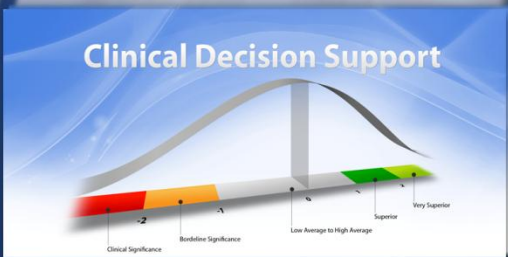


Brain Training Platform

MyBrainSolutions
Optimize Yourself

The Brain Training Platform section features a pink-to-white gradient background. It displays several overlapping screenshots of the software interface, including a "Thought Challenge" module. The MyBrainSolutions logo and tagline "Optimize Yourself" are positioned at the bottom left.

Treatment Prediction Research

Questionnaire Standardized Assessments Database Genetics
Cognition Physiology Imaging

The Treatment Prediction Research section has a grey-to-white gradient background. It features a central diagram with seven circular icons: a question mark for "Questionnaire", a database symbol for "Standardized Assessments", a brain for "Genetics", a gear for "Cognition", a person for "Physiology", and a brain with a key for "Imaging".

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,

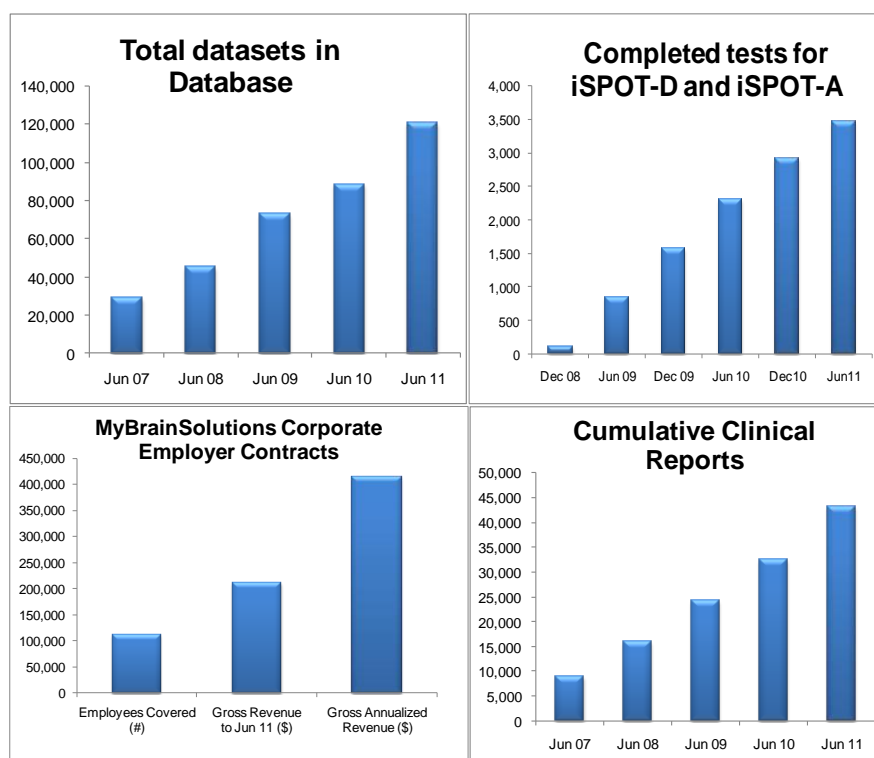


Dr Evian Gordon
Chairman of Directors

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

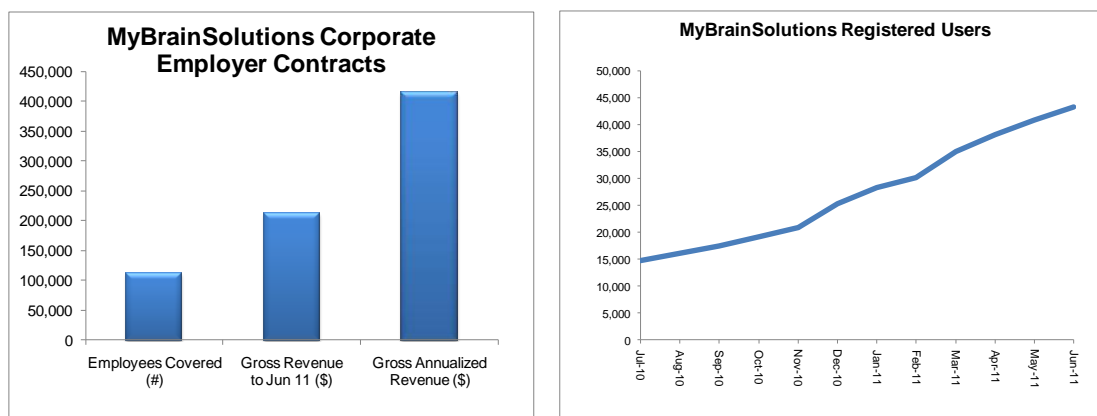
In one integrated site, www.MyBrainSolutions.com provides a personalized assessment to know your brain and brings together a suite of games and exercises to train your brain within one site and to optimize your wellbeing and productivity.

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.

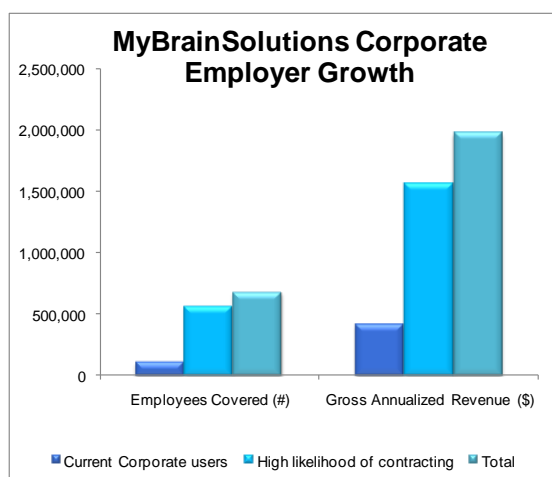
OptumHealth continues to sell *MyBrainSolutions* and discussions are progressing with other managed care companies to act as distributors (from January 2011, on expiry of our previous exclusivity, we were able to build new distribution channels).

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.

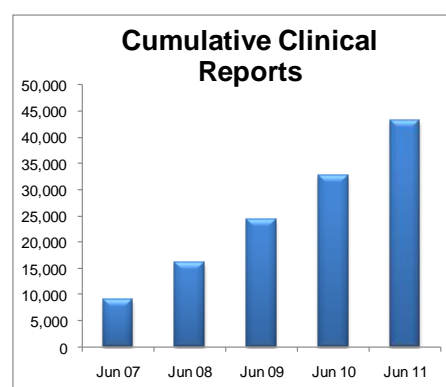
3. Clinical Decision Support

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

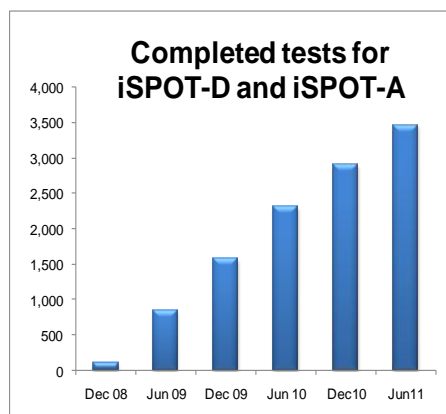
Personalized Medicine is transforming the landscape of Healthcare. The pressure is growing on all Pharmaceutical Companies, Biotechnology Companies and ANY Treatment Provider – to show objective evidence, comparative effectiveness and tests that can predict who is most likely to respond to what treatment.

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."

Operational Review

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.