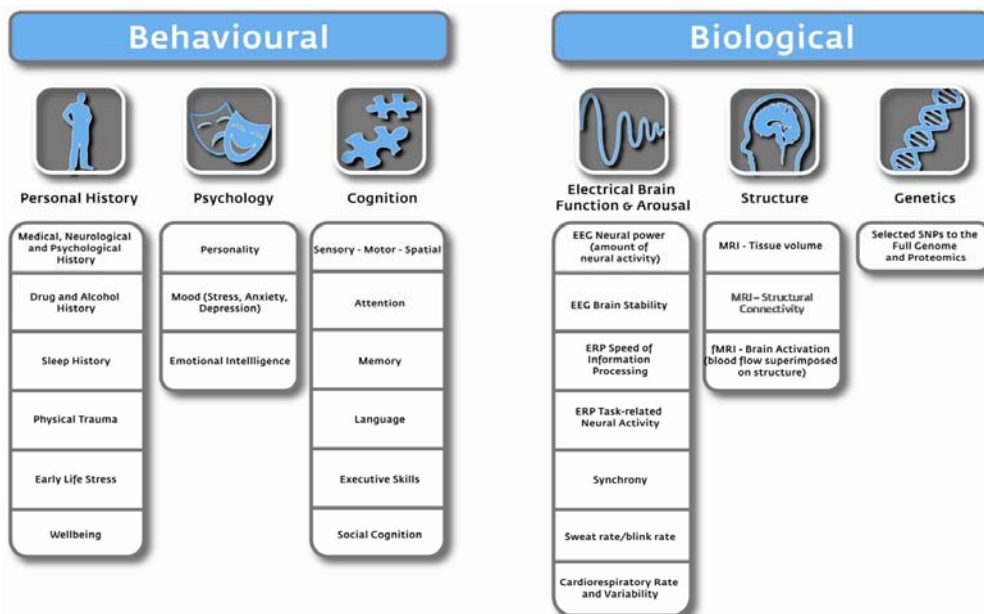
1. BRC's differentiating Intellectual Property: Standardisation, Integration and Scale

"Today, diagnosis of psychiatric disorders is based on symptom presentation. There are no diagnostic tests to distinguish an initial presentation of depression from the onset of bipolar disorder or other conditions. Identification of such Biomarkers would improve clinical trials by making it possible for sponsors to enrol only those patients with the target condition. Similarly, any successful treatments could better target a patient's disease in clinical practice." Source: Food & Drug Administration April 2006.

The diagnosis and classification of psychiatric diseases currently relies on observation of signs and symptoms. In many instances a diagnosis is formed based principally on a patient's report as to his or her perception of his or her (or their child's) symptoms to a clinician. This subjectivity affects the selection (or non selection) of medications by the clinician for the particular disorder. This problem flows through to new drug development. An absence of precise evidence-based Biomarkers for the disease being targeted and how it affects individuals, within population groups, introduces uncertainties in quantifying drug effectiveness.

The problem is compounded by there being no single technology with the requisite breadth to observe and capture the full spectrum of brain function. Brain function and behaviour is a subtle and complex interplay between nature (genetics) and nurture (experience) and thus requires many technologies and large diverse databases to accurately identify robust Biomarkers.

BRC's database brings together a wide range of technologies (see diagram below) and standardises how they are used, providing a reference frame to measure and extract meaningful patterns from the data. It has the breadth and depth (a wide mix of subjects including normal, clinical before/after medication and in a wide range of disorders) requisite to identify real, significant and relevant Biomarkers.



Operational Review

2. Sectoral transformations underway

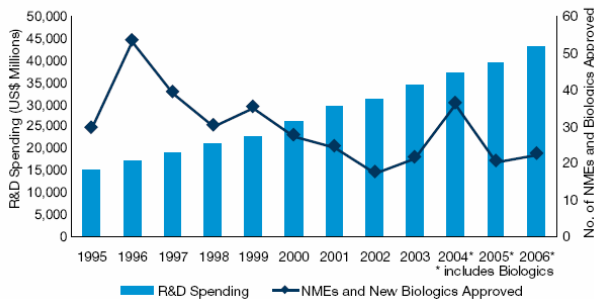
BRC is ideally positioned to capitalise on the wave of transformations underway in healthcare. Transformative changes are being driven by the ongoing acceptance of Personalised Medicine, overall rising costs of healthcare and problems in the drug development pipeline. There is also the newly emergent trend of risk sharing drug costs.

We have pre-empted the extent to which Personalised Medicine would begin to impact healthcare (refer to BRC's Annual Reports starting from 2004 and a discussion paper written in April 2004) and the following is restricted to the latter two trends only. It is however worth noting that the FDA has recently (August 16, 2007 press release) approved a label change to a widely used blood thinning drug (Warfarin) which explains that people's genetic makeup may influence their response and that genetic testing may help optimise its use (including dosing) and lower the risk of associated complications (this drug is flagged as the second most common drug – after insulin – implicated in emergency room visits for adverse drug events).

2.1 New drug development pipeline problem

All three of these issues have also been well covered in detail in a recent report (PriceWaterhouseCoopers Pharma 2020: The Vision - <http://www.pwc.com>) which concluded, among other things, that there is the need to improve new drug research and development productivity. The following graphs from that report show: (a) R&D spending continues to grow disproportionately to new drug approval; and (b) new drugs are not being developed at sufficient a pace to replace existing drugs coming off patent - for example Pfizer has 41% of revenues exposed in the next few years.

Figure 2: R&D spending has soared but the number of NMEs and biologics approved by the FDA is down



Sources: FDA/CDER Data, PhRMA data, PricewaterhouseCoopers analysis
 Note: Data on R&D spending for non-PhRMA companies are not included here, because they are not available for all 11 years

Table 1: The leading pharmaceutical companies will lose between 14% and 41% of their existing revenues as a result of patent expiries

Company	2010	2011	2012	Share of Revenues (%)
AstraZeneca	Arimidex (\$2.2bn)*	Seroquel (\$4.7bn)	Symbicort (\$3.7bn)	38**
BMS		US Plavix (\$4.8bn) Avapro (\$1.3bn)	Abilify (\$2.1bn)	30
GSK	Advair (\$3.8bn)		Avandia (\$2.5bn)	23
Eli Lilly		Zyprexa (\$4.8bn)		22
Merck	Cozaar/ Hyzaar (\$3.2bn)		Singulair (\$4.5bn)	22
Novartis	Femara (\$1.1bn)		Diovan (\$6.0bn)	14
Pfizer	Aricept (\$800m)	Lipitor (\$12.1bn) Xalatan (\$1.6bn)	Viagra (\$1.7bn) Detrol (\$860m) Geodon (\$1.1bn)	41
sanofi-aventis	Taxotere (\$2bn)	US Plavix (\$3.8bn) Avapro (\$2.1bn)	Lovenox (\$3.1bn)	34

Source: AXA Framlington
 Notes: * Estimate of global sales in 12 months prior to patent signing
 ** Value of products losing patent protection as a percentage of total company sales over next five years

2.2 Risk sharing drug costs

In one of the most interesting recent emergent trends, the Economist reported ('Beyond the Blockbuster' in the 28 June 2007 edition) that Britain's National Institute for Health and Clinical Excellence (NICE) agreed to buy a cancer treatment made by a global pharmaceutical company that has little effect on a third of patients, on the condition that it would only pay when the drug works. Similar discussion was also contained in the abovementioned Pharma 2020 report of a deal where another global pharmaceutical company had agreed with European Governments to adjust the pricing based on efficacy and cost effectiveness of the two new drugs supplied.

Operational Review

2.3 BRC positioned to capitalise

BRC is uniquely positioned to capitalise on all three trends. While this risk sharing approach is one that health care funders will no doubt find attractive, the challenge will be setting robust benchmarks against which to assess performance and then getting both parties to agree. BRC is positively contributing through application of its methodology to improving evidence-based analysis and also developing robust Biomarkers – which in part could prove useful in benchmarking, not to mention treatment benefits.

3. BRC Current Products

BRC tests brain function and gets paid for delivering analysis reports and services to pharmaceutical companies (eg: showing effects of their drug on the brain) and to clinicians and related health care management and insurance providers (eg: using Biomarkers from our tests to direct clients to their most likely treatment solutions).

BRC's proprietary methodology comprises: (1) standardised data acquisition hardware; (2) standardised data acquisition software; (3) standardised data processing; and (4) new brain analysis methods. This ensures consistency of all subject data and delivers processing efficiencies. Data collected anywhere in the world is sent via the internet to BRC for centralised data processing, using BRC's high throughput analysis engines, and report generation.

These services are offered on three data acquisition platforms, depending on customer needs (in order of increasing sophistication and decreasing ease of use) and in multiple languages:

- Web
- Touchscreen
- Laboratory.

Report generation includes comparison of the individual data to a matched reference group in the database, highlighting any statistically significant deviations, to produce personalised Biomarker profiles.

4. BRC new products – 'Wellbeing'

Wellbeing is about Prevention, which is far better and typically far less costly than a cure. Early identification of problems increases the chance of there being interventionist measures that could help keep a person away from requiring a clinical intervention. BRC's Behavioural Risk Management System has emerged from our scientific resources and database approach to provide a tool which screens, streams and monitors – and also helps to identify personalised solutions. The three levels of assessment are:

- baseline screening of a large population for social cognition (anxiety and mood problems);
- for those flagged with social problems, an assessment is then conducted into their level of general cognitive disability (e.g. memory, attention, emotion recognition, speed) allowing appropriate streaming into treatment groups; and

Operational Review

- regular monitoring of both social and general cognition capacity after they begin treatment to measure treatment outcome. Those not flagged in the initial broad screening are reevaluated every 12 months, the others every three to six months.



BRC has also commenced using its benchmarking tools to help match the individual to a ranked order taken from the wide range of solutions that are available in the market, for example cognitive behavioural therapy (CBT) or Interpersonal Therapy (IPT) computer programs.

BRC recently started working in the US with a major Managed Care provider in a pilot program for Depression in the workforce. This uses BRC's computerised health risk assessments and other sophisticated questionnaires to identify employees who may be at risk of depression and stress. They are then streamed for diagnosis, support and treatment, improving outcomes, productivity and cost efficiencies.

5. Biomarker development - iSPOT \$18m contract

Biomarkers are fundamental to the transformations discussed above and are expected to play an increasing role all in all aspects of monitoring and treating brain behaviour. Also, as discussed above, BRC is uniquely positioned to develop Brain Biomarkers and has established a competitive advantage in being able to efficiently do this. This study termed the "International Study to Identify Biomarkers that allow the Prediction of Optimised Treatment Response" ('iSPOT') is focussed on Depression and Attention Deficit Hyperactivity Disorder. It is a transformative event for BRC expected to enhance our current capabilities to capitalise on, and place us at the forefront of, these changes.

Operational Review

As previously mentioned, the diagnosis and classification of psychiatric diseases currently relies on observation of signs and symptoms and accordingly has a high degree of subjectivity. Selection (or non selection) of medications by the clinician for the particular disorder is also subjective. For example, there are currently no reliable Biomarkers or valid behavioral tests which define the precise nature of Depression or ADHD, and a recent review of the psychometric properties of a commonly used scale (HAMD) that rates patient responses for Depression, concluded that the test was both psychometrically and conceptually flawed. Given the numbers suffering from these disorders, there is a need for valid novel objective measures and/or Biomarkers, tied to the underlying biology, which are sensitive to an individual's particular needs and that can reliably predict treatment response or non-response for a particular individual.

Delivery of meaningful outcomes requires iSPOT data to be collected (a) from large subject numbers pre and post medication and (b) using a wide variety of data acquisition technologies for each subject. The aim is to identify both evidence-based diagnostic and treatment predictive Brain Biomarkers (using four drugs selected from those currently on the market). iSPOT is to be conducted internationally at many sites including in the US, UK, Australia and others and will acquire integrative data from many thousands of subjects. BRC's standardised and integrated approach and breadth of technologies has the capabilities to deliver the requisite unprecedented scale of this study.

Successful identification of these Brain Biomarkers would have widespread benefit. The efficiencies of clinical drug trials could be enhanced, by making it possible for sponsors to enrol only those patients with the target condition and to better assess progress. Similarly, Biomarkers could better enable clinicians to target a patient's disease and help to match the right drug to that person, thereby delivering significant cost and treatment efficiencies.

6. Discussion of 2007 performance

6.1 Continued revenue growth

Sales (A\$)	2007	2006	Growth
Drug Trials	1,712,707	868,464	97%
Reports	362,209	249,920	45%
Drug Trials and reports	2,074,916	1,118,384	86%
Equipment	311,477	198,135	57%
Total Sales	2,386,393	1,316,519	81%
Government grant (Export Market Development)	150,000	250,000	-40%
Interest received - other persons/corporations	483,285	266,354	81%
Total revenues from ordinary activities	3,019,678	1,832,873	65%

BRC's current revenues are derived from data processing and analysis for drug trials and reports.

Operational Review

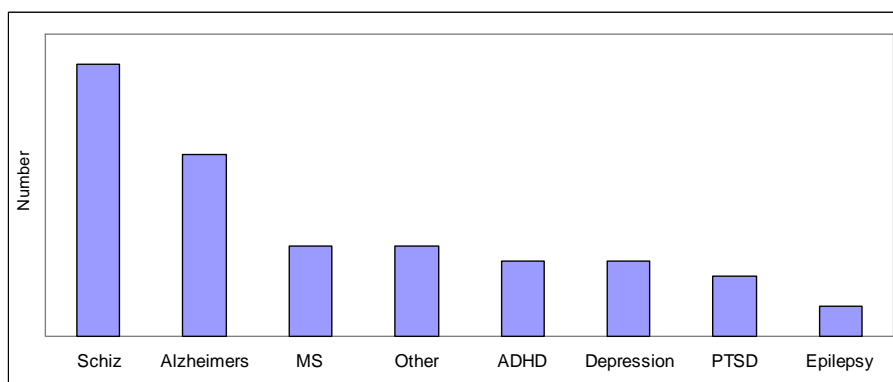
(a) Drug Trials

During the current year, BRC both delivered on trials and added eight new ones, including repeat business from major global pharmaceutical companies (to date we have added just under 30 new trials including from 12 global pharmaceutical companies).

The following table summarises the current status of trials.

Completed in current year:	Contracted & ongoing:
Merck	Johnson & Johnson
AstraZeneca	GlaxoSmithKline
Solagran	Equazen
Bristol Myers-Squibb	Aspect Medical Systems
	Universities of Pennsylvania, Yale and UMDNJ (pharma funded)
Completed in Prior year:	
GlaxoSmithKline	AstraZeneca
Astra Zeneca	Schering
Biogen	UCB
Bristol Myers-Squibb	European Private Biotech

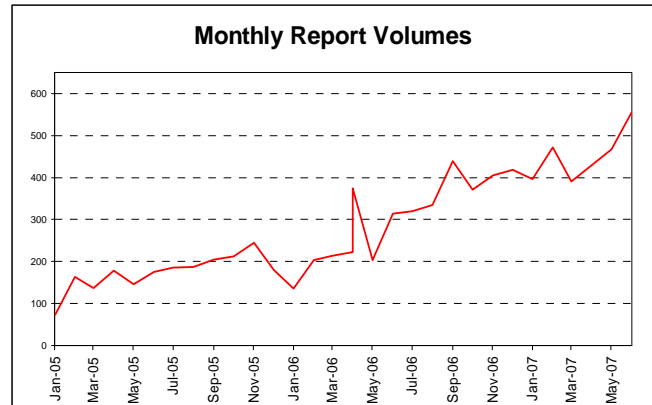
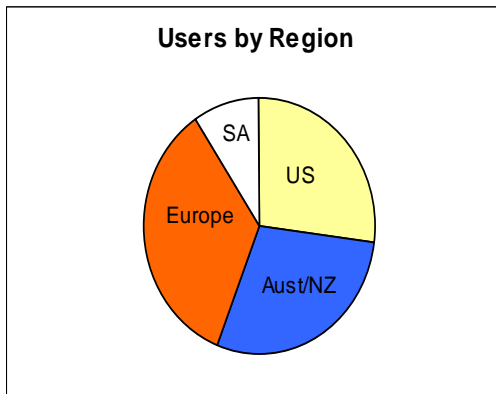
Trials have covered more than 8 disorders (see below) and have been commissioned from/undertaken in Australia, Europe, UK and the US.



(b) Reports

BRC has a wide range of users of its cognitive assessment services, ranging from clinical (aid to diagnosis) to neurofeedback (aid to determining what brain deficit to retrain and to monitor progress), numbering more than 150 in 9 countries. Active users and report volumes both close to doubled during the current year. A significant factor in this growth was the introduction of the relatively low cost internet version of our cognitive tests (WebNeuro) which enabled a significant increase in addressable market. Its lower cost however impacted our average revenue per report.

Operational Review



(c) Equipment sales

Equipment sales relate to the Laboratory equipment or Computerised Touchscreens that are needed for clients to acquire data and to access BRC's data analysis services. The majority of these sales were from components for 10 new laboratories, with 5 to be commissioned in the second half of the calendar year.

(d) Other

The reduction in Government grants was due to the 2006 amount including an under provision in 2005.

6.2 Cost increases commensurate with revenue growth

Expenses (A\$)	2007	2006	Growth %
Cost of sales - third party costs & commissions	843,579	450,451	87%
Depreciation and Amortisation	101,084	93,834	8%
Corporate (insurance, legal, accounting, listing)	483,764	310,740	56%
Office (rent, supplies & miscellaneous)	290,500	226,805	28%
Salaries	1,927,029	1,758,394	10%
Marketing and agent support	428,880	337,974	27%
Communications	89,428	82,651	8%
Travel	256,571	214,981	19%
Foreign Exchange Losses	258,718	(5,793)	NM
Share based payments	38,315	12,146	215%
Other	109,185	128,973	-15%
Total Expenses	4,827,053	3,611,156	34%

The major factors driving increases, other than those directly driven by sales growth such as cost of sales, were:

- Significant direct costs associated with new business – estimated at above \$200,000 spread among categories, but particularly impacting Corporate.
- Foreign exchange losses of \$258,000 arose primarily from our US\$ holdings - our policy is to align our currency holdings with expected future expenditures.
- Share based payments increased due to the issue of options during the current year.

Operational Review

6.3 Operating loss unchanged

Loss (A\$)	2007	2006	Growth %
Loss after tax	1,454,578	1,438,283	1%

The loss was curtailed to prior levels despite the abovementioned increases in costs, the positive impacts of these expenditures expected to flow through in the coming year.

6.4 Capital expenditures

Capital expenditures mainly comprises the database and internal development costs.

As at	30/6/2005	30/6/2006	30/6/2007
Total current monthly capex (\$)	43,608	55,254	91,792
Growth relative to prior 12 months	5%	27%	66%

The increase this year was due to funded database growth, in particular in two disorders. Normalising for this aspect, the increase was closer to 25%.

6.5 Cash balance

	Jun-07	Jun-06
Net cash flows from operating activities	16,619,314	(1,521,416)
Net cash flows from investing activities	(1,044,734)	(663,050)
Net cash flows from financing activities	1,821,936	1,634,510
Net increase (decrease) in cash	17,396,516	(549,956)
Closing cash balance	21,306,760	3,910,244

The above reflects in part the upfront advance payment from the iSPOT contract.

6.6 Summary of financial data for successive 6 month periods

	Dec-05	Jun-06	Dec 06	Jun 07
Sales	493,193	823,326	926,969	1,459,424
	-38%	67%	13%	57%
Expenses	(1,720,666)	(1,890,490)	(2,236,783)	(2,590,270)
	2%	10%	18%	16%
Loss pre tax	(968,398)	(809,885)	(1,103,794)	(703,581)
	37%	-16%	36%	-36%
Operating expenses / month*	246,038	263,083	309,011	288,549
	11%	7%	17%	-7%
Net cash consumption / month	174,113	189,966	(269,276)	(210,267)
	220%	9%	42%	-22%

* (ex Cost of Sales, Depreciation & Amortisation and share based payments)

The previous seasonality trends continued in 2007, with the pre tax loss continuing to show a reducing trend.

Operational Review

7. Outlook

BRC closed the financial year with over \$20m of drug trial and Biomarker development contracts on hand, providing a relatively high degree of certainty of future revenues.

As discussed above, a large part of this is iSPOT. This contract is expected to have a duration of around 5 years. Revenues and expenses are expected to be brought to account in line with contract milestones being achieved and expenses incurred. Our current expectation is that iSPOT profitability, if any, will only be brought to account once the contract is well under way and there is a relatively greater visibility over expenditures and how they are tracking initial budgets.

Together with our expectation that we will continue to win new drug trial and other business, this should see ongoing revenue growth transform. We have numerous new contracts under discussion and also have recently been asked to apply for consideration as preferred suppliers by two of the major pharmaceutical companies. In this regard, the compliance of our Quality Management System was recently successfully audited.

We are therefore cautiously optimistic about future prospects. Having this level of contracts on hand delivers us a particular certainty over future plans and this in turn increases our ability to efficiently manage resources and align focus. While costs are expected to substantially increase as iSPOT commences, as will revenues, our overall profitability should benefit from: (1) no longer having the need to invest outside of iSPOT into Biomarker development (not all of this previous cost was being capitalised); and (2) with growth, we can be relatively more mindful over new work we take on and associated margins.

FINANCIAL STATEMENTS AND REPORTS
YEAR ENDED 30 JUNE 2007

REPORT OF THE DIRECTORS

Your Directors submit their report for the year ended 30 June 2007.

DIRECTORS

The following persons held office as directors during or since the end of the financial year.

Dr Evian Gordon, BSc (Hons), PhD, MBBCh (Chairman and Chief Executive Officer)

Dr Gordon has over 20 years of experience in human brain research. He was the director of the Brain Dynamics Centre at Westmead Hospital and a senior lecturer in the Department of Psychological Medicine at the University of Sydney. He edited the book "Integrative Neuroscience" and has more than 160 publications.

Dan Segal, BCom, CA, BSc (Hons) MSc (Chief Operating Officer)

Dan Segal has worked in the accounting and finance industry for more than a decade. He has previously worked for Arthur Andersen and Salomon Smith Barney where he was a Director in the Equities Research Department. He has been a member of the Institute of Chartered Accountants since 1986.

The Hon Paul Keating, (Non-Executive Director)

The Hon Paul Keating was Prime Minister of Australia from 1991 to 1996. As both Treasurer and Prime Minister, he was the driver of a period of fundamental economic reform and social re-orientation. Since leaving office, he has maintained a close interest in the policy issues with which he was associated in office.

Nestor Hinzack, BEc, FCPA, FSIA (Non-Executive Director)

Nestor Hinzack has over 30 years experience in stockbroking as a partner and director of several major stockbroking firms. His background is predominantly in research as both analyst and as a research manager, though his experience extends to corporate, institutional and private client advisory roles.

Professor Arthur Toga, PhD (Non-Executive Director and Chairman of the Scientific Advisory Committee)

Professor Toga is a Professor of Neurology and Director of the Neuroimaging Laboratory at UCLA. As co-principal investigator of The International Consortium for Brain Mapping, he pioneered the use of databases for brain structure. He is Founding Editor of "Neuroimage", a leading scientific journal in the field of brain imaging.

Russell Jamison, BA, LLB (Non-Executive Director)

Russell Jamison has practiced as a Barrister, Solicitor and Notary Public for the past 30 years. He is the author of a legal text book and manages his own business with over 50 employees.

Brian Joffe CA (SA) (Non-Executive Director)

Brian Joffe founded The Bidvest Group Limited and is its current Chief Executive. Bidvest is a South African based company, listed on the Johannesburg Securities Exchange, with international operations generating more than A\$10bn of revenues and employing more than 80,000.

COMPANY SECRETARY

Robert Waring BEc, CA, FCIS, ASIA, FAICD. Robert Waring has more than 30 years experience in financial and corporate roles including more than 15 years in company secretarial roles for ASX listed companies.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

Directors' interests in shares and options as at 30 June 2007 and at the date of this report are set out in the remuneration report and Note 16 to the financial statements.

ACTIVITIES

The principal continuing activity of the Company is the provision of brain function analysis services.

RESULTS

The net consolidated result of operations after applicable income tax benefit was a loss of \$1,454,578 (2006: \$1,438,283).

DIVIDENDS

No dividends were paid or proposed during the year.

REPORT OF THE DIRECTORS

REVIEW OF OPERATIONS

A review of the operations of the Company during the financial year and the results of those operations are contained in the Operational Review section of this report.

CORPORATE STRUCTURE

The Brain Resource Company Limited is a company incorporated and domiciled in Australia. Three wholly owned subsidiaries BRC Operations Pty Limited, BRC IP Pty Limited and BRC Franchising Pty Limited were incorporated in November 2001 and began to act as the operating companies from that date. As of 17 March 2005, BRC Franchising Pty Limited changed its name to BRC Distribution Pty Limited. A new wholly owned subsidiary, BRC International Pty Ltd was incorporated 16 August 2006.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Directors are not aware of any significant changes in the state of affairs of the Company occurring during the financial year, other than as disclosed in the operational review provided in this report.

MATTERS SUBSEQUENT TO END OF FINANCIAL YEAR

Directors are not aware of any significant matters which have arisen subsequent to the end of the financial year and which have significantly affected, or may significantly affect, the operations, the results or the state of affairs of the company in future financial years.

LIKELY DEVELOPMENTS AND FUTURE RESULTS

As the Company's business plan of commercialising brain function analysis is at an early stage it is not possible to accurately postulate likely developments and expected results other than as described in the Operational Review.

DIRECTORS' EMOLUMENTS

- i) Remuneration policy: Please refer to the report below for remuneration policy and details of Director emoluments paid by the Company and Consolidated entity during the year to 30 June 2007.
- ii) Valuation of Directors options: Directors were granted a total of 3.5 million options at the 2006 Annual General Meeting with a 50 cents exercise price which represented a significant premium to the last sale price of 25 cents per share at the time of notification.
- iii) Executive Officers: There are no executive officers other than the executive directors disclosed below in the remuneration report.

SHARE OPTIONS

Details of share options are disclosed in Note 13.

REMUNERATION REPORT

i) Remuneration Policy

The Company has in place a remuneration committee, comprising two non executive directors Mr Hinzack and Mr Jamison, who review the remuneration of all Directors and executives. The Committee seeks independent external advice and market comparisons as necessary but Directors believe that the size of the Company makes individual salary negotiation more appropriate than formal remuneration policies. Remuneration levels, including participation in the Company's Share Option Scheme, are set to provide reasonable compensation in line with the Company's financial resources. During the prior year, the committee recommended and the Board approved an increase in all Directors fees of 10%, effective 1 July 2006. This is the first such increase since the company's inception.

Non Executive Directors are encouraged by the Board to hold shares in the Company.

During the year no director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

- ii) Director emoluments paid by the Company and Consolidated entity during the year to 30 June 2007:

REPORT OF THE DIRECTORS

	Primary Salary & Fees	Post Employment Superannuation	Other Equity Options	Total
2007 Executive Directors:				
E Gordon	165,000	14,850	1,735	181,585
D Segal	137,500	12,413	867	150,780
Total	302,500	27,263	2,602	332,365
2007 Non-Executive Directors:				
N Hinzack	11,000	495	434	11,929
P Keating	11,000	495	2,602	14,097
A Toga	11,000	-	434	11,434
R Jamison	11,000	495	-	11,495
B Joffe	11,000	-	-	11,000
Total	55,000	1,485	3,470	59,955
2006 Executive Directors:				
E Gordon	150,000	13,500	-	163,500
D Segal	125,000	11,287	-	136,287
P Wodtke	25,000	-	6,240	31,240
Total	300,000	24,787	6,240	331,027
2006 Non-Executive Directors:				
N Hinzack	10,000	-	-	10,000
P Keating	10,000	-	-	10,000
A Toga	10,000	-	-	10,000
R Jamison	10,000	-	-	10,000
B Joffe	10,000	-	-	10,000
Total	50,000	-	-	50,000

Services provided by Non Executive Directors were under normal commercial terms and conditions. There are continuous service agreements in place with the Executive Directors, Evian Gordon and Dan Segal, which set out a base salary and require 12 months notice to be given or the equivalent payment in lieu to be given upon termination by the company of such agreements. No other benefits either short term or long term have been received or are receivable by Directors. There were no other executives other than those mentioned above. As noted in the 2006 Annual Report, all Directors fees increased 10% effective 1 July 2006 and superannuation was accrued for domestic non executive directors commencing 1 January 2007. No long term benefits or termination benefit payments were made to Directors during the year.

iii) Directors' Shareholdings and Options as at 30 June 2007 (audited):

Name	Ordinary Shares Fully Paid		Options over Ordinary Shares	
	2007	2006	2007	2006
Evian Gordon	11,356,248	11,356,248	1,000,000	1,000,000
Dan Segal	6,131,543	6,131,543	500,000	500,000
Paul Keating	575,000	575,000	1,500,000	1,500,000
Nestor Hinzack	605,000	605,000	250,000	250,000
Peter Wodtke	100,000	100,000	250,000	250,000
Russell Jamison	-	-	-	-
Arthur Toga	287,500	287,500	250,000	250,000
Brian Joffe	2,880,000	2,880,000	-	-
	21,935,291	21,935,291	3,750,000	3,750,000

See Note 13c for the terms of the above options.

No additional shares have been issued to Directors during the current year. No additional shares or options have been issued since year end up to the date of this report.

REPORT OF THE DIRECTORS

Shares and options held by Directors include those held by the Directors and their director-related entities, including the spouses of such directors and relatives of such Directors. All shares and options, excluding those under Employee Share Option Scheme, were issued or granted on terms no more favorable than to other shareholders or option holders.

Except for the directors, the company has no other executives.

MEETINGS OF DIRECTORS

During the year to 30 June 2007 the Company's Directors held 4 Board meetings. E Gordon, D Segal, R Jamison and N Hinzack were in attendance at all of the meetings. P Keating attended 3. B Joffe and A Toga are not resident in Australia and all were kept up to date with the company's activities through regular email and telephone briefings.

Directors, Messrs D Segal and N Hinzack are members of the Company's Audit Committee. The Committee reviews the Company's financial systems, accounting policies, half-year and annual financial statements. There were two Audit Committee meetings during the current year and both Directors attended both meetings.

Directors, Messrs N Hinzack and R Jamison are members of the Company's Remuneration Committee. There was one Remuneration Committee meeting during the current year and both Directors attended.

EMPLOYEES

There were 36 people working for the consolidated entity, based on the June 2007 payroll, being a mixture of full time staff, permanent part time and casuals (2006:40). This equated to around 29 full time equivalent employees (2006:28).

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has paid a premium in respect of a contract insuring all the Directors against a liability incurred as an officer for certain costs or expenses to defend legal proceedings. The insurance contract prohibits the disclosure of the total amount of the premiums and a summary of the nature of the liabilities. The Company has not otherwise, either during or since the end of the financial year, indemnified or agreed to indemnify an officer of the company or any related body corporate against a liability incurred as such an officer.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Company is not aware of any specific requirements, as issued by the relevant environmental protection authorities, with which it has to comply.

AUDITOR INDEPENDENCE

The Directors have received a declaration of independence from the auditors, which is included on the following page. Non audit services were also provided by the companies auditors. The Directors are satisfied that the provision of non audit services (accounting advice amounting to \$10,000) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

Signed in Sydney on 22 August 2007 in accordance with a resolution of the Directors.



Dr Evian Gordon
Chairman of Directors

AUDITOR INDEPENDENCE



■ Ernst & Young Centre
680 George Street
Sydney NSW 2000
Australia

GPO Box 2646
Sydney NSW 2001

■ Tel 61 2 9248 5555
Fax 61 2 9248 5959
DX Sydney Stock
Exchange 10172

Auditor's Independence Declaration to the Directors of The Brain Resource Company Limited

In relation to our audit of the financial report of The Brain Resource Company Limited for the financial year ended 30 June 2007, 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.

A handwritten signature in cursive script that reads "Ernst + Young".

Ernst & Young

A handwritten signature in cursive script that reads "J K Haydon".

J K Haydon
Partner
22 August 2007

Liability limited by a scheme approved under
Professional Standards Legislation.

INCOME STATEMENT

Year ended 30 June	Note	Consolidated		BRC	
		2007 \$	2006 \$	2007 \$	2006 \$
REVENUE AND OTHER INCOME	2	3,019,678	1,832,873	-	-
Cost of equipment and third party drug trial costs	3	(843,579)	(450,451)	-	-
Depreciation and amortisation	3	(101,084)	(93,834)	-	-
Insurance and professional fees		(483,764)	(310,740)	-	-
Rent, supplies & office costs		(290,500)	(226,805)	-	-
Salaries		(1,927,029)	(1,758,394)	-	-
Marketing and agent support		(428,880)	(337,974)	-	-
Communications		(89,428)	(82,651)	-	-
Travel		(256,571)	(214,981)	-	-
Foreign Exchange (Losses)/ Gains		(258,718)	5,793	-	-
Share based payments		(38,315)	(12,146)	(38,315)	(12,146)
Other		(109,185)	(128,973)	(1,510)	298
Provision for non recovery	3	-	-	(1,250,000)	(1,650,000)
TOTAL EXPENSES		(4,827,053)	(3,611,156)	(1,289,825)	(1,661,848)
LOSS BEFORE INCOME TAX BENEFIT		(1,807,375)	(1,778,283)	(1,289,825)	(1,661,848)
INCOME TAX BENEFIT	4	352,797	340,000	-	-
LOSS AFTER INCOME TAX BENEFIT	14	(1,454,578)	(1,438,283)	(1,289,825)	(1,661,848)
NET LOSS ATTRIBUTABLE TO MEMBERS OF THE BRAIN RESOURCE COMPANY LIMITED		(1,454,578)	(1,438,283)	(1,289,825)	(1,661,848)
Basic loss per share (cents per share)	15	(1.6)	(1.7)		
Diluted loss per share (cents per share)	15	(1.6)	(1.7)		

BALANCE SHEET

At 30 June	NOTE	Consolidated		BRC	
		2007 \$	2006 \$	2007 \$	2006 \$
CURRENT ASSETS					
Cash & Cash Equivalents	22	21,306,760	3,910,244	4,865	4,505
Receivables	6	1,721,849	2,326,519	-	-
Inventories	7	81,942	155,844	-	-
Other	10	732	8,034	-	-
TOTAL CURRENT ASSETS		23,111,283	6,400,641	4,865	4,505
NON-CURRENT ASSETS					
Receivables	6	37,999	37,999	8,593,371	9,527,348
Plant and equipment	8	422,773	319,708	-	-
Intangibles	9	4,609,341	3,711,982	-	-
Deferred tax asset	4	350,000	-	-	-
Other	10	1,110	910	400	300
TOTAL NON-CURRENT ASSETS		5,421,223	4,070,599	8,593,771	9,527,648
TOTAL ASSETS		28,532,506	10,471,240	8,598,636	9,532,153
CURRENT LIABILITIES					
Payables	11	2,043,105	381,175	-	4,043
Provisions	12	193,078	163,871	-	-
TOTAL CURRENT LIABILITIES		2,236,183	545,046	-	4,043
NON-CURRENT LIABILITIES					
Payables	11	17,451,838	-	-	-
Provisions	12	82,747	70,229	-	-
TOTAL NON-CURRENT LIABILITIES		17,534,585	70,229	-	-
TOTAL LIABILITIES		19,770,768	615,275	-	4,043
NET ASSETS		8,761,738	9,855,965	8,598,636	9,528,110
EQUITY					
Contributed equity	13	16,805,302	16,483,266	16,805,302	16,483,266
Accumulated losses	14	(8,132,111)	(6,677,533)	(8,295,213)	(7,005,388)
Other Reserves	14	88,547	50,232	88,547	50,232
TOTAL EQUITY		8,761,738	9,855,965	8,598,636	9,528,110

CASH FLOW STATEMENT

Year ended 30 June	Note	Consolidated		BRC	
		2007 \$	2006 \$	2007 \$	2006 \$
CASH FLOWS FROM OPERATIONS					
Receipts from customers		19,716,371	1,207,209	-	539
Payments to suppliers and employees		(3,923,139)	(3,345,628)	(5,553)	(241)
Income tax received		342,797	350,649	-	-
Interest received		483,285	266,354	-	-
NET CASH FLOWS PROVIDED BY/ (USED IN) OPERATING ACTIVITIES	22	16,619,314	(1,521,416)	(5,553)	298
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of plant and equipment		(147,376)	(44,609)	-	-
Development of database and analysis tools		(897,359)	(618,441)	-	-
Loans to subsidiaries		-	-	(1,816,023)	(1,635,038)
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES		(1,044,734)	(663,050)	(1,816,023)	(1,635,038)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		1,821,936	1,634,510	1,821,936	1,634,510
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		1,821,936	1,634,510	1,821,936	1,634,510
Net increase/ (decrease) in cash & cash equivalents held		17,396,516	(549,956)	360	(230)
Add opening cash & cash equivalents brought forward		3,910,244	4,460,200	4,505	4,735
CLOSING CASH & CASH EQUIVALENTS CARRIED FORWARD	22	21,306,760	3,910,244	4,865	4,505

STATEMENT OF CHANGES IN EQUITY

	Attributable to the shareholders of The Brain Resource Company Limited			
	Contributed Equity	Accumulated Losses	Other Reserves	Total Equity
	(note 13)	(note 14)	(note 14)	
	\$	\$	\$	\$
Consolidated				
At 1 July 2005	13,348,856	(5,239,250)	38,086	8,147,692
Total income and expense for the year recognised directly in equity	-	-	-	-
Loss for the year	-	(1,438,283)	-	(1,438,283)
Total income and expense for the year	-	(1,438,283)	-	(1,438,283)
Issue of share capital	3,134,410	-	-	3,134,410
Cost of share based payments taken directly to Equity	-	-	12,146	12,146
At 30 June 2006	16,483,266	(6,677,533)	50,232	9,855,965
Total income and expense for the year recognised directly in equity	-	-	-	-
Loss for the year	-	(1,454,578)	-	(1,454,578)
Total income and expense for the year	-	(1,454,578)	-	(1,454,578)
Issue of share capital	322,036	-	-	322,036
Cost of share based payments taken directly to Equity	-	-	38,315	38,315
As at June 30 2007	16,805,302	(8,132,111)	88,547	8,761,738
Parent				
At 1 July 2005	13,348,856	(5,343,540)	38,086	8,043,402
Total income and expense for the year recognised directly in equity	-	-	-	-
Loss for the year	-	(1,661,848)	-	(1,661,848)
Total income and expense for the year	-	(1,661,848)	-	(1,661,848)
Issue of share capital	3,134,410	-	-	3,134,410
Cost of share based payments taken directly to Equity	-	-	12,146	12,146
At 30 June 2006	16,483,266	(7,005,388)	50,232	9,528,110
Total income and expense for the year recognised directly in equity	-	-	-	-
Loss for the year	-	(1,289,825)	-	(1,289,825)
Total income and expense for the year	-	(1,289,825)	-	(1,289,825)
Issue of share capital	322,036	-	-	322,036
Cost of share based payments taken directly to Equity	-	-	38,315	38,315
As at June 30 2007	16,805,302	(8,295,213)	88,547	8,598,636

NOTES TO AND FORMING PART OF THE ACCOUNTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report of The Brain Resource Company Limited (the Company) for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors on 22 August 2007. The Brain Resource Company Limited (the parent) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange. The nature of the operations and principal activities of the Group are described in the Directors' Report.

(a) Basis of preparation

The financial report is a general-purpose financial report, prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis and is presented in Australian dollars.

(b) Statement of compliance

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

Certain Australian Accounting Standards and UIG Interpretations have been recently issued or amended but are not yet effective. These standards have not been adopted by the company for the year ended 30 June 2007. The Directors are in the process of finalising their assessment of the impact of these standards and interpretations to the extent relevant to the company.

(c) Significant accounting judgements, estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

- (i) Impairment of intangible assets - the Company determines whether intangibles are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of intangibles with indefinite useful lives are discussed in Note d(vii).
- (ii) Share-based payment transactions - the Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a binomial model, using the assumptions detailed in Note d(xii).

(d) Summary of significant accounting policies

(i) Basis of consolidation

The consolidated financial statements comprise the financial statements of The Brain Resource Company Limited and its subsidiaries ("the Group"). The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

(ii) Foreign currency translation

Both the functional currency and presentation currency of The Brain Resource Company and its subsidiaries is Australian Dollars (AUD). Transactions denominated in currencies other than AUD are initially recorded at the exchange rates ruling at the date of each transaction. Monetary assets denominated in currencies other than AUD are retranslated at the rate of exchange ruling at the

NOTES TO AND FORMING PART OF THE ACCOUNTS (CONTINUED)

balance sheet date. Non-monetary items that are measured in terms of historical cost in a currency other than AUD are translated using the exchange rate ruling at the date of the initial transaction.

(iii) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(iv) Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(v) Inventories

Inventories are valued at the lower of cost and net realisable value

(vi) Plant and equipment

Plant and equipment is included at cost. Depreciation is provided on a diminishing value basis on all plant and equipment at rates calculated to write off the cost, less estimated residual value at the end of the useful lives of the assets, over those estimated useful lives. The majority of the assets, comprising primarily computer equipment and software, are being depreciated over a three year period. Refer to Note 1 (d)(viii) for recoverability of assets.

(vii) Intangible assets

Intangible assets are capitalised at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. Where amortisation is charged on assets with finite lives, this expense is taken to the income statement. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Research costs are charged against profits in the period in which the expenditure is incurred. Intangible assets with indefinite lives or assets not yet available for use are tested annually for impairment, either individually or at the cash generating unit level. Finite life assets are tested where indicators of impairment exist.

The Brain Resource International Database and associated analysis tools (BRID) is treated as a single integrated asset for presentation, amortisation and impairment testing. As the BRID is still in its development phase it is considered not to be available for use until it operates in the manner intended by management and so any amortisation will not commence until future periods.

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows based on management expectations for the forthcoming five years are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (currently assumed to be 16% (2006: 16%)). A 1% change in the discount rate has around a 2% impact on the value.

These intangible assets have been determined to have indefinite useful lives and the cost model is utilised for their measurement.

(viii) Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Recoverable amount

NOTES TO AND FORMING PART OF THE ACCOUNTS (CONTINUED)

is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(ix) Trade and other payables

Trade and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

(x) 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.

(xi) 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. Interest is recognised when the control of a right to receive is obtained.

a) Drug and Biomarker Trials

Drug and biomarker development trials are typically contract based, with payments to BRC tied to achieving agreed milestones, and do not necessarily lead to the creation of new intellectual property owned by BRC. Milestones can include equipment set-up, completing testing on a selected number of subjects, etc. Revenues are only recognised where the milestones have been met or where the stage of completion can be reliably measured, including as moneys advanced could be refundable if milestones are not met. Accordingly, where payments are received in advance, this is recorded as unearned income until such time as the work to which the payment relates has been completed.

b) Drug and Biomarker development and collaborations

Drug Development and collaborations are distinguished from drug trials by the project directly creating new valuable intellectual property which is owned in whole or in part by BRC. Any payments received by BRC from the collaborating partner for participating in the collaboration are recognised as revenues reflecting the relative stage of project progress and expenditures incurred, as above.

c) Revenues from other operating activities

Revenues from the sale of Reports, other data processing services and Equipment are recognised at the time of invoice.

d) Government grants

An Export Market Development Grant from the Australian Government is recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Amounts are recognised over the period necessary to match the grant on a systematic basis to the cost that it is intended to compensate.

(xii) 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 an Employee Share Option Plan (ESOP) in place which provides benefits to all employees, including senior executives and directors. 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 using a

NOTES TO AND FORMING PART OF THE ACCOUNTS (CONTINUED)

binomial model and the following assumptions: expected volatility of 20.0%, risk-free interest rate of 5.5% and an expected life of 5.0 years.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of BRC ('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, in the opinion of the directors of the Group, 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 above. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(xiii) Income tax

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

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.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets, against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxable authority.

Research and Development tax offsets are refundable tax offsets equivalent to the value of deductions available under the R&D Tax Concession provisions (that is a qualifying company is eligible for a cash rebate and the associated carry forward loss extinguished). To be eligible for this incentive, the total annual R&D spend needs to fall below \$1m.

Where BRC can reliably estimate that R&D expenditure for the full year will fall within this \$1m limit, a tax benefit is recognised as a Receivable. Where this estimate has not been finalised prior to completing the Accounts and is close to this upper limit, the benefit is recognised as a Future Tax Benefit, where in accordance with the abovementioned requirements.

NOTES TO AND FORMING PART OF THE ACCOUNTS (CONTINUED)

(xiv) 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, salaries and annual leave. Liabilities arising in respect of wages, salaries, annual leave and any other employee benefits expected to be settled within twelve 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. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of the following categories: wages and salaries, non-monetary benefits, annual leave and other leave benefits; and other types of employee benefits are recognised against profits on a net basis in their respective categories. Long service leave is provided for after the employees fifth anniversary with an assumption made over the likelihood of that employee achieving their tenth anniversary.

(xv) Leases

Operating lease payments, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased items, are included in the determination of the operating profit in equal installments over the lease term.

(xvi) Earnings per share

Basic earnings per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share amounts are calculated by dividing the net loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of dilutive options and dilutive convertible non-cumulative redeemable preference shares). Potential ordinary shares are treated as dilutive when and only when their conversion to ordinary shares would decrease earnings per share or increase the loss per share from continuing operations.

(xvii) Interest income

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(xviii) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(xix) Investment in subsidiaries

Investment in subsidiaries is recorded at cost less any provision for impairment.

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

30 June	Consolidated 2007 \$	Consolidated 2006 \$	BRC 2007 \$	BRC 2006 \$
2. REVENUE AND OTHER INCOME				
Revenue from operating activities:				
Drug trials	1,712,707	868,464	-	-
Reports and other data processing	362,209	249,920	-	-
Sale of equipment	311,477	198,135	-	-
Other income:				
Government grants	150,000	250,000	-	-
Interest received - other persons/corporations	483,285	266,354	-	-
Total revenues from ordinary activities	3,019,678	1,832,873	-	-
3. EXPENSES FROM CONTINUING OPERATIONS				
Cost of sales (equipment and third party drug trial expense)	843,579	450,451	-	-
Depreciation of non current assets:				
Plant and equipment	101,084	93,834	-	-
Total Depreciation	101,084	93,834	-	-
Operating lease costs (minimum lease payments)	163,798	157,188	-	-
Annual leave	36,616	54,638	-	-
Long Service Leave	5,109	45,644	-	-
Superannuation contributions	186,017	148,168	-	-
Provision for non recovery*	-	-	1,250,000	1,650,000
Net Foreign Currency Loss (Gain)	258,718	(5,793)	-	-
* The provision for non recovery in the parent entity reflect losses incurred in subsidiaries thereby ensuring that the investments held by the parent entity do not exceed the net assets of the subsidiary.				
4. INCOME TAX				
Prima facie income tax (credit) on operating (loss) at 30%	(542,212)	(533,485)	(453)	90
Add: Current year future income tax benefit in respect of tax losses – not recognised	192,212	533,485	453	(90)
Less: Tax benefit receivable – Research and Development tax concession	-	(340,000)	-	-
Adjustments in respect of current income tax of previous years	(2,797)	-	-	-
Income tax benefit recognised	(352,797)	(340,000)	-	-
Current income tax charge	(2,797)	(340,000)	-	-
Deferred income tax	(350,000)	-	-	-
Income tax expense reporting in the income statement	(352,797)	(340,000)	-	-

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

30 June	Consolidated 2007 \$	Consolidated 2006 \$	BRC 2007 \$	BRC 2006 \$
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The R&D Tax Concession is a Commonwealth Government initiative to increase the level of R&D being conducted by Australian companies. It enables companies to deduct up to 125% of eligible expenditure incurred on R&D activities from assessable income when lodging their tax returns. In the prior year, BRC has benefited from claiming the R&D Tax Offset (that is a refundable tax offset), equivalent to the value of the deduction available under the R&D Tax Concession provisions.

The group has recognised a deferred tax asset of \$350,000 as at 30 June 2007 associated with carry forward tax losses and temporary differences. The recognition of the deferred tax asset has been taken as a credit to deferred income tax benefit in the entity which has incurred the tax losses.

The group has a deferred tax liability of \$670,191 due to temporary differences from accelerated tax amortisation on the group's intangibles assets. This has been offset by a deferred tax asset of \$670,191 available from income tax benefits from prior year unused tax losses which are expected to be realised in the periods when the liability will arise.

In addition, the group has income tax benefits arising from temporary differences of \$91,448 and estimated remaining income tax losses of \$963,540.

No franking credits are available for subsequent years (2006: nil). The Brain Resource Company Limited and its 100% owned subsidiaries have not yet determined whether to form a tax consolidated group for income tax purposes.

5. AUDITORS' REMUNERATION

The auditor of The Brain Resource Company Limited is Ernst & Young. Amounts received or due and receivable by Ernst & Young (Australia) for:

Half year review	15,525	13,445	-	-
Full year audit	44,060	30,000	-	-
Accounting advice	10,000	-	-	-
	69,585	43,445	-	-

6. RECEIVABLES

Current

Sale of reports, equipment & drug trials	1,325,704	207,206	-	-
Provision for doubtful debts	(43,750)	(23,750)	-	-
Advances to laboratories for database acquisition	13,205	36,354	-	-
Income tax rebates receivable	-	340,000	-	-
Share placement receivable	-	1,499,900	-	-
Export market development grant receivable	150,000	150,000	-	-
Other receivables	276,690	116,809	-	-
	1,721,849	2,326,519	-	-

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

30 June	Consolidated 2007 \$	Consolidated 2006 \$	BRC 2007 \$	BRC 2006 \$
Non Current				
Sale of equipment receivables	75,999	75,999	-	-
Provision for doubtful debts	(38,000)	(38,000)	-	-
Amounts owing by controlled entities	-	-	16,093,371	15,777,348
Less Provision for non recovery (see note 3)	-	-	(7,500,000)	(6,250,000)
	37,999	37,999	8,593,371	9,527,348

a) Terms and Conditions

- i) Certain equipment sales disclosed in Non Current Assets above were supplied under sale agreements which provided for deferred payment terms of around three years, tied to laboratory performance, which are interest bearing at 6% pa. Interest receivable has been accrued where recovery is certain.
- ii) Current debtors typically have repayment terms of 30 days.
- iii) Amounts owing by controlled entities are payable on demand

7. CURRENT INVENTORIES

Laboratory hardware – at cost	28,157	63,562	-	-
Laboratory software – at cost	7,571	19,728	-	-
Computer touchscreens – at cost	63,980	67,448	-	-
Miscellaneous componentry – at cost	10,567	29,106	-	-
Provision for obsolescence	(28,333)	(24,000)	-	-
	81,942	155,844	-	-

8. PLANT AND EQUIPMENT

	Consolidated \$	Parent \$
At 1 July 2005, net of accumulated depreciation	368,933	-
Additions	44,609	-
Depreciation expense	(93,834)	-
At 30 June 2006 net of accumulated depreciation	319,708	-
At 1 July 2006, net of accumulated depreciation	319,708	-
Additions	204,149	-
Depreciation expense	(101,084)	-
At 30 June 2007, net of accumulated depreciation	422,773	-
At 1 July 2005		
Cost	663,803	-
Accumulated depreciation	(294,870)	-
Net Carrying Value	368,933	-

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

30 June	Consolidated 2007 \$	Consolidated 2006 \$	BRC 2007 \$	BRC 2006 \$
At 30 June 2006				
Cost			708,410	-
Accumulated depreciation			(388,702)	-
Net Carrying Value			<u>319,708</u>	-
At 30 June 2007				
Cost			912,559	-
Accumulated depreciation			(489,786)	-
Net Carrying Value			<u>422,773</u>	-

9. INTANGIBLES – INTERNATIONAL DATABASE AND ASSOCIATED ANALYSIS TOOLS

Development cost at 1 July	4,471,965	3,853,524	-	-
Accumulated amortisation and impairment	(759,983)	(759,983)	-	-
Net Carrying Amount at 1 July	3,711,982	3,093,541	-	-
Additions – internal development	897,359	618,441	-	-
Net Carrying amount at 30 June	<u>4,609,341</u>	<u>3,711,982</u>	-	-

No impairment loss was recognised for continuing operations in either the 2006 or 2007 financial year. Also see Note 11b.

10. OTHER ASSETS

Current

Prepayments	732	8,034	-	-
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Non Current

Deposits	1,110	910	-	-
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Other financial assets – Investments in controlled entities:

BRC Operations Pty Limited	-	-	100	100
BRC International Pty Limited	-	-	100	-
BRC IP Pty Limited	-	-	100	100
BRC Distribution Pty Limited (formerly BRC Franchising Pty Limited)	-	-	100	100
	<u>1,110</u>	<u>910</u>	<u>400</u>	<u>300</u>

All above subsidiaries are 100% owned by The Brain Resource Company Limited and incorporated in Australia. BRC International Pty Limited was incorporated on 16 August 2006.

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

30 June	Consolidated 2007 \$	Consolidated 2006 \$	BRC 2007 \$	BRC 2006 \$
11. PAYABLES				
Current				
Trade creditors	626,216	274,036	-	4,043
Unearned income	1,240,980	49,894	-	-
Other creditors	175,909	57,245	-	-
	2,043,105	381,175	-	4,043
Non Current				
Unearned income	17,451,838	-	-	-
	17,451,838	-	-	-

a) Terms and Conditions

Trade creditors and other creditors are non interest bearing and are normally settled on 30 day terms.

b) Unearned Income

BRC has entered into a Research Contract to identify diagnostic and treatment response brain Biomarkers in two disorders and four drugs. The terms of this agreement includes that the contracted work is being done on an exclusive basis, the project intellectual property is legally owned by the contracting party, the project is to be completed within 15 years, payment for the contract was received in advance but with the condition that this advance is proportionately refundable in the event that BRC fails to complete the project or parts thereof and BRC has been granted a world wide long term license in respect of the project intellectual property (that IP disposed of and also any emergent new IP arising from the project) at an agreed royalty rate. The Research Contract also specifically included the sale of pre-existing intellectual property rights and preliminary findings owned by BRC pertaining to the project. Notwithstanding this legal sale, no sale or disposal is deemed to have occurred from an accounting viewpoint. Accordingly the value of the disposed asset remains in the Intangibles, described in note 9, as described before the transaction occurred. BRC will separately monitor this disposed of asset, from the rest of the Intangibles, for any indicators of impairment.

12. PROVISIONS

Current Employee provisions	193,078	163,871	-	-
Non-Current Employee provisions	82,747	70,229	-	-

13. CONTRIBUTED EQUITY

(a) Share capital

Ordinary shares fully paid – opening balance	16,483,266	13,348,856	16,483,266	13,348,856
Issued during the year	322,036	3,134,410	322,036	3,134,410
Ordinary shares fully paid – closing balance	16,805,302	16,483,266	16,805,302	16,483,266
		Number		Number
Number of ordinary shares – opening balance	90,449,454	78,861,121	90,449,454	78,861,121
Issued during the year	1,150,000	11,588,333	1,150,000	11,588,333
Number of ordinary shares - closing balance	91,599,454	90,449,454	91,599,454	90,449,454

Effective 1 July 1998, the Corporations legislation abolished the concepts of authorised capital and par value shares. Accordingly the Company does not have authorised capital nor par value in respect of its issued capital.

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

30 June	Consolidated 2007 \$	Consolidated 2006 \$	BRC 2007 \$	BRC 2006 \$
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(b) Shares issued during the prior year

During the current year, 1,150,000 shares were issued as a consequence of option exercises at 28 cents per share. The company made two placements in the prior year totalling 11,588,333 shares at an average of 27 cents per share. The purpose of these funds was to increase the working capital of the company and the establishment of a sales and marketing team to support the next stage of development.

(c) Share options

Particulars of options granted over unissued shares:

Number of Options	Exercise price Cents per share	Expiry Date	Holders (all issued under the Employee Share Option Plan terms)
338,000	25	17 April 08	23 eligible staff.
80,000	40	7 Aug 08	16 eligible staff.
30,000	50	18 Nov 08	3 eligible staff.
150,000	60	15 Mar 09	1 eligible staff.
391,500	50	21 Jul 09	32 eligible staff.
300,000	41	23 Nov 09	2 eligible staff.
400,000	40	23 Mar 10	20 eligible staff
3,500,000	50	26 Oct 11	Directors as approved at 2007 AGM
1,676,500	40	9 Nov 11	48 eligible staff.
475,000	50	8 May 12	2 eligible staff.
7,341,000	Total issued as at June 2007		

- i) Options were exercised during the current year as above.
- ii) Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate or in the interest issue of any other registered scheme.
- iii) 6,925,000 options expired during the current year without being exercised.

(d) Terms and Conditions of contributed equity

Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

14. ACCUMULATED LOSSES AND RESERVES

Accumulated Losses:

Balance at the beginning of year	6,677,533	5,239,250	7,005,388	5,343,540
Loss for the year	1,454,578	1,438,283	1,289,825	1,661,848
Balance at the end of year	8,132,111	6,677,533	8,295,213	7,005,388

Reserves:

Balance at the beginning of year	50,232	38,086	50,232	38,086
Cost of share based payments taken directly to Equity	38,315	12,146	38,315	12,146
Balance at the end of year	88,547	50,232	88,547	50,232

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

30 June	Consolidated 2007 \$	Consolidated 2006 \$	BRC 2007 \$	BRC 2006 \$
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Nature and Purpose of Reserves: Employee equity benefits reserve – This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration.

15. EARNINGS PER SHARE

Basic and diluted earnings per share was (1.6) (2006: (1.7)) cents per share. The net loss used in the calculation of EPS was \$1,454,578 (2006: \$1, 438,283). The weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share is 91,438,769 (2006: 84,615,271).

16. REMUNERATION OF DIRECTORS AND EXECUTIVES

These remuneration disclosures are provided in the Directors' Report designated as audited. Director emoluments paid by the Company and Consolidated entity during the year to 30 June 2007:

	Primary Salary & Fees	Post Employment Superannuation	Other Equity Options	Total
2007 Executive Directors:				
E Gordon	165,000	14,850	1,735	181,585
D Segal	137,500	12,413	867	150,780
Total	302,500	27,263	2,602	332,365
2007 Non-Executive Directors:				
N Hinzack	11,000	495	434	11,929
P Keating	11,000	495	2,602	14,097
A Toga	11,000	-	434	11,434
R Jamison	11,000	495	-	11,495
B Joffe	11,000	-	-	11,000
Total	55,000	1,485	3,470	59,955
2006 Executive Directors:				
E Gordon	150,000	13,500	-	163,500
D Segal	125,000	11,287	-	136,287
P Wodtke	25,000	-	6,240	31,240
Total	300,000	24,787	6,240	331,027
2006 Non-Executive Directors:				
N Hinzack	10,000	-	-	10,000
P Keating	10,000	-	-	10,000
A Toga	10,000	-	-	10,000
R Jamison	10,000	-	-	10,000
B Joffe	10,000	-	-	10,000
Total	50,000	-	-	50,000

Services provided by Non Executive Directors were under normal commercial terms and conditions. There are continuous service agreements in place with the Executive Directors, Evian Gordon and Dan Segal, which set out a base salary and require 12 months notice to be given or the equivalent payment in lieu to be given upon termination by the company of such agreements. No other benefits either short term or long term have been received or are receivable by Directors. There were no other executives other than those mentioned above. As noted in the 2006 Annual Report, all Directors fees increased 10% effective 1 July 2006 and superannuation was accrued for domestic non executive directors commencing 1 January 2007. No long term benefits or termination benefit payments were made to Directors during the year.

Shareholders approved the granting of 3,500,000 options to five Directors of the Company at the 2006 Annual General Meeting being 1,500,000 options to Paul Keating, 1,000,000 options to Evian Gordon, 500,000 options to Dan Segal and 250,000 options to each of Nestor Hinzack and Arthur Toga for nil cash consideration. These options have a 25 October 2011 expiry, a 50 cents exercise price and convert into an equivalent number of fully paid ordinary shares. These options vested on the grant date.

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

30 June	Consolidated 2007 \$	Consolidated 2006 \$	BRC 2007 \$	BRC 2006 \$
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Shares and Options held at 30 June 2007:

Name	Ordinary Shares Fully Paid		Options over Ordinary Shares	
	2007	2006	2007	2006
Evian Gordon	11,356,248	11,356,248	1,000,000	1,000,000
Dan Segal	6,131,543	6,131,543	500,000	500,000
Paul Keating	575,000	575,000	1,500,000	1,500,000
Nestor Hinzack	605,000	605,000	250,000	250,000
Peter Wodtke	100,000	100,000	250,000	250,000
Russell Jamison	-	-	-	-
Arthur Toga	287,500	287,500	250,000	250,000
Brian Joffe	2,880,000	2,880,000	-	-
	21,935,291	21,935,291	3,750,000	3,750,000

17. RELATED PARTY DISCLOSURES

(a) Directors

The following persons held the position of director of The Brain Resource Company Limited during all or part of the last two financial years:

Evian Gordon	Appointed 8 August 2000	Arthur Toga	Appointed 16 May 2001
Dan Segal	Appointed 8 August 2000	Russell Jamison	Appointed 5 August 2003
Paul Keating	Appointed 16 May 2001	Peter Wodtke	Resigned 30 June 2006
Nestor Hinzack	Appointed 16 May 2001	Brian Joffe	Appointed 26 July 2005

(b) Ultimate parent

The consolidated financial statements include the financial statements of The Brain Resource Company Limited and its subsidiaries all of which were 100% owned and were incorporated in Australia as listed in the following table:

Name	\$ Investment	
	2007	2006
BRC Operations Pty Limited	100	100
BRC IP Pty Limited	100	100
BRC Distribution Pty Limited	100	100
BRC International Pty Limited	100	-

The Brain Resource Company Limited is the ultimate parent company.

(c) There were no transactions between the parent and its subsidiaries or between subsidiaries during the financial year (2006: \$nil).

18. AGREEMENTS WITH ACADEMIC INSTITUTIONS

The Company is a party to agreements with academic institutions including University of Sydney, Flinders University and University of New South Wales with respect to ARC Linkage Grants.

19. FINANCIAL REPORTING BY SEGMENT

The Company operates predominantly in the one industry, namely commercialisation of brain function analysis, and is located in Australia.

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

30 June	Consolidated 2007 \$	Consolidated 2006 \$	BRC 2007 \$	BRC 2006 \$
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20. CONTINGENT LIABILITIES

The Company is not aware of any contingent liabilities neither at the end of the year nor at the date of this report.

21. EXPENDITURE COMMITMENTS

a) Capital expenditure commitments

Estimated capital expenditure contracted for at balance date, but not provided for, payable not later than one year amounted to \$nil (2006: \$nil).

b) Operating lease expenditure commitments – this commitment relates to head office premises.

Minimum lease payments:

- not later than one year amount to \$170,000 (2006: \$150,000)
- later than one year but not later than five years - \$75,000 (2006: \$240,000)

22. STATEMENT OF CASH FLOWS

Reconciliation of net cash inflow/ (outflow) from operating activities to operating loss after income tax

Operating loss after tax	(1,454,578)	(1,438,283)	(1,289,825)	(1,661,848)
Depreciation	101,084	93,834	-	-
Share based payments expense	38,315	12,146	38,315	12,146
Provision for non recovery	-	-	1,250,000	1,650,000
(Increase) decrease in inventories	12,795	(11,233)	-	-
Increase (decrease) in creditors	352,180	9,801	(4,043)	-
(Increase) decrease in receivables	(915,230)	(165,379)	-	-
(Increase) decrease in deferred tax asset	(350,000)	-	-	-
(Increase) decrease in other assets	7,102	(5,537)	-	-
Increase (decrease) in other payables	18,761,588	(177,797)	-	-
Increase (decrease) in provisions	66,058	161,032	-	-
Net cash inflow (outflow) from operating activities	<u>16,619,314</u>	<u>(1,521,416)</u>	<u>(5,553)</u>	<u>298</u>

- (b) For the purpose of the Cash Flow Statement, cash & cash equivalents includes cash on hand, at bank, deposits and bank bills used as part of the cash management function. Cash balance comprises:

Cash & cash equivalents	<u>21,306,760</u>	<u>3,910,244</u>	<u>4,865</u>	<u>4,505</u>
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23. SUBSEQUENT EVENTS

There have not been any material subsequent events that have or will affect the results of The Brain Resource Company Limited and its controlled entities.

24. NET FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Net Fair Value

The carrying amount of financial assets and liabilities represents the fair value. The following methods and assumptions are used to determine the net fair values of financial assets and liabilities.

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

30 June	Consolidated 2007 \$	Consolidated 2006 \$	BRC 2007 \$	BRC 2006 \$
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Recognised financial instruments

Cash, cash equivalents and short-term investments: The carrying amount approximates fair value because of their short-term to maturity.

Trade receivables and trade creditors: The carrying amount approximates fair value.

Short-term borrowings: The carrying amount approximates fair value because of their short-term to maturity.

Long-term loans receivable: The fair values of long-term loans receivable are estimated based on an assessment of recoverability of the loan..

Interest Rate Risk

Interest rates applicable to cash financial assets were around 6.0% (2006: 6.0%) with maturities of less than 1 year. All other balances are non interest-bearing.

Foreign Currency Risk

At 30 June 2007, total cash and cash equivalents were held in Australian Dollars, United States Dollars and British Pounds in a ratio reflective of current expectations of future expenditures. The latter two currencies are expected to dominate future revenues.

Credit Risk

The consolidated entity's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Balance Sheet.

The Audit Committee includes risk management and the arrangements are reviewed by the full Board of Directors. Risk matters are now included as an agenda item at each Board meeting.

25. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

i) Superannuation is provided for employees in accordance with the legislative requirements.

ii) Employee share incentive scheme. As disclosed in the 4 June 2001 Prospectus, an employee share scheme has been established where The Brain Resource Company Limited may grant options over the ordinary shares to directors, executives and certain members of staff of the consolidated entity. The purpose of the Plan is to reward the directors, the executive directors and employees for their contribution to the Company, and to provide them with an incentive to contribute to the future growth of the Company, thereby increasing shareholder value. The options are issued for a term of 5 years and are exercisable up to 35% on the first anniversary of the date of grant, 80% on the second anniversary and 100% on the third anniversary. The options cannot be transferred and will not be quoted on the ASX. The issue price is at the discretion of management but can not be less than 80% of the weighted average Market Price of fully paid Shares sold in the ordinary course of trading on the ASX during the month before the Offer Date.

	Number of options	Exercise price
- granted 17 April 2003	338,000	25 cents
- granted 7 August 2003	80,000	40 cents
- granted 18 November 03	30,000	50 cents
- granted 15 March 03	150,000	60 cents
- granted 21 July 2004	391,500	50 cents
- granted 23 November 2004	300,000	41 cents
- granted 23 March 2005	400,000	40 cents
- granted 26 October 2006	3,500,000	50 cents
- granted 9 November 2006	1,676,500	40 cents
- granted 8 May 2007	475,000	50 cents
	7,341,000	
Exercisable at 30 June 2007	1,151,200	

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of The Brain Resource Company Limited, I state that:

(1) In the opinion of the Directors:

(a) the financial statements and notes and the additional disclosures included in the director's report designated as audited of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2007 and of their 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 2007.

On behalf of the Board.

A handwritten signature in black ink that reads "Evian Gordon". The signature is written in a cursive, flowing style.

Dr Evian Gordon
Chairman of Directors

Sydney, 22 August 2007

INDEPENDENT AUDIT REPORT



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Australia

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GPO Box 2646
Sydney NSW 2001

Independent auditor's report to the members of The Brain Resource Company Limited

We have audited the accompanying financial report of The Brain Resource Company Limited (the company) and the consolidated entity, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration. The consolidated entity includes the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1 the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit we have met the independence requirements of 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 on page 18 of the financial report. In addition to our audit of the

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Professional Standards Legislation.

INDEPENDENT AUDIT REPORT



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financial report we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. the financial report of The Brain Resource Company Limited is in accordance with:
 - (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of The Brain Resource Company Limited and the consolidated entity at 30 June 2007 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations); and
 - (b) other mandatory financial reporting requirements in Australia.
2. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

A handwritten signature in cursive script that reads 'Ernst + Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'J K Haydon'.

J K Haydon
Partner
Sydney
22 August 2007

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of The Brain Resource Company Limited (BRC) is responsible for corporate governance and strives for high standards in this regard. In doing so, the Board draws on relevant best practice principles, particularly those issued by the ASX Corporate Governance Council in the guidance document "Principles of Good Corporate Governance and Best Practice Recommendations" issued in March 2003, requiring disclosure of: (1) the extent to which the recommendations have been followed; (2) which recommendations have not been followed; and (3) reasons for not doing so. The Board has assessed these recommendations and the following sets out our position relative to each of these 10 principles.

A set of Revised Principles was issued by the ASX in August 2007. These are currently being reviewed by BRC with a view to reporting against the eight revised principles in the in the 2007-08 year.

Principle 1: Lay solid foundations for management and oversight

BRC's Board (five non-executive directors plus the Executive Chairman/CEO and the Chief Operating Officer) has a small management team reporting to it through its executive directors. This allows for the open dialogue consistent with an emerging company of our size and type. Accordingly, the Company has not yet formalised those functions reserved to the Board and those delegated to management. This matter remains under review.

Principle 2: Structure the Board to add value

BRC has sought to maintain a Board with a common vision and complementary relevant experience. We are of the view that our current structure meets these and our overall objectives. BRC however does not currently comply with the recommendation that the Chairman should not also be the Chief Executive Officer. Given the nature of our operations and current stage of development, we do not see the added benefit in separating this role at this stage. BRC does not have a Board nomination committee. None of the current non-executives have undertaken consultancy work for the Company within the past three years. Where this occurs in future, this will be appropriately disclosed. Each Director of the Company has the right to seek independent professional advice at the expense of the Company (requires the prior approval of the Chairman but will not be unreasonably withheld).

Principle 3: Promote ethical and responsible decision-making

BRC has a current policy concerning trading in its securities by Directors and Executives who must consult with the Chairman or the Chief Operating Officer before dealing in BRC shares. Purchases or sales of BRC shares may not be carried out other than in the "window", being the period commencing two days, and ending 30 days, following the date of announcement of the Company's annual or half yearly results or a major announcement leading, in the opinion of the Board, to an informed market. The Company has adopted a formal code of conduct which reflects the Company's size and the close interaction of individuals throughout the organisation.

Principle 4: Safeguard integrity in financial reporting

The Executive Chairman/CEO and the Chief Operating Officer state in writing to the Board that the company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the company and Group and are in accordance with relevant accounting standards.

BRC current Audit committee, comprising Messrs Segal and Hinzack, meets with the Company's external auditors at least once during each half-year prior to the finalisation of the financial statements and prior to the signing of the Audit Report. As an added safeguard, Mr Hinzack as Chairman of the Audit Committee also holds a private meeting each half-year with the external auditors and reports back to the Board on this meeting. This structure does not meet the ASX's guidance for the committee in that it includes an executive director and it only has two members. This continues to be reviewed by the Company but alternatives are limited due to size constraints based on the availability and relevant experience of Sydney based directors.

Principle 5: Make timely and balanced disclosure

The Board is very aware of the ASX's continuous disclosure requirements and operate in an environment where strong emphasis is placed on full and appropriate disclosure to the market. Written systems have been implemented to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance. A regular review takes place to ensure compliance with ASX Listing Rule 3.1A.

CORPORATE GOVERNANCE STATEMENT

Principle 6: Respect the rights of shareholders

All significant information disclosed to the ASX is posted on the Company's website as soon as it is disclosed to the ASX. When analysts are briefed on aspects of operations, any new material used in the presentation is released to the ASX and posted on the Company's website. Written policies have been established for reviewing whether any price sensitive information has been inadvertently disclosed, and if so, this information is also immediately released to the market. These written policies and procedures are designed to ensure appropriate communication with and participation by shareholders.

Principle 7: Recognise and manage risk

At this stage, no formal policy is in place. Clearly as the business grows, this will need to be reviewed with policies on risk oversight and management of risk implemented. The Audit Committee was expanded in 2005 to include risk management and the arrangements are reviewed by the full Board of Directors. Also, risk matters are now included as an agenda item at each Board meeting and the CEO and COO will periodically report to the Board in writing on risk management.

Principle 8: Encourage enhanced performance

The remuneration committee comprises two non executive directors Mr Hinzack and Mr Jamison, who review the remuneration of all Directors and executives. The Committee seeks independent external advice and market comparisons as necessary. Directors believe that the size of the Company makes individual salary negotiation more appropriate than formal remuneration policies. There has been a formal performance evaluation of the Board during the past financial year.

Principle 9: Remunerate fairly and responsibly

The Company's Remuneration Committee determines remuneration levels on an individual basis. In accordance with Corporations Act requirements, the Company discloses the fees or salaries paid to all directors. Non-executive directors are remunerated by way of fees.

Principle 10: Recognise the legitimate interests of stakeholders

The Company has adopted a formal code of conduct to guide compliance with legal and other obligations. The Board of Directors continues to review the code and the Company's situation to determine if its code is the most appropriate and effective operational procedures

Functions of the Board

The functions of the Board include:

- Ensuring that the Company conducts itself with the highest ethical standards. All directors and employees will be expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company;
- overseeing and monitoring organisational performance, after assessing the risks of the business and the achievement of the Company's strategic goals and objectives on behalf of the shareholders by whom they are elected and to whom they are accountable;
- review and approval of corporate strategies, the annual budget and financial and business plans;
- monitoring financial performance, including approval of the annual and half-year financial reports and liaison with the Company's auditor;
- appointment of, and assessment of the performance of, the Chief Executive Officer and the other members of the senior management team;
- ensuring that there are effective management processes in place and approving major corporate initiatives; and
- enhancing and protecting the reputation of the Company.

SHAREHOLDER INFORMATION

Information relating to shareholders as at 31 July 2007

Substantial Shareholders (includes indirect interests):	Number of Shares
Julie Rosenberg	13,912,650
Evian Gordon	11,356,248
Stuttgart Pty Limited	10,156,882
Dan Segal	6,131,543
Queensland Investment Corporation	5,981,447

Distribution of Shareholders

Number of ordinary shares held	Number of Holders	Ordinary Shares	Percentage
1 - 1,000	7	3,780	0.0
1,001 - 5,000	86	282,692	0.3
5,001 - 10,000	212	1,777,862	1.9
10,001 - 100,000	181	6,157,962	6.7
100,001 - and over	83	83,377,158	91.1
	<u>569</u>	<u>91,599,454</u>	<u>100.0</u>

At the prevailing market price of 50 cents per share, there were 7 shareholders with less than a marketable parcel of \$500.

Holder Name	Balance	%
DR EVIAN GORDON	11,356,248	12.4%
STUTTGART PTY LTD	9,490,566	10.4%
ANZ NOMINEES LIMITED	7,575,359	8.3%
QUEENSLAND INVESTMENT CORPORATION	5,981,447	6.5%
DAN SEGAL	5,731,250	6.3%
JULIE ROSENBERG	5,660,000	6.2%
FERBROS NOMINEES (PROPRIETARY) LIMITED	2,880,000	3.1%
NATIONAL NOMINEES LIMITED	2,018,666	2.2%
THE UNIVERSITY OF SYDNEY	2,012,500	2.2%
MR CHRIS RENNIE	2,012,499	2.2%
SPINITE PTY LTD	1,640,000	1.8%
LINK TRADERS (AUST) PTY LTD	1,449,813	1.6%
PROFESSOR JIM WRIGHT	1,437,500	1.6%
PROFESSOR PETER ROBINSON	1,437,500	1.6%
KING'S COLLEGE LONDON	1,437,500	1.6%
CARDY & COMPANY PTY LIMITED	1,295,064	1.4%
KRZYSZTOF KOZEK	1,150,000	1.3%
CITICORP NOMINEES PTY LIMITED	1,093,200	1.2%
LINK TRADERS (AUST) PTY LTD	845,465	0.9%
THE WESTERN SYDNEY AREA HEALTH	742,700	0.8%
	67,247,277	73.4%
Total Fully Paid Shares and quoted on the ASX	91,599,454	

SHAREHOLDER INFORMATION

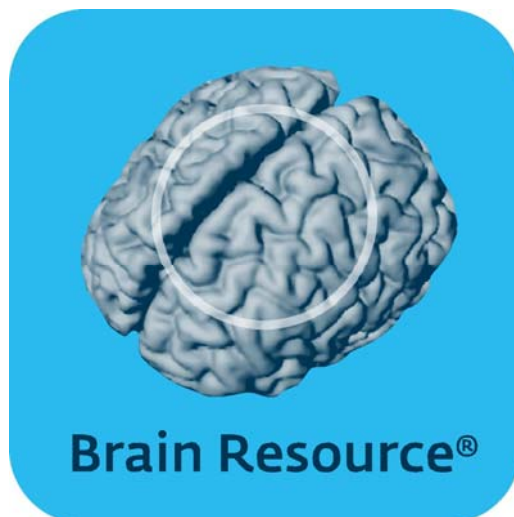
Unquoted Options

The Company has 7,341,000 options on issue (or 8.0% of the total shares on issue) comprising:

- 1) 338,000 options were issued during the June 2003 year to 23 eligible staff under the terms of the Employee Share Option Plan. The options have an exercise price of 25 cents and which expire on 17 April 2008.
- 2) 260,000 options were issued during the June 2004 year to 6 eligible staff under the terms of the Employee Share Option Plan – 80,000 of these have an exercise price of 40 cents and which expire on 7 August 2008, 30,000 of these have an exercise price of 50 cents and which expire on 18 November 2008 and 150,000 of these have an exercise price of 60 cents and which expire on 15 March 2009.
- 3) 391,500 options were issued to 32 eligible staff and new scientific advisory committee member under the terms of the Employee Share Option Plan with an exercise price of 50 cents and which expire on 20 July 2009.
- 4) 250,000 options were issued with shareholder approval at the 2004 AGM to Peter Wodtke with an exercise price of 41cents and which expire on 23 November 2009. A further 50,000 options were issued to an eligible staff member on the same terms.
- 5) 400,000 options were issued to 20 eligible staff under the terms of the Employee Share Option Plan with an exercise price of 40cents and which expire on 23 Mar 2010.
- 6) 3,500,000 options were issued to 5 Directors, as approved at the 2006 AGM, under the terms of the Employee Share Option Plan with an exercise price of 50cents and which expire on 26 October 2011.
- 7) 1,676,000 options were issued to 48 eligible staff under the terms of the Employee Share Option Plan with an exercise price of 40cents and which expire on 9 November 2011.
- 8) 475,000 options were issued to 2 eligible staff under the terms of the Employee Share Option Plan with an exercise price of 50cents and which expire on 8 May 2012.

Voting rights

There are no restrictions on voting rights. On a show of hands every shareholder present or by proxy shall have one vote and upon a poll each share shall have one vote. Where a shareholder holds shares which are not fully paid, the number of votes to which that shareholder is entitled on a poll in respect of those part paid shares shall be that fraction of one vote which the amount paid up bears to the total issued price thereof. Option holders have no voting rights until the options are exercised.



30 June 2007

The Brain Resource Company Limited

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