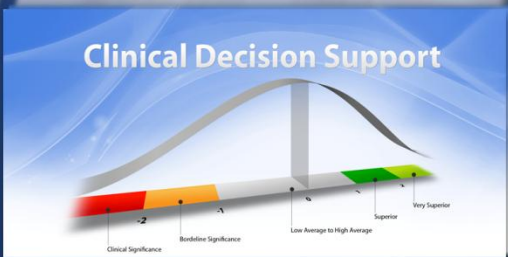


Brain Training Platform

MyBrainSolutions
Optimize Yourself



Treatment Prediction Research

Questionnaire
Standardized Assessments
Database
Genetics
Cognition
Physiology
Imaging

CORPORATE DIRECTORY

BRAIN RESOURCE LTD (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)
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 9213 6600

Facsimile: +61 (0) 2 9211 2710

Email: investor@brainresource.com

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

SHARE REGISTRY

Boardroom Pty Ltd

Level 7, 207 Kent Street, Sydney NSW 2000 / GPO Box 3993, Sydney NSW 2001

Telephone: +61 (0) 2 9290 9600

Facsimile: +61 (0) 2 9279 0664

STOCK EXCHANGE LISTING

Listed on Australian Stock Exchange Limited - ASX Code:

BRC

American Depository Receipt quoted on OTC market – Code:

BRRZY

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Chairman's Report

17 August 2011

Dear Shareholders,

This last year has seen the market for clinical, commercial and consumer brain products go mainstream, with our company leading what has become a global brain race.

We have put ourselves ahead of our competitors with our technology, database and products that bring together key aspects of the workings of the entire brain.

We have embedded this unique intellectual capital into products which engage, educate and empower users to improve their brain health. This value proposition is driving our growth with employers, health plans, clinicians and consumers.

It is this innovation as well as the market opportunity that attracted Och-Ziff managed funds to invest in Brain Resource (the Och-Ziff Capital Management Group is a leading global asset manager with US\$30 billion under management).

Our sales pipeline is growing and we are in discussions with a number of major insurers to finalise key distribution agreements. Additionally, our direct to consumer efforts are building momentum with the very recent release of the MyCalmBeat product for stress management.

Accordingly, our first mover advantage and traction has warranted an expansion of Brain Resource's U.S. Sales and Marketing Team to capitalise on growing opportunities and to effect the shift from product development to a sales focus. As such, the resources provided by the Och-Ziff investment could not have been more timely.

Reinforcing this sales momentum, our continuing work in our global iSPOT study is developing 'game changing' findings in Depression and ADHD. The first 1,000 Depression patients are currently being analysed and we have requested a meeting with the FDA to discuss emergent diagnostic tests.

Most importantly, the iSPOT methodology is already making a significant difference to the lives of people who have participated in the study.

We are gaining traction and expect 2012 to be the tipping point for converting our products and intellectual property, in this major sector, into meaningful shareholder returns.

Your support and that of our incredibly hardworking teams in San Francisco and Sydney are what is making the difference. Thank you.

Yours sincerely,

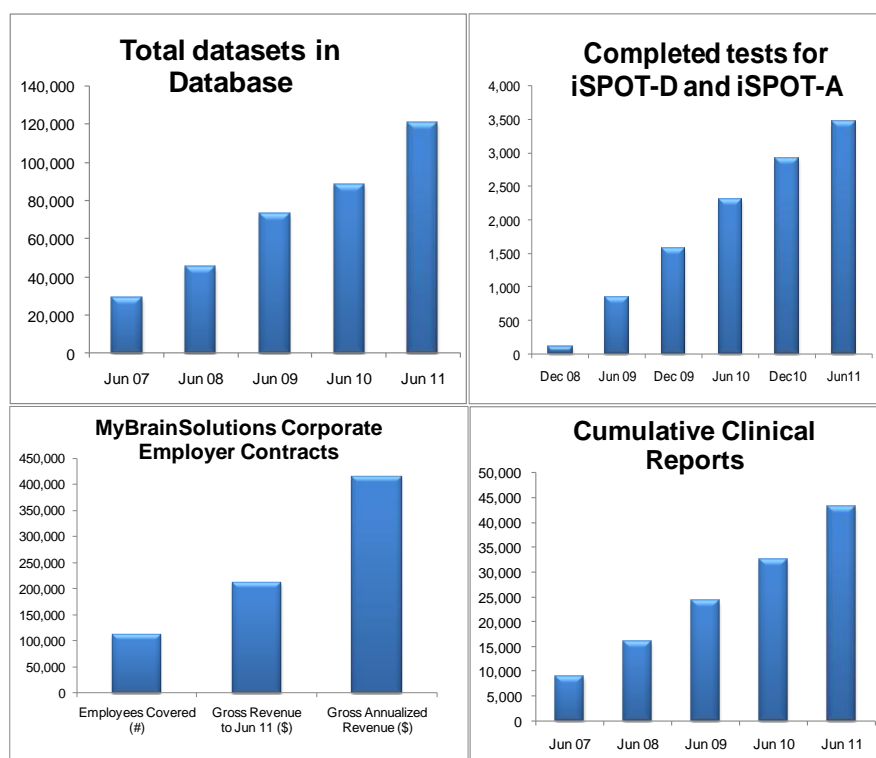


Dr Evian Gordon
Chairman of Directors

Operational Review

Highlights and transformative milestones achieved during the past financial year

- Completion of the first 1,000 patients in the iSPOT Depression study with analysis well underway.
- Meeting requested with the US Food and Drug Administration (FDA) to discuss diagnostic tests that have emerged from iSPOT.
- *MyBrainSolutions* web product sales expanded to 8 large Corporate employers (covering 110,000 employees) and a growing pipeline covering over 500,000 employee users.
- Clinical Decision Support Report sales grew to 11,000 during the year, with the largest growth being in *WebNeuro* which added 43 new clinical user groups.
- Establishment of a U.S. office in San Francisco (operating through Brain Resource, Inc., our newly established US entity) and expanded sales and marketing team.
- Och-Ziff managed funds became a strategic investor in Brain Resource through subscribing for \$10m of Convertible Bonds.
- Full year profit of \$1.3m excluding foreign exchange losses, or \$0.3m including these losses, revenues of \$5.7m and a cash balance of \$8.4m.



Operational Review

1. Brain Resource Summary

Brain Resource's market leading advantage is the ability to identify new brain findings from our unique international database and to develop those findings into effective products that objectively assess and improve brain function and behavior.

Our products have been used by more than 30 multinational corporates, hundreds of clinicians and researchers, benefitting more than 50,000 end users to date. Our growth target is to have 1 million people using Brain Resource products within the next 2 years.

Brain Resource currently sells two highly scalable web products to the Corporate employer, Clinical and Consumer markets:

- Brain Training Platform: our *MyBrainSolutions* product provides an integrated platform for brain health and wellness training for employees and consumers – and increasingly for clinicians to use with their patients.
- Clinical Decision Support: our *WebNeuro* product provides reports and clinical decision support for use by clinicians and other healthcare professionals.
- Treatment Prediction Research: an Intellectual Property (IP) creation focus from the *iSPOT* Depression and Attention Deficit Hyperactivity Disorder (ADHD) study.

What differentiates Brain Resource and puts us at the forefront of the sector is:

- Our database, which is the largest of its kind in the world, integrates multiple measures about the brain in a standardised way;
- This database is used to develop, and underpin, an integrated suite of brain health products; and
- Products that are backed up with scientific evidence, including from a global consortium of more than 250 researchers publishing on Brain Resource's methods in scientific journals.

These products and studies are all contributing to making a difference in healthcare and in the lives of families and community.



2. Brain Training Platform

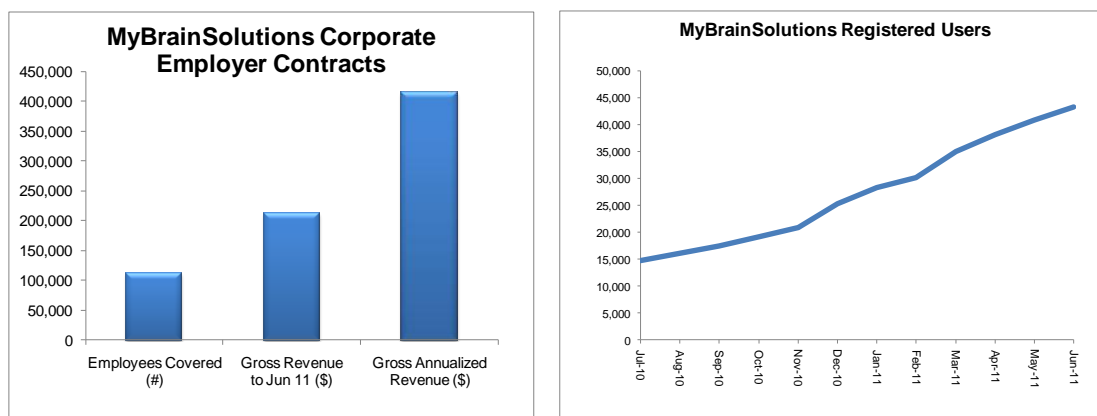
In one integrated site, www.MyBrainSolutions.com provides a personalized assessment to know your brain and brings together a suite of games and exercises to train your brain within one site and to optimize your wellbeing and productivity.

Value proposition: Self empowerment of more effective brain-behavior habits.

Operational Review

Our primary focus during the year was on selling to Corporate employers, for use by their employees. Revenues from *MyBrainSolutions* are derived from charging Corporate employers on a Per Employee Per Month (PEPM) basis and a \$10 monthly fee for consumers. The average *MyBrainSolutions* Corporate employer customer is currently billing at an annualized amount of around \$50,000 per year, with contracts typically maintained for years.

2.1 Current year milestones



- Corporate employers using *MyBrainSolutions* as part of their wellness programs providing access for 110,000 US employees.
- Eight leading Corporate employer customer include Nationwide, Accenture, Astra Zeneca and Cisco.
- AstraZeneca was our first direct contract post the exclusive distribution agreement with OptumHealth transitioning to a non exclusive from January 1, 2011.
- *MyBrainSolutions* use topped 2 million instances by 50,000 unique users.
- Evidence of *MyBrainSolutions* appeal, engagement and user 'stickiness' is illustrated by users amassing more than 100,000,000 brain points (~7 million minutes) to date.
- Employee takeup rates for *MyBrainSolutions* consistently reaching over 10% of those offered access, with some populations surpassing 20%.
- Development and implementation of Mac, iPhone, Android and Blackberry applications.
- Scientifically validated and published results demonstrate a 14% improvement in workplace productivity (based on a study of 5,000 employees).
- Independent market analysis by SharpBrains recognized *MyBrainSolutions* as a leading vendor in the brain training sector, and sole leader in the Corporate employer sector ("State of the Brain Fitness Market Report, 2010" – SharpBrains).

2.2 Sales strategy and Outlook

We have established a direct sales force based in our San Francisco office.

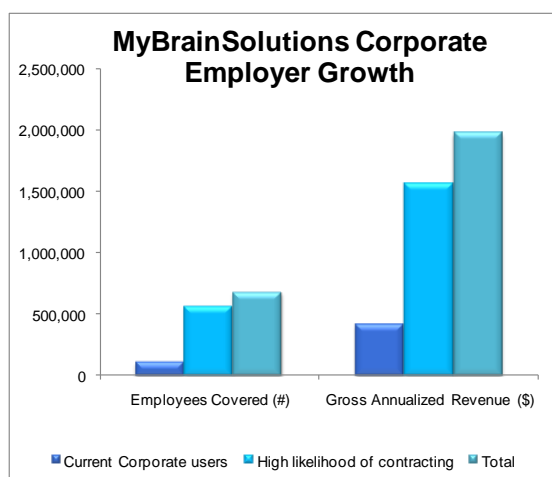
OptumHealth continues to sell *MyBrainSolutions* and discussions are progressing with other managed care companies to act as distributors (from January 2011, on expiry of our previous exclusivity, we were able to build new distribution channels).

The sales cycle to Corporate employers ranges from being relatively short to more prolonged, over months to years, with the length generally proportional to the contract size. We are therefore balancing our sales initiatives between the fast conversions (that may be

Operational Review

smaller but can generate large volume) and the longer conversions (targeting a larger total value). Our current pipeline of prospective users totals more than 500,000 employees from 12 new Corporate employer prospects, with this list growing by the week.

What is noteworthy in this pipeline is that it not only includes OptumHealth Employer clients but also those from other large managed care and Healthcare companies.



We are also complementing new customer campaigns by leveraging existing customer relationships to provide additional services and products. The most notable upsell currently being sold is:

- *MyCalmBeat* recently launched at a price of \$49.50 per unit

(*MyCalmBeat* is a breathing-based brain optimization tool that uses heart rate patterns to help manage stress and improve performance through calculating your breathing rate where you are most calm and to help train at that rate).

'Direct to Consumer' campaigns are currently being undertaken via Google words, Linked-In and other initiatives with a mainstream PR agency in San Francisco.

These initiatives respond to the fact that Brain Training is a sizable opportunity, with SharpBrains predicting that the global 'digital brain health and fitness software training' market will be worth US\$4bn by 2015.

2.3 Competitive advantages

MyBrainSolutions brings together a range of Brain Training games and insights into one site, personalized to individual strengths and weaknesses and based on solid science. It has been developed using insights into what is most effective in getting the brain to change and as such, increases the efficiency in the time spent training.

Improving brain function is most effective when "You become the expert on You".

The benefits are broad ranging and include mastering stress, boosting memory, attention, emotion awareness, resolving how feelings affect decision making and self regulation, positivity and productivity.

Operational Review

By contrast, competitors tend to be primarily focused on only one aspect of brain function (such as memory games) and either do not have an objective brain web assessment of strengths and deficits or one that has less validation than Brain Resource.

MyBrainSolutions is the market's only holistic product which has essentially integrated "What has been shown to work over the past 3 decades to change behavior" including Positive Psychology, Cognitive Behaviour Therapy and Brain Training.

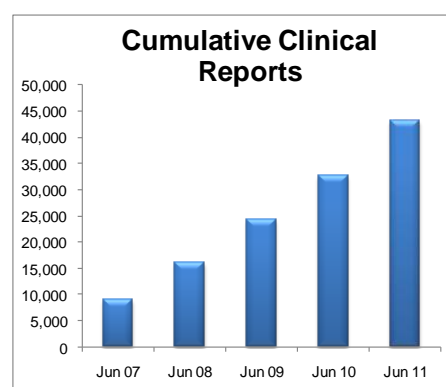
3. Clinical Decision Support

WebNeuro is a brief 30 minute web assessment for providing objective strengths and deficits to help the clinician with treatment decisions. A major use is in the management of Depression and ADHD. It is also used across the spectrum of other behavioral health conditions.

Value proposition: Objective information improves treatment outcomes

Revenues are derived from a \$25 per report charge for *WebNeuro*. The average annual revenue per *WebNeuro* user is around \$1,300. Our primary focus during the year was on selling *WebNeuro* to clinicians and other health care professionals.

3.1 Current year milestones:



- 10,700 reports generated by 150 users of all our Clinical Decision Support products.
- 43 new clinical user groups adopted *WebNeuro* during the year taking the total number to 56, this rapid growth reflecting the scalability of *WebNeuro* as compared to our other products that also require specialist hardware.
- Commenced development of an account management portal to facilitate a rapid deployment to the clinical marketplace and self management by users.

3.2 Sales Strategy and outlook

- Development and refinement of *WebNeuro* marketing initiatives, with direct sales activities targeting larger clinics with 30 or more clinicians.
- Harnessing the capabilities of the automated customer support solutions
- Initiatives to penetrate the US State Medicare plans remain underway, while progressing slowly, the payoffs from any success could be significant.

Operational Review

The market opportunity for Brain Resource is significant given there are more than 85 million clinician visits per annum for depression alone. Depression is the leading cause of disability in the US and is one of its most costly illnesses (85m clinical visits, costs more than \$83bn p.a and 212 million antidepressant prescriptions in the US).

US data (~40% of global)	# affected	# clinical visits pa
Depression	15 million	85 million
ADHD	5 million	7 million

The following tabulates the current probability of a successful treatment outcome and highlights the need for efficiencies.

Chance of getting a successful outcome	%
Getting the right treatment for each person. Each new trial of a medication takes 8 weeks to find out the result (as established in landmark studies like STAR*D)	<40%

WebNeuro is reimbursable by many health plans through well established procedure codes used for neuropsychological administration and report interpretation. Our US clinicians, to date, have been successful at seeking reimbursement from a variety of health plans.

US Health Reform (eg: Mental Health Parity and Addiction Equity Act and the Patient Protection and Affordable Care Act) is increasing the number of insured that need to be covered, increasing demand for cost effective scalable products like *WebNeuro*.

- New Product Release: *WebNeuro* Account Management Portal

Our addressable market are the 500,000 providers of mental health services in the US including psychiatrists, neurologists, psychologists, employee assistance counselors and primary care clinicians.

To access this scale and also to align with the increasing automation of practice workflows, we have developed an account management portal for *WebNeuro* users. This portal provides users with increased resources (including to automatically register, pay, and trouble shoot issues more efficiently and effectively as well as to obtain report support), essential to driving continued use and adoption of *WebNeuro* reports by our users.

3.3 Competitive advantages

WebNeuro is an extremely cost effective automated solution for both patient and healthcare provider as it delivers objective information to aid decisions. What differentiates it is the breadth of cognitive domains that it covers and that it is backed by the Brain Resource International Database. That is, individual data can be compared to peer group averages contained in the database.

By contrast, competitors have assessments that are less comprehensive and do not link to other key aspects about the brain.

Operational Review

4. Treatment Prediction Research

Brain Resource is undertaking the largest international study of its type, (iSPOT), to identify objective tests of who will respond best to what medication in Depression (iSPOT-D) and ADHD (iSPOT-A).

Brain Resource's iSPOT program is set to deliver game changing personalised treatment pathways for Depression and ADHD, including through the identification of novel brain Markers that help determine the most effective treatment for an individual.

Value proposition: Identification of treatment predictive tests that can be used in the clinic to cost effectively deliver 'Personalized medicine' (the right treatment for the right person at the right time).

Key opinion leaders believe that this is the most important study for depression currently underway.

4.1 The need addressed by iSPOT

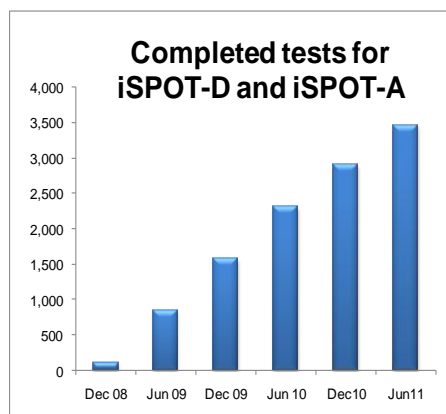
Personalized Medicine is transforming the landscape of Healthcare. The pressure is growing on all Pharmaceutical Companies, Biotechnology Companies and ANY Treatment Provider – to show objective evidence, comparative effectiveness and tests that can predict who is most likely to respond to what treatment.

There are currently no objective measurements that are used to decide whether or not to medicate for Depression nor to assess treatment response, with the inherent inefficiencies of a trial and error approach which include needing to wait 8 weeks or more to see if there is a positive response. As mentioned above, depression is the leading cause of disability in the US.

iSPOT-D and iSPOT-A studies are identifying Markers (a measure that links an aspect of brain performance to whether a treatment will work for a particular person) based on Behavior, Cognition, Psychophysiological, Neuroimaging and Genetics measures. These Markers will then be productised into various Depression and ADHD Tests.

4.2 Current progress

iSPOT-D reached the landmark milestone of passing the 1,000 patients mark during the year.



The data is currently being analysed, in particular with the view to the development of the first Depression Test (based on 'Cognitive Markers'). This test is aimed at providing an

Operational Review

objective test that can predict which patients are most likely to respond, or not, to treatment with one of the antidepressant drugs being tested in iSPOT (Escitalopram, Sertraline and Venlafaxine XR – these in combination comprising 40% of the \$12bn US market for antidepressants).

iSPOT-D is now being presented at conferences (eg. the most recent American Psychiatry Association Conference). As an objective measure of impact, its first publication has had in excess of 1,250 downloads (an impacting paper by contrast is considered to be above 100).

4.1 iSPOT is making a difference to trial participant lives

We have received much feedback from trial participants (eg 25 people at one trial site alone) to the effect that, were it not for this study, they would not have received treatment and that this study has been 'life changing'.

The reasons for this is they were previously scared of antidepressants, in part due to the trial an error approach and the lack of objective ways to tell if the drugs were providing a benefit. They were drawn to iSPOT because of its structured monitoring and thorough testing, which provided them with the requisite level of confidence to participate and persist. The reports that iSPOT provided also provided them with objective support to know it was making a change.

We cannot provide the exact quote due to confidentiality but the essence of a very recent one is worth highlighting. It was from a senior business executive who said he had been forcing himself to get to work each day for many years. He'd been on treatment for other physical conditions in the past and accepted the treatment recommendations because he could see they were based on a lot of testing and that he could follow the results of the laboratory tests. He was scared of trying an antidepressant because his only experience was a doctor offering him a script and then leaving him to it, which seemed like a 'black hole' of understanding to him. He heard about iSPOT-D from a flyer we put out in clinician offices. He experienced side effects but was able to push through them because he knew he'd have an 8 week follow up to see if meds were working. The side effects went away and the Brain Resource report was a helpful part of the support process which matched the life changing experience he felt.

4.2 Commercialisation of outcomes

The Brain Tests that emerge from iSPOT will either form entirely new products or become add-ons to existing decision support products. For example, *WebNeuro* (which currently makes no diagnostic claims) could be enhanced by adding the abovementioned Depression Test with its diagnostic claims. Alternatively, for example, Genomic based tests that emerge from iSPOT may form entirely new products.

FDA approval is required for marketing diagnostic tests in the US. Approval of diagnostic tests that emerge from iSPOT could drive a step function increase in the addressable market for our clinical decision support products. We are awaiting the FDA response to our request for a (Pre IDE) meeting regarding the Depression Test that has emerged from iSPOT.

In that regard, iSPOT-D is directly aligned with FDA needs¹ and the protocol and analysis has been shaped by previous meetings and discussions with that agency. Further, it is worth

¹ *"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*

Operational Review

noting that our methodology (as used in iSPOT) has already been the subject of an FDA submission - we have had an FDA 510K approval that has been in place since October 2005 (FDA Number: K050192).

4.3 Value comparators for iSPOT Markers

The iSPOT Markers also have significant value, beyond use in the clinic, for new drug development.

Brain Drugs (Central Nervous System or CNS), have a high failure rate and the cost of failure is enormous (it costs \$1bn to develop a new drug). Having better Markers on which to make go/no-go decisions (ie drug is showing the desired effect or not) can save costs being spent on failures. The value of these benefits are best illustrated by recent marker transactions:

- Eli Lilly paid \$300m (plus \$500m if milestones met) for Avid Radiopharmaceuticals Alzheimer's Dementia Test (a contrast agent used with positron emission tomography to detect beta-amyloid plaque, a pathology linked with Alzheimer's).
- Takeda licensed Zinfandel's Brain Test (based on the TOMM40 gene) for identifying those at high risk of developing Alzheimer's. Zinfandel is being paid \$9m upfront, with an additional \$78 million for development milestones.
- GE and Johnson & Johnson recently teamed to look for Brain Tests that identify people who are just beginning to develop Alzheimer's.

As a further note, Brain Resource has a strategic plan to systematically mine several other studies that are likely to yield new brain tests. This includes the iSPOT ADHD study and a multiyear 100 subject Alzheimer's Dementia study that recently been completed.

4.4 Discovery Research and BRAINnet

Brain Resource has also recently started to offer academics access our standardized testing and scoring software for use in their research. This essentially provides the first integrated research outsourcing model where researchers can collect their own data but with our efficiencies. Discovery Research Services are now being used by over 30 leading institutions in U.S, Australia and Europe.

There is an added efficiency, in addition to that provided by our data acquisition and scoring methodologies. By becoming members of BRAINnet, academic researchers can also gain free access to select Brain Resource International Database data to complement the data they are collecting. This data is comparable as it has been collected and scored in exactly the same way.

BRAINnet (brainnet.net) is a tax exempt (US IRS 501(c)(3) status) foundation that was established during the year. It is totally independent of Brain Resource and there is an agreement in place which governs the provision of our data to them strictly for non commercial purposes. The benefit to Brain Resource is that the more people using our methodology and publishing using it, the greater our credibility.

BRAINnet currently has close to 300 members in 18 countries.

possible for sponsors to enroll only those patients with the target condition. Similarly, any successful treatments could better target a patient's disease in clinical practice."

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5. Outlook

- Brain Resource is building a leading position in the market for brain products, targeting well established needs in millions of users.
- Its world's largest Database is an unmatched engine room for new products.
- Shift in focus from product development to sales.
- The two web products are now established in the US market and are impacting: the time for scaling is 2012, including through conversion of the *MyBrainSolutions* / *MyCalmBeat* / *WebNeuro* sales pipelines.
- iSPOT analysis will begin to spawn new insights during 2012, with analysis and regulatory submission preparation now well underway.
- Numerous strategic growth opportunities are currently being evaluated as part of the funds injected by Och-Ziff – one at the forefront of our plans are and ADHD portal and direct to consumer campaigns.

The following summarises our business model assumptions: *MyBrainSolutions* growth is tied to the number of Corporate employers that purchase the product and *WebNeuro* the number of healthcare providers using the product.

The goal is to have 1 million people using Brain Resource products within the next 2 years.

Product:	MyBrainSolutions	WebNeuro
Revenue model:	Corporate employers pay Per Employee Per Month (PEPM)	Medical Practitioners pay per patient use
Selling Price:	\$50,000 av. per Corporate employer based on a PEPM. Upsells: MyCalmBeat \$50 per unit and Webinars \$125 per employee	~\$25 per report or \$1,300 av per clinical user, increasing coverage and reimbursement opportunities from US Health Reform.
EBIT margins:	~30%	~40%
US Market size:	17,000 Corporate employers with >500 employees	85m US depression consults pa
12 - 24 month targets:	Corporate employers: 20 Corporate employers, 3 upsale contracts, 2 Reseller Relationships Consumer: 5,000 MyCalmBeat sales, 1 distributor, 10,000 MBS consumer users, 25% increase in usage	600 Clinicians 10 large Clinics 1 Health Insurer or Medicaid

6. Financials

6.1 Revenues

The two web products, *MyBrainSolutions* and *WebNeuro*, showed important growth trends during the year, sufficient to justify setting up the current infrastructure and sales and marketing focused team in San Francisco. Revenues were however impacted by the shift to end exclusivity with one distributor, to multiple distributors and by depreciation of the US\$.

Operational Review

	2011	2010	Change
Brain Training Platforms	210,954	32,902	541%
Clinical Decision Support	2,143,526	3,808,001	(44%)
Treatment Prediction Research	2,958,563	3,679,213	(20%)
Discovery Research	191,142	98,005	95%
Equipment Sales	29,919	95,898	(69%)
Product revenues	5,534,104	7,714,019	(28%)

- a) *MyBrainSolutions* for Brain Training: This is a newly launched product, with early revenues coming from our first Corporate employer contracts.
- b) Clinical Decision Support: We have been transitioning growth in reports to our web based solution, *WebNeuro*. There was a total of 10,700 reports for the year, or a growth rate of around 30%. *WebNeuro* Reports were the strongest growth report type, increasing 260%. Overall revenues decreased due to the reduced contribution from the OptumHealth licence fee (2011 being the last applicable year), contributing \$1.7m compared to \$3.3m previously. With around 55% of report revenue being US dollar denominated, sales were also impacted by currency movements.
- c) Discovery Research: This represents an offering of our platforms to academic researchers who want to use our services in their research. This growth responded to a relatively small investment in resources for this offering during the year. Our products for researchers are now being used by over 30 leading academic institutions in the US, Australia and Europe.
- d) The fall in equipment sales is reflective of our transition to web based products that do not require any special hardware to be supplied.
- e) Treatment Prediction Research: iSPOT revenues are tied to the stage of completion of the contract (based off a range of factors including spend and recruitment levels). Recruitment levels can vary substantially between periods with factors internal (we can ramp up or slow down particular sites) and also external (eg weather). The lower revenues were tied to there being 325 fewer assessments done than in the previous corresponding period (or around 22% less), this variability well within our overall trial plan.

iSPOT explanatory note: The current Treatment Prediction Research Revenue includes around \$2.9m (2010: \$3.5m) from the iSPOT contract. Brain Resource's accounting policies (compliant with Australian equivalents to International Financial Reporting Standards) distinguish Marker development from Drug trials. In Marker development, Brain Resource retains a right to use and significantly benefit from the Intellectual Property created during the collaboration. Payments received from a collaborating partner for participating in the collaboration and undertaking the work are recognised as revenues, reflecting the relative stage of project progress. The associated costs are capitalised to the extent that the future benefits are expected to at least equal those costs with any excess expensed as incurred, this consistent with our policy for the treatment of Intangible Assets. Capitalised amounts are reviewed periodically to ensure that there is no impairment and also to determine an appropriate sales linked amortisation point. Accordingly, iSPOT's impact on accounting profit is significant.

Operational Review

6.2 Other sales

	2011	2010	Growth %
Total Sales	5,534,104	7,714,019	(28%)
Government export grant (EMDG)	(74,661)	160,906	(146%)
Interest received	192,091	270,026	(29%)
Total revenues and other income	5,651,534	8,144,951	(31%)

The reduction in Government Grants is a result of our no longer being eligible for claiming an Export Market Development Grant as we have fully utilized this incentive. The negative current year balance reflects a previous over provision, this resulting from the Government scaling back all 2010 payments made under the scheme.

6.3 Expenses

	2011	2010	Growth %
Cost of sales - third party costs & commissions	290,498	377,371	(23%)
Depreciation and amortisation	160,551	149,331	8%
Corporate (insurance, legal, accounting, listing)	343,622	338,184	2%
Office (rent, supplies & miscellaneous)	258,232	222,099	16%
Salaries and consultancy fees	2,595,060	3,070,678	(15%)
Marketing and agent support	396,439	412,420	(4%)
Communications	120,373	98,452	22%
Travel	152,621	210,392	(27%)
Foreign exchange losses / (gains)	1,017,945	523,494	94%
Share based payments	50,570	55,105	(8%)
Finance costs	12,766	-	n/a
Other	55,142	52,149	6%
Total expenses / (gains)	5,453,819	5,509,674	(1%)
Total expenses (excluding foreign exchange losses / gains)	4,435,874	4,986,180	(11%)

Total expenses (excluding foreign exchange gains / losses) fell by around 11%. A large factor in this reduction was that full time equivalents reduced from 42 to 35 as part of our overall evolution from a development to a product/sales and US focus. The depreciation and amortisation increase reflected the first full year's contribution from MyBrainSolutions. The cost of sales reduction was tied to the transition to web based solutions away from services that require specialist hardware.

Foreign exchange movements were significant. The loss arose from the continued and significant devaluation of the US\$ and its impact on our US\$ cash holdings. Note our policy is to hold cash deposits in currencies aligned with planned future expenditures, thereby ensuring constant purchasing power. Thus this loss is offset by the future reduction in US\$ expenditures.

Operational Review

Please refer to the financial statements for detail regarding the Convertible Bond expenses. In essence, issue costs are apportioned between expense and equity accounts and an annual notional (non cash) amount of interest is required to be recognised in the accounts (even though the bonds have a zero coupon).

Note that costs are net of the capitalisation of expenditures associated with iSPOT, as referred to above. The amount capitalised for iSPOT in 2011 amounted to around \$3.0m (2010:\$3.7m), this includes salaries (both direct and allocated), direct site expenditures and allocated overhead

6.4 Profit before foreign exchange

	2011	2010	Growth %
Profit (Loss) after tax and excluding foreign exchange gains / losses	1,287,432	2,736,999	(53%)
Profit (Loss) after tax	269,487	2,213,505	(88%)

Foreign exchange losses as mentioned above have had a significant impact on the results for both periods. The fall in profit, was mainly due to the lower contribution from the iSPOT trial to revenues, the impact of the US dollar on sales and the reduction in licence fees from the transition out of the exclusive distribution agreement.

6.5 Cash flow

	2011	2010
Net cash flows from operating activities	(2,764,659)	(434,588)
Net cash flows from investing activities (excluding the investment in Government Bonds)	(4,138,011)	(4,525,914)
Net cash flows from financing activities	5,000,000	-
Increase (decrease) in free cash flow	(1,902,670)	(4,960,502)
Closing cash	8,414,168	11,301,862
Total net monthly cash usage (excludes impact of foreign currency losses, depreciation, convertible bond costs, share based payments)	350,999	398,479

Revenues from our Web based products are still to materially impact cash flows, the increase in cash from operations consistent with this transition between revenue streams. Note that the ongoing deterioration of the USD (and our policy of holding cash in currencies aligned with future expenditures) continued to impact. Investing cash flows reflected iSPOT study and the continued development of MyBrainSolutions.

6.6 Capital management

As a note regarding our capital management efficiencies, the entire business has been built off \$15.5m of raised equity funding to date, that is no funds have been raised since 2006.

Operational Review

On 14 June 2011, Brain Resource issued Convertible Bonds with an aggregate principal value of AUD\$10,000,000 (comprising both the First Tranche and Second Tranche at AUD\$5,000,000 each). These Convertible Bonds convert into ordinary equity at a price of 40.5 cents per share (subject to adjustment in accordance with the terms of issue), have a 5 year term and no coupon payable. Conversion equates to a 21% shareholding in Brain Resource, assuming full conversion and no intervening share issues or employee option exercises.

The First Tranche was issued on 14 June 2011 and shareholders voted in favour of approving the issue of the Second Tranche at the Extraordinary General Meeting held on 4 August 2011. We are currently working on satisfying the two main conditions precedent to the Second Tranche issuance. These are the appointment of a CEO for the Group's US subsidiary and the consumer business plan.

6.7 OTC listing

Brain Resource established a Level I American Depositary Receipt (ADR) program and quotation on the Over-The-Counter (OTC) market in the US. This allows US residents and investors to hold and trade Brain Resource securities on the OTC market and to enable them to trade in a US dollar denominated security. The ADR's are tradable via licensed U.S. brokers, ticker symbol BRRZY and with a ADR:ORDINARY ratio of 1:5.

FINANCIAL STATEMENTS AND REPORTS
YEAR ENDED 30 JUNE 2011

REPORT OF THE DIRECTORS

Your Directors submit their report for the year ended 30 June 2011.

DIRECTORS

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

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

Dr Gordon has over 25 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 200 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.

Nestor Hinzack, BEc, FCPA, SF Fin, MSDIA (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.

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. He resigned from the Brain Resource Board on 6 April 2011 but remains an advisor to the Board.

COMPANY SECRETARY

Robert Waring BEc, CA, FFin, 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 2011 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 expense was a profit of \$269,487 (2010: \$2,213,505).

DIVIDENDS

No dividends were paid or proposed during the year.

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

Brain Resource Ltd ('BR') is a company incorporated and domiciled in Australia. It acts as the holding company for five wholly owned Australian subsidiaries: BRC Operations Pty Ltd; BRC IP Pty Ltd; BRC Distribution Pty Ltd; BRC International Pty Ltd; and BRC Development Pty Ltd. Brain Resource, Inc., a California USA company incorporated on 17 May 2011, is also wholly owned by Brain Resource Ltd. Brain Resource Europe Limited, a company incorporated in Ireland on 23 July 2008, is wholly owned by BRC Operations Pty Ltd.

REPORT OF THE DIRECTORS

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

It is not possible to accurately postulate likely developments and expected future 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 2011.
- 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

As at the date of this report, there were 8,721,500 unissued ordinary shares under options. Details of share options are disclosed in Note 13.

During the financial year, employees and executives have not exercised any options to acquire fully paid ordinary shares in Brain Resource Ltd.

REMUNERATION REPORT (Audited)

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 (except for the directors, the company has no other executives). There is a fixed fee policy for all non executive directors which is reviewed by the Board of Directors. The Committee seeks independent external advice and market comparisons as necessary. 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. Equity options issued are subject to service conditions. There is no direct correlation between the company's performance and the remuneration received by employees.

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. No additional shares nor options 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

ii) Director emoluments paid by the Company and Consolidated entity during the year to 30 June 2011:

	Primary Salary & Fees	Long Service Leave Provision	Post Employment Superannuation	Other Equity Options	Total
2011 Executive Directors:	\$	\$	\$	\$	\$
E Gordon	211,009	14,375	18,990	2,567	246,941
D Segal	201,835	13,750	18,165	1,284	235,034
Total	412,844	28,125	37,155	3,851	481,975
2011 Non-Executive Directors:					
N Hinzack	11,000	-	990	642	12,632
P Keating	8,250	-	742	3,851	12,843
A Toga	11,000	-	-	642	11,642
R Jamison	11,000	-	990	-	11,990
Total	41,250	-	2,722	5,135	49,107
2010 Executive Directors:	\$	\$	\$	\$	\$
E Gordon	211,009	14,375	18,990	2,567	246,941
D Segal	201,835	13,750	18,165	1,284	235,034
Total	412,844	28,125	37,155	3,851	481,975
2010 Non-Executive Directors:					
N Hinzack	11,000	-	990	642	12,632
P Keating	11,000	-	990	3,851	15,841
A Toga	11,000	-	-	642	11,642
R Jamison	11,000	-	990	-	11,990
Total	44,000	-	2,970	5,135	52,105

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. No long term benefits or termination benefit payments were made to Directors during the year.

iii) Directors' Shareholdings and Options as at 30 June 2011:

Name	Ordinary Shares Fully Paid		Options over Ordinary Shares	
	2011	2010	2011	2010
Evian Gordon	11,356,248	11,356,248	1,000,000	1,000,000
Dan Segal	6,350,937	6,333,698	500,000	500,000
Nestor Hinzack	1,017,239	1,000,000	250,000	250,000
Russell Jamison	-	-	-	-
Arthur Toga	287,500	287,500	250,000	250,000
	19,011,924	18,977,446	2,000,000	2,000,000

The grant date of the options was 26 October 2006. See Note 13c for the terms of the above options.

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.

REPORT OF THE DIRECTORS

MEETINGS OF DIRECTORS

During the year to 30 June 2011 the Company's Directors held 4 Board meetings. E Gordon, D Segal and N Hinzack were in attendance at all of the meetings. R Jamison attended 3 of the meetings and Paul Keating 2 meetings. A Toga is not resident in Australia but was kept up to date with the company's activities.

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 35 full time equivalent employees (2010:42) working for the consolidated entity, based on the annual payroll, being a mixture of full time staff, permanent part time, casuals and key consultants.

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.

Signed in Sydney on 17 August 2011 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
www.ey.com/au

Auditor's Independence Declaration to the Directors of Brain Resource Ltd

In relation to our audit of the financial report of Brain Resource Ltd for the financial year ended 30 June 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

A handwritten signature in blue ink, appearing to read "J K Haydon".

J K Haydon
Partner
17 August 2011

Liability limited by a scheme approved
under Professional Standards Legislation

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 30 June	Note	Consolidated	
		2011 \$	2010 \$
Continuing Operations			
REVENUE AND OTHER INCOME	2	5,651,534	8,144,951
Cost of equipment and third party drug trial costs	3	(290,498)	(377,371)
Depreciation and amortisation	3	(160,551)	(149,331)
Insurance and professional fees		(343,622)	(338,184)
Rent, supplies & office costs		(258,232)	(222,098)
Salaries and consultancy fees		(2,595,060)	(3,070,678)
Marketing and agent support		(396,439)	(412,420)
Communications		(120,373)	(98,452)
Travel		(152,621)	(210,392)
Foreign Exchange (Losses)/ Gains		(1,017,945)	(523,494)
Share based payments		(50,570)	(55,105)
Finance Costs		(12,766)	-
Other		(55,142)	(52,149)
TOTAL EXPENSES		(5,453,819)	(5,509,674)
PROFIT BEFORE INCOME TAX BENEFIT		197,715	2,635,277
INCOME TAX BENEFIT/ (EXPENSE)	4	71,772	(421,772)
PROFIT AFTER INCOME TAX EXPENSE	14	269,487	2,213,505
Other comprehensive income		-	-
NET PROFIT (LOSS) AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO MEMBERS OF BRAIN RESOURCE LTD		269,487	2,213,505
Basic earnings (loss) per share (cents per share)	15	0.3	2.4
Diluted earnings (loss) per share (cents per share)	15	0.3	2.4

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June	NOTE	Consolidated	
		2011	2010
		\$	\$
CURRENT ASSETS			
Cash & Cash Equivalents	21	8,414,168	11,301,862
Receivables	6	433,418	990,524
Inventories	7	39,301	42,166
Other	10	14,702	14,129
TOTAL CURRENT ASSETS		8,901,589	12,348,681
NON-CURRENT ASSETS			
Plant and equipment	8	533,850	645,364
Intangibles	9	19,748,901	15,661,072
Other	10	2,893	2,893
TOTAL NON-CURRENT ASSETS		20,285,644	16,309,329
TOTAL ASSETS		29,187,233	28,658,010
CURRENT LIABILITIES			
Payables	11	5,113,069	9,201,841
Provisions	12	419,871	397,510
TOTAL CURRENT LIABILITIES		5,532,940	9,599,351
NON-CURRENT LIABILITIES			
Payables	11	4,449,225	4,949,225
Convertible Bond	28	3,184,896	-
Deferred Tax Liability		-	71,772
Provisions	12	179,945	170,362
TOTAL NON-CURRENT LIABILITIES		7,814,066	5,191,359
TOTAL LIABILITIES		13,347,006	14,790,710
NET ASSETS		15,840,227	13,867,300
EQUITY			
Contributed equity	13	18,486,922	16,834,052
Accumulated losses	14	(2,958,670)	(3,228,157)
Other Reserves	14	311,975	261,405
TOTAL EQUITY		15,840,227	13,867,300

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 30 June	Note	Consolidated	
		2011 \$	2010 \$
CASH FLOWS FROM OPERATIONS			
Receipts from customers		932,066	3,989,567
Payments to suppliers and employees		(3,960,359)	(4,732,554)
Interest received		263,634	308,399
NET CASH FLOWS PROVIDED BY/ (USED IN) OPERATING ACTIVITIES	21	(2,764,659)	(434,588)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of plant and equipment		(49,914)	(151,911)
Development of database and analysis tools		(4,088,097)	(4,374,003)
Purchases of Financial Assets		-	4,084,680
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES		(4,138,011)	(441,234)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of Convertible Bond		5,000,000	-
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		5,000,000	-
Net increase/ (decrease) in cash & cash equivalents held		(1,902,670)	(875,822)
Add opening cash & cash equivalents brought forward		11,301,862	12,678,304
Exchange rate adjustments		(985,024)	(500,620)
CLOSING CASH & CASH EQUIVALENTS CARRIED FORWARD	21	8,414,168	11,301,862

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to the shareholders of Brain Resource Ltd

	Contributed Equity (note 13) \$	Accumulated Losses (note 14) \$	Employee Share Options (note 14) \$	Total Equity \$
Consolidated				
As at 30 June 2009	16,834,052	(5,441,662)	206,300	11,598,690
Profit for the year	-	2,213,505	-	2,213,505
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	2,213,505	-	2,213,505
Issue of share capital	-	-	-	-
Share based payments	-	-	55,105	55,105
As at 30 June 2010	16,834,052	(3,228,157)	261,405	13,867,300
Profit for the year	-	269,487	-	269,487
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	269,487	-	269,487
Transactions with owners in their capacity as owners:				
Issue of Convertible bond - equity component	1,652,870	-	-	1,652,870
Share based payments	-	-	50,570	50,570
As at 30 June 2011	18,486,922	(2,958,670)	311,975	15,840,227

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report of Brain Resource Ltd (the Company or BR) for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 16 August 2011. Brain Resource Ltd (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

This financial report complied with Australian Accounting Standards as issued by the Australian Accounting Standards Board. This financial report also complied with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

New/revised standards and interpretations applicable for the year commencing 1 July 2010 have been reviewed and it has been determined that those new/revised standards and interpretations do not have a material effect on the measurement and recording of items in the balance sheet and statement of comprehensive income.

Certain Australian Accounting Standards and interpretations have recently been issued or amended but are not yet effective and have not been adopted by Brain Resource Ltd for the current reporting period. The Directors have not yet assessed the impact of these new or amended standards (to the extent relevant to Brain Resource Ltd) and interpretations.

(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) Research & Development costs – development costs are only capitalised by the Company when the feasibility of completing the intangible asset is valid and likely to result in a saleable asset.
- (ii) Impairment of intangible assets - the Company determines whether intangibles are impaired at least on an annual basis. The assumptions used in the estimation of recoverable amount and the carrying amount of intangibles is discussed in Note d(vii).
- (iii) 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).
- (iv) Deferred tax assets – deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.
- (v) Taxation - The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- (vi) Estimation of useful lives of assets - The estimation of the useful lives of assets has been based on historical experience and judgement. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

(d) Summary of significant accounting policies

(i) Basis of consolidation

The consolidated financial statements comprise the financial statements of Brain Resource Ltd and its subsidiaries as at and for the year ended 30 June each year (the Group).

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by Brain Resource Ltd are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

(ii) Foreign currency translation

Both the functional currency and presentation currency of Brain Resource Ltd 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 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 – 60 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. Receivables with maturity greater than 12 months after balance sheet date are classified as non current. Advances in Other Receivables are provided as an advance contractual payment generally covering the payable expected to accrue over a 60-90 day period.

(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 to ten year period. Refer to Note 1d(viii) for recoverability of assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

(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. Development costs are capitalised in the period in which the expenditure is incurred where the future benefits are expected to at least equal these costs. 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 and impairment testing. Amortisation of components of BRID that are ready for use are calculated on a straight line basis over 25 years.

At each reporting date, the Group assesses whether there is any indication that an intangible 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 based on fair value less costs to sell.

Fair value is determined by the directors based on an assessment of what a knowledgeable willing party would be prepared to pay to acquire the BRID in its present form. This assessment has used a categorisation of data types, including the number of datasets within each data type in the BRID. It also takes into account current prices to set up data analysis platforms as well as prices for data acquisition, which includes subject recruitment and other costs to acquire the relevant data.

(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 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 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.

- a) Drug and Marker Trials are typically contract based, with payments to Brain Resource tied to achieving agreed milestones, and do not necessarily lead to the creation of new intellectual property owned by Brain Resource. Milestones can include equipment set-up and completing testing on a selected number of subjects. Revenues are only recognised where the milestones have been met or where the stage of completion can be reliably measured, including where monies advanced could be

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 Marker 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 Brain Resource. Any payments received by Brain Resource from the collaborating partner for participating in the collaboration are recognised as revenues reflecting the relative stage of project progress.
- c) Revenues from the sale of Reports, other data processing services and Equipment are recognised at the time of invoice.
- d) Export Market Development Grants from the Australian Government are 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 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 Brain Resource ('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

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

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 liabilities are recognised for all taxable temporary differences except: When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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). This incentive is only available where the annual revenues are less than \$5m and R&D spend less than \$1m. Where Brain Resource 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. Otherwise, the benefit is recognised as a Future Tax Benefit, where in accordance with the abovementioned requirements for recognition.

(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 employees 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 profit for the year attributable to ordinary shareholders 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 profit 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 profit 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(xix) Investment in subsidiaries

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

(xx) Derivative Financial Instruments and Hedging

Forward currency contracts are used to hedge its risks associated with foreign currency fluctuations where there is a specific, near term and highly probable receivable. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. The fair values of forward currency contracts are calculated by reference to current exchange rates. The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

(xxi) Government bonds

Government bonds purchased with the intention of being held to maturity are recognised at cost. Interest earned on these bonds is accrued and recognised in income.

(xxii) Good and Services Tax

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities are classified as operating cash flows and are included in receipts from customers or payments to suppliers, as appropriate.

Revenues, expenses and assets are recognised net of the amount of GST except: when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(xxiii) Convertible bonds

The component of the convertible bonds that exhibit characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of the convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a long-term liability using the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Interest on the liability component of the convertible bonds is recognised as an expense in profit or loss. Transaction costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June	Consolidated 2011 \$	Consolidated 2010 \$
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2. REVENUE AND OTHER INCOME

Revenue from operating activities*:

Brain Training Platforms	210,954	32,902
Clinical Decision Support	2,143,526	3,808,001
Treatment Prediction Research	2,958,563	3,679,213
Discovery Research	191,142	98,005
Sale of Equipment	29,919	95,898

Other income:

Government grants	(74,661)	160,906
Interest received - other persons/corporations	192,091	270,026

Total revenues from ordinary activities

5,651,534	8,144,951
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*Note that Treatment prediction research was formerly described as Drug Trials & marker development, Brain Training Platforms, Clinical Decision Support and Discovery Research were described as Reports and licence fees.

3. EXPENSES FROM CONTINUING OPERATIONS

Cost of sales (equipment and third party drug trial expense)	290,498	377,371
Depreciation & Amortisation:		
Plant and equipment depreciation	23,798	94,933
Amortisation of intangibles	136,753	54,398
Total Depreciation and Amortisation	160,551	149,331
Operating lease costs (minimum lease payments)	217,209	186,452
Annual leave	26,897	(6,828)
Long Service Leave	5,047	33,391
Superannuation contributions	245,763	222,938
Bad debt expense	2,450	6,106
Net Foreign Currency Loss (Gain)	1,017,945	523,494

4. INCOME TAX

Prima facie income tax payable / (credit) on operating profit / (loss) at 30%	59,315	790,583
Current year tax differences:		
Research and development	(60,000)	(108,339)
Future income tax benefit in respect of tax losses (recognised) / non recognised	685	(682,244)
Deferred income tax benefit in respect tax losses	(1,274,160)	(3,130,493)
Deferred tax liability arising from origination and reversal of temporary differences	1,202,388	3,552,265
Income tax charge/(benefit) reported in the income statement	(71,772)	421,772

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June

Consolidated	Consolidated
2011	2010
\$	\$

Given the current levels of company profitability together with the impacts of the Commonwealth Government initiatives for R&D (that enables a refundable tax offset to be claimed, equivalent to the value of the deduction available under the R&D Tax Concession provisions), the Group has recognised deferred tax assets equivalent to liabilities during the current year.

A deferred tax asset of \$1,274,160 and a deferred tax liability of \$1,202,388 has been recognised during the current year, bringing the total deferred tax asset to \$4,754,653 and the total deferred tax liability to \$4,754,653 recognised at 30 June 2011. This liability arises from temporary differences from accelerated tax amortisation on the Group's intangible assets, primarily the iSPOT R&D study and MyBrainSolutions.

No franking credits are available for subsequent years (2010: nil). Brain Resource Ltd and its 100% owned subsidiaries have not formed a tax consolidated Group for income tax purposes.

5. AUDITORS' REMUNERATION

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

Half year review	30,000	29,980
Full year audit	75,000	65,000
	105,000	94,980

6. RECEIVABLES

Current Receivables

Sale of reports, equipment & drug trials	262,259	368,924
	262,259	368,924
Advances to laboratories for database acquisition	68,745	310,604
Export market development grant receivable	-	200,000
Other receivables	102,414	110,996
	433,418	990,524

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 30-60 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of \$2,450 (2010: \$6,106) has been recognised by the Group and \$nil (2010: \$nil) by the Company in the current year. Movements in the provision for impairment loss were as follows:

At 1 July 2010	-	-
Current year provision	2,450	6,106
Written off against provision	(2,450)	(6,106)
At 30 June 2011	-	-

(b) Trade Receivables Aging

Receivables past due but not considered impaired are: Consolidated \$53,760 (2010: \$185,678). Each of these amounts have been reviewed and discussed with the account manager or debtor and Brain Resource is satisfied that payment will be received in full. Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due. At 30 June 2011, the ageing analysis of trade receivables is as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June

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	Total	0-30 days	31-60 days	61-90 days PDNI*	61-90 days CI*	+90 days PDNI*	+90 days CI*
2011 Consolidated	262,259	207,743	756	3,196	-	50,564	-
2010 Consolidated	368,924	183,245	-	99,772	-	85,907	-

*Past due not impaired (PDNI) and Considered Impaired (CI).

(c) There were no related party receivables.

(d) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables.

Brain Resource only trades with credit worthy third parties. Credits limits are set depending on the type of client involved, which range from large multinationals to individual clinicians. Balances are monitored on a regular basis with the result that there is only very limited exposure to bad debts.

7. CURRENT INVENTORIES

Laboratory hardware – at cost	35,967	38,625
Miscellaneous componentry – at cost	3,334	3,541
	39,301	42,166

8. PLANT AND EQUIPMENT

	Consolidated \$
At 1 July 2009, net of accumulated depreciation	706,039
Additions	151,911
Depreciation expense	(94,933)
Depreciation expense capitalised to Intangible	(117,653)
At 30 June 2010, net of accumulated depreciation	645,364
At 1 July 2010, net of accumulated depreciation	645,364
Additions	49,914
Depreciation expense	(23,798)
Depreciation expense capitalised to Intangible	(137,630)
At 30 June 2011 net of accumulated depreciation	533,850
At 1 July 2009:	
Cost	1,428,571
Accumulated depreciation	(722,532)
Net Carrying Value	706,039
At 30 June 2010:	
Cost	1,570,740
Accumulated depreciation	(925,376)
Net Carrying Value	645,364

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June	Consolidated 2011 \$	Consolidated 2010 \$
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At 30 June 2011:

Cost	1,610,081	
Accumulated depreciation	<u>(1,076,231)</u>	
Net Carrying Value	<u><u>533,850</u></u>	

9. INTANGIBLES – INTERNATIONAL DATABASE AND ASSOCIATED ANALYSIS TOOLS

Development cost at 1 July	16,503,973	11,332,726
Accumulated amortisation and impairment	<u>(842,901)</u>	<u>(788,503)</u>
Net Carrying Amount at 30 June	15,661,072	10,544,223
Additions – internal development	4,224,582	5,171,247
Less current amortisation charge	<u>(136,753)</u>	<u>(54,398)</u>
Net Carrying amount at 30 June	<u><u>19,748,901</u></u>	<u><u>15,661,072</u></u>

No impairment loss was recognised for continuing operations in either the 2011 or 2010 financial year. Also see Note 11c. The intangible additions above include an accrual for costs incurred and unpaid at year end to the value of \$678,449 (2010: \$679,593).

10. OTHER ASSETS

Current

Prepayments	<u>14,702</u>	<u>14,129</u>
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Non Current

Deposits	<u>2,893</u>	<u>2,893</u>
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11. PAYABLES

Current

Trade creditors	641,810	620,611
Unearned income	3,876,582	7,942,597
Other creditors	<u>594,677</u>	<u>638,633</u>
	<u><u>5,113,069</u></u>	<u><u>9,201,841</u></u>

a) Terms and Conditions

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

b) Fair value

Due to the short term nature of these payables, their carrying value is assumed to approximate fair value.

Non Current

Unearned income	<u>4,449,225</u>	<u>4,949,225</u>
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c) Unearned Income

In the 2007 financial year, Brain Resource 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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\$

received in advance but with the condition that this advance is proportionately refundable in the event that Brain Resource fails to complete the project or parts thereof and Brain Resource has been granted a worldwide long term license in respect of the project intellectual property (that is, 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 Brain Resource 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. Brain Resource will separately monitor this disposed of asset, from the rest of the Intangibles, for any indicators of impairment.

12. PROVISIONS

Current Employee provisions	419,871	397,510
Non-Current Employee provisions	179,945	170,362

13. CONTRIBUTED EQUITY

(a) Share capital

Ordinary shares fully paid (see note b)	16,834,052	16,834,052
Convertible Bond – Equity Component (see note f)	1,652,870	-
Ordinary shares fully paid – closing balance	18,486,922	16,834,052

(b) Shares issued

During the current and prior year, no shares were issued as a consequence of option exercises.

Number of ordinary shares – opening balance	91,714,454	91,714,454
Issued during the year	-	-
Number of ordinary shares - closing balance	91,714,454	91,714,454

(c) Share options

Particulars of options granted over unissued shares:

Number of Options	Exercise price Cents per share	Expiry Date	Grant Date
3,500,000	50	26 Oct 11	26 Oct 06
1,676,500	40	9 Nov 11	9 Nov 06
475,000	50	8 May 12	8 May 07
100,000	55	17 Oct 12	17 Oct 07
1,090,000	70	24 Dec 12	24 Dec 07
1,000,000	45	24 Nov 14	24 Nov 09
880,000	43	16 Feb 16	16 Feb 11
8,721,500			

Note:

- During the current year, 880,000 options were issued, no options were exercised and no options expired without being exercised.
- The weighted average remaining contractual life for the share options outstanding at 30 June 2011 is 1.3 years (2010: 2.2 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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\$

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- The weighted average fair value of share options granted during the year was \$0.043.
- While all options issues follow the terms of the Employee Share Option Plan (refer Note 25 for further details), 5.51m options were issued outside that Plan.
- Vesting terms under that plan are typically that 35% of the options issued vest 1 year from issue, 80% after 2 years and all after 3 years.
- 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.

(d) Terms and Conditions of contributed equity

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.

(e) Capital Management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. In this regard, Management constantly monitor capital requirements and market conditions to ensure that a capital structure is maintained that provides the lowest cost of capital available.

(f) Convertible Bond

Convertible bonds issued – Face value	5,000,000	-
Less: Allocation to Debt	(3,287,181)	-
Equity component	1,712,819	-
Convertible Bond issue costs	175,000	-
Less Expensed in current year	(946)	-
Less Offset to Liability	(114,105)	-
Equity Allocation	(59,949)	-
Net Convertible Bond equity	1,652,870	-

The terms and conditions for the Convertible Bond are disclosed in note 28 of this report.

14. ACCUMULATED LOSSES AND RESERVES

Accumulated Losses:

Balance at the beginning of year	3,228,157	5,441,662
(Profit) Loss for the year	(269,487)	(2,213,505)
Balance at the end of year	2,958,670	3,228,157

Reserves:

Balance at the beginning of year	261,405	206,300
Cost of share based payments	50,570	55,105
Balance at the end of year	311,975	261,405

Nature and Purpose of Reserves: Employee equity benefits reserve - used to record the value of equity benefits provided to employees and directors as part of their remuneration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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Consolidated
2011
\$

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2010
\$

15. EARNINGS PER SHARE

Basic and diluted earnings (loss) per share was 0.3 cents per share (2010: 2.4). The net profit (loss) used in the calculation of EPS was \$269,487 (2010: \$2,213,505). The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share is 91,714,454 (2010: 91,714,454). All Options on issue were non dilutive.

The Convertible bonds as described in note 28 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share and 104,060,133 shares on issue have been used in the calculation of diluted earnings per share. These shares have not been included in the determination of basic earnings per share.

16. REMUNERATION OF KEY MANAGEMENT PERSONNEL

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 2011:

	Primary Salary & Fees	Long Service Leave	Post Employment Superannuation	Other Equity Options	Total
2011 Executive Directors:					
E Gordon	211,009	14,375	18,990	2,567	246,941
D Segal	201,835	13,750	18,165	1,284	235,034
Total	412,844	28,125	37,155	3,851	481,975
2011 Non-Executive Directors:					
N Hinzack	11,000	-	990	642	12,632
P Keating	8,250	-	742	3,851	12,843
A Toga	11,000	-	-	642	11,642
R Jamison	11,000	-	990	-	11,990
Total	41,250	-	2,722	5,135	49,107
2010 Executive Directors:					
E Gordon	211,009	14,375	18,990	2,567	246,941
D Segal	201,835	13,750	18,165	1,284	235,034
Total	412,844	28,125	37,155	3,851	481,975
2010 Non-Executive Directors:					
N Hinzack	11,000	-	990	642	12,632
P Keating	11,000	-	990	3,851	15,841
A Toga	11,000	-	-	642	11,642
R Jamison	11,000	-	990	-	11,990
Total	44,000	-	2,970	5,135	52,105

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. No long term benefits or termination benefit payments were made to Directors during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June

Consolidated 2011
\$

Consolidated 2010
\$

Shares and Options held at 30 June 2011:

Name	Ordinary Shares Fully Paid		Options over Ordinary Shares	
	2011	2010	2011	2010
Evian Gordon	11,356,248	11,356,248	1,000,000	1,000,000
Dan Segal	6,350,937	6,333,698	500,000	500,000
Nestor Hinzack	1,017,239	1,000,000	250,000	250,000
Russell Jamison	-	-	-	-
Arthur Toga	287,500	287,500	250,000	250,000
	<u>19,011,924</u>	<u>18,977,446</u>	<u>2,000,000</u>	<u>2,000,000</u>

17. RELATED PARTY DISCLOSURES

(a) Directors

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

Evian Gordon	Appointed 8 August 2000	Paul Keating	Appointed 16 May 2001 / Resigned 6 April 2011
Dan Segal	Appointed 8 August 2000		
Nestor Hinzack	Appointed 16 May 2001		
Arthur Toga	Appointed 16 May 2001		
Russell Jamison	Appointed 5 August 2003		

Refer note 16 above for details of remuneration paid.

(b) Ultimate parent

The consolidated financial statements include the financial statements of Brain Resource Ltd and its subsidiaries. Brain Resource Ltd is the ultimate parent company and directly owns 100% of each of the subsidiaries apart from Brain Resource Europe which is 100% owned by BRC Operations Pty Ltd.

Name	\$ Investment		Incorporation
	2011	2010	
BRC Operations Pty Limited	100	100	NSW Aust
BRC IP Pty Limited	100	100	NSW Aust
BRC Distribution Pty Limited	100	100	NSW Aust
BRC International Pty Limited	100	100	NSW Aust
BRC Development Pty Limited	100	100	NSW Aust
Brain Resource, Inc.	US\$1	-	CA, USA
Brain Resource Europe Limited	€1	€1	Ireland

18. AGREEMENTS WITH ACADEMIC INSTITUTIONS

The Company is or has been party to numerous agreements with academic institutions.

19. FINANCIAL REPORTING BY SEGMENT

The Company operates predominantly in the one industry, namely commercialisation of brain function analysis, and is located in Australia. The Board of Directors reviews the financial statements of the company on a consolidated basis. The entity has two main customers that contributed \$2.9m and \$1.7m to current revenues respectively.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June

Consolidated
2011
\$

Consolidated
2010
\$

21. STATEMENT OF CASH FLOWS

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

Operating profit / (loss) after tax	269,487	2,213,505
Depreciation and amortization	160,551	149,331
Unrealised foreign exchange (gains) losses	985,024	500,622
Share based payments expense	50,570	55,105
(Increase) decrease in inventories	2,865	45,073
Increase (decrease) in trade creditors	21,199	(142,444)
(Increase) decrease in receivables	557,106	17,951
(Increase) decrease in deferred tax asset	-	350,000
Increase (decrease) in deferred tax liability	(71,772)	71,772
(Increase) decrease in other assets	(573)	(186)
Increase (decrease) in other payables	(4,771,060)	(3,721,880)
Increase (decrease) in provisions	31,944	26,563
	(2,764,659)	(434,588)
Net cash inflow (outflow) from operating activities		

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	8,414,168	11,301,862
-------------------------	-----------	------------

22. 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 (2010: \$nil).

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

Minimum lease payments:

- not later than one year amount to \$180,600 (2010: \$114,667)
- later than one year but not later than five years - \$125,216 (2010: \$nil)

23. SUBSEQUENT EVENTS

There have not been any material subsequent events that have or will affect the results of Brain Resource Ltd 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June

Consolidated
2011
\$

Consolidated
2010
\$

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

25. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

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

ii) Employee share incentive scheme. The Brain Resource Ltd employee share scheme was established to 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 generally vest 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 cannot 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. All options (shown above in Note 13c) are issued under the terms of the Plan with the following issued under the Plan.

	Number of options	Exercise price
- granted 9 November 2006	1,266,500	40 cents
- granted 8 May 2007	375,000	50 cents
- granted 24 Dec 2007	850,000	70 cents
- granted 16 Feb 2011	720,000	43 cents
	<hr/> 3,211,500	
Exercisable at 30 June 2011	2,491,500	

26. Risk Exposures and Responses

Primary responsibility for identification and control of financial risks rests with the overall Board. Risk matters are now included as an agenda item at each Board meeting. The Audit Committee includes risk management and the arrangements are reviewed by the full Board of Directors.

The Group's principal financial instruments comprise cash and short-term deposits. The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

Interest rate and Cash Deposit risk

Interest rates applicable to cash financial assets were around 2.0% (2010: 1.9%) with maturities of less than 1 year. All other balances are non interest-bearing.

The Group's exposure to market interest rates relates primarily to the short term deposits. The Board has formed the view that these funds be held in either bank deposits or AAA short term bonds. Currently holdings are in cash deposits with the National Australia Bank. Based on an average cash balance, constant currency weightings and an average interest rate, a +/-10% increase in interest rates would have equated to a change in the after tax profit of around -/+7% (2010: -/+1%).

Foreign currency risk

At 30 June 2011, total cash and cash equivalents were held in Australian Dollars, United States Dollars, Euro and British Pounds in a ratio reflective of current expectations of future expenditures. The Board has adopted the policy to align currency holdings with planned future expenditures, ensuring that the Group's overall purchasing power is maintained during periods of currency volatility. The largest currency exposure is to the US\$/A\$ exchange rate. The cash balances were held in the ratio of around 66% A\$, 31% US\$, and the balance in GBP and Euro. The Group also has transactional currency exposures from both sales and purchases in currencies other than the functional currency. US Dollars dominate revenues and in that regard, a +/-10% appreciation in the AUD/USD rate would have impacted the 2011 after tax profit by around +/- 81% (2010: +/-18%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June

Consolidated
2011
\$

Consolidated
2010
\$

Liquidity risk

Given the relative strength in the Group's financial position, liquidity risks are currently minimal. This is however constantly monitored to ensure this position is preserved. However, please refer to note 11c for refund conditions associated with the iSPOT advance payment.

Credit Risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables, available-for-sale financial assets and derivative instruments. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note. The Group does not hold any credit derivatives to offset its credit exposure. The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. Risk limits are in place and receivable balances are regularly monitored with the result that the Group's exposure to bad debts is not significant.

27. PARENT ENTITY INFORMATION

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

Information relating to Brain Resource Ltd, the parent entity

Current assets	398	140
Total assets	12,143,155	7,321,372
Current liabilities	-	-
Total liabilities	3,184,896	-
Issued capital	18,486,922	16,834,052
Retained earnings	(9,840,639)	(9,774,085)
Reserves	311,976	261,405
Total Shareholder equity	8,958,259	7,321,372
Profit or loss of the parent entity	(66,553)	(57,425)
Total comprehensive income of the parent entity	(66,553)	(57,425)
Details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries	-	-
Details of any contingent liabilities of the parent entity	-	-
Details of any contractual commitments by the parent entity for the acquisition of property, plant or equipment.	-	-

28. Convertible bonds

Non Current - Convertible bonds	3,184,896	-
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(a) Terms and Risk exposures: On 14 June 2011, Brain Resource Ltd agreed to issue \$10,000,000 of zero coupon unsecured Convertible bonds (100 bonds with a face value of \$100,000 each), convertible at the option of the bond holder into ordinary shares at any time prior to 14 June 2016 at a conversion price of \$0.405 per share. At 30 June 2011, 50 bonds had been issued, with the second 50 subject to a number of conditions precedent including the approval by the Subscribers of the appointment of a CEO to lead Brain Resource's US subsidiary and the business plan.

(b) The fair value of the liability portion of the convertible bond is estimated using an interest rate for an instrument with similar debt terms but without the conversion option. This estimate is based on an interest rate of 8.75%. Total transaction costs of \$175,000 have also been allocated between equity and liability on this same basis.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Brain Resource Ltd, I state that:

In the opinion of the Directors:

- (a) the financial statements and notes of the Company and 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 2011 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
 - (iii) complying with International Financial Reporting Standards as issued by the International Accounting Standards Board; 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.
- (c) 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 ending 30 June 2011.

On behalf of the Board.



Dr Evian Gordon
Chairman of Directors

Sydney, 17 August 2011

INDEPENDENT AUDIT REPORT



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
www.ey.com/au

Independent auditor's report to the members of Brain Resource Ltd

Report on the financial report

We have audited the accompanying financial report of Brain Resource Ltd, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(b), the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 the auditor's 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, the auditor considers 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 complied with 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 in the financial report.

Liability limited by a scheme approved
under Professional Standards Legislation

INDEPENDENT AUDIT REPORT



Opinion

In our opinion:

- a. the financial report of Brain Resource Ltd is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(b).

Report on the remuneration report

We have audited the Remuneration Report included in pages 18 to 19 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Brain Resource Ltd for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in blue ink that reads "Ernst & Young".

Ernst & Young

A handwritten signature in blue ink that reads "J K Haydon".

J K Haydon
Partner
Sydney
17 August 2011

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Brain Resource Ltd (Brain Resource) is responsible for corporate governance and strives for high standards in this regard. The Board draws on relevant best practice principles, particularly those issued by the ASX Corporate Governance Council in the guidance document "Corporate Governance Principles and Recommendations" second edition, issued in August 2007, 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 eight principles.

Principle 1: Lay solid foundations for management and oversight

Brain Resource's Board has a small management team reporting to it through its Executive Directors. This allows for the open dialogue consistent with our Company's size and type. Accordingly, Brain Resource has not yet formalised those functions reserved to the Board and those delegated to management and does not have formal written processes for evaluating the performance of senior executives. This matter remains under review.

Principle 2: Structure the Board to add value

Brain Resource has sought to maintain a Board with a common vision and complementary relevant experience. The majority of the Board members are independent directors. Brain Resource does not currently comply with the recommendation that the Chairman should not also be the Chief Executive Officer (CEO). Given the nature of our operations and current stage of development, Brain Resource does not see the added benefit in separating these roles at this stage.

Brain Resource does not have a separate Board Nomination Committee, with the full Board and the Remuneration Committee carrying out this role. This includes reviewing Board performance, size and capacity of the Board (with appropriately experienced independent directors). An internal performance evaluation of the Board was carried out during the year. The Board takes the view that because of the small size of the Company and its limited financial capacity, there is no added benefit that will accrue at this stage from compliance with the requirement to have a separate Nomination Committee.

Each Director of the Company has the right to seek independent professional advice at the expense of the Company (this requires the prior approval of the Chairman but will not be unreasonably withheld).

Principle 3: Promote ethical and responsible decision-making

Brain Resource has a current policy concerning trading in its securities by Directors and Executives who must consult with the Chairman or the Chief Operating Officer (COO) before dealing in Brain Resource shares. Purchases or sales of Brain Resource shares are ideally carried out 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, its quarterly report 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.

Brain Resource 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 contains the most appropriate and effective operational procedures.

Principle 4: Safeguard integrity in financial reporting

The Executive Chairman/CEO and the COO 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. They comment on whether the financial statements are founded on a sound system of risk management and internal control and whether the system is operating efficiently and effectively.

Brain Resource's Audit Committee, comprising Messrs Segal and Hinzack, who are suitably qualified accountants, meets with the Company's external auditors at least once during each half-year and reports to the Board prior to the finalisation of the financial statements and prior to the signing of the Audit Report. 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. The Audit

CORPORATE GOVERNANCE STATEMENT

Committee has a formal charter which sets out the Committee's role, responsibilities, composition, structure and membership requirements.

Principle 5: Make timely and balanced disclosure

The Board is very aware of the ASX's continuous disclosure requirements and operates 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.

Principle 6: Respect the rights of shareholders

All significant information disclosed to the ASX is posted on Brain Resource's website as soon as it is disclosed to the ASX. When analysts are briefed on aspects of operations, new material used in the presentation is released to the ASX and posted on the website. Written policies ensure disclosure of price sensitive information and ensure that the requirements of continuous disclosure are met. These written policies and procedures are designed to ensure appropriate communication with, and participation by, shareholders. Brain Resource has requested the external auditor to attend general meetings and this has been supported by the audit partner at Ernst & Young.

Principle 7: Recognise and manage risk

At this stage, no formal policy on the oversight and management of material business risks is in place. As the business grows, this will need to be reviewed with policies on risk oversight and management of risk implemented. The Audit Committee includes risk management and the arrangements are reviewed by the full Board of Directors. Risk matters are 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 and internal controls.

Principle 8: Remunerate fairly and responsibly

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 performance evaluation of the Board during the past financial year.

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

Functions of the Board

The functions of the Board include:

- ensuring that Brain Resource 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, including assessing risk, on behalf of shareholders;
- reviewing 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 Brain Resource's auditor;
- appointment of, and assessment of the performance of, the CEO 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 Brain Resource.

SHAREHOLDER INFORMATION

Information relating to shareholders as at 31 July 2011

Substantial Shareholders (includes indirect interests):	Number of Shares
Spinite Pty Limited	16,711,311
Evian Gordon	11,356,248
Stuttgart Pty Limited	9,390,416
Dan Segal	6,350,937

Distribution of Shareholders

Number of ordinary shares held	Number of Holders	Ordinary Shares	Percentage
1 - 1,000	5	2,180	0.0
1,001 - 5,000	92	286,532	0.3
5,001 - 10,000	113	976,795	1.1
10,001 - 100,000	184	7,425,640	8.1
100,001 - and over	91	83,023,307	90.5
	485	91,714,454	100.0

At the prevailing market price of 35 cents per share, there were 7 shareholders with less than a marketable parcel of \$500.

Holder Name	Number	Ownership
Spinite Pty Ltd	16,338,231	18%
Dr Evian Gordon	10,427,748	11%
Stuttgart Pty Ltd	9,390,416	10%
Dan Segal	5,731,250	6%
Citicorp Nominees Pty Ltd	2,795,330	3%
Dr Chris Rennie	2,357,916	3%
Red Star Developments Pte Ltd	2,231,650	2%
Link Traders (Aust) Pty Ltd	2,000,000	2%
Professor Peter Robinson	1,782,917	2%
Digue Pty Ltd	1,680,000	2%
HSBC Custody Nominees Limited	1,548,000	2%
King's College London	1,437,500	2%
Krzysztof Kozek	1,150,000	1%
Zandane Pty Ltd	1,017,239	1%
RBC Dexia Inv. Serv. Aust. Nom. Pty Ltd	944,500	1%
National Nominees Limited	816,666	1%
Ceyx Holdings Pty Ltd	800,000	1%
Stanlil Pty Ltd	775,000	1%
Segal Super Pty Ltd	760,000	1%
Professor Jim Wright	718,750	1%
	64,703,113	71%
Other Holdings	27,011,341	29%
Total Fully Paid Shares and quoted on the ASX	91,714,454	100%

SHAREHOLDER INFORMATION

Unquoted Options

The Company has 8,721,500 options on issue (or 9.5% of the total shares on issue) comprising:

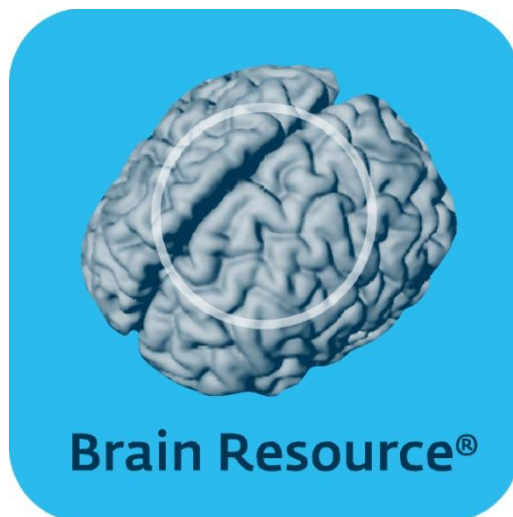
- i. 3,500,000 options were issued to 5 Directors, as approved at the 2006 AGM, with an exercise price of 50 cents and which expire on 26 October 2011.
- ii. 1,676,500 options were issued to 48 eligible staff with an exercise price of 40 cents and which expire on 9 November 2011.
- iii. 475,000 options were issued to 2 eligible staff with an exercise price of 50 cents and which expire on 8 May 2012.
- iv. 1,090,000 options were issued to 57 eligible staff with an exercise price of 70 cents and which expire 24 December 2012. A further 100,000 options were issued to a consultant with an exercise price of 55 cents and which expires 17 October 2012.
- v. 1,000,000 options were issued pursuant to shareholder approval at the 2009 AGM with an exercise price of 45 cents and which expire 24 November 2014.
- vi. 880,000 options were issued to staff with an exercise price of 43 cents and which expire 16 February 2016.

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.

Convertible Bonds

The company has Fifty Convertible Bonds of \$100,000 each, being together the June 2011 \$5,000,000 Convertible Bonds on issue. The principal terms are zero coupon, convertible into ordinary securities in accordance with the terms and conditions of the convertible bonds at a conversion price of AU\$0.405 per ordinary share. On conversion of a Convertible Bond into ordinary shares, new shares will be issued which rank equally with the ordinary shares then on issue. The Convertible bonds do not participate in dividends paid on ordinary shares. However, interest is payable in this event in accordance with the bond terms of issue. The Convertible bonds are not shares, are not listed, and do not entitle holders to vote at general meetings of the company.



30 June 2011

Brain Resource Ltd

ABN: 24 094 069 682

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

Phone +61 2 9213 6600 / investor@brainresource.com

www.brainresource.com