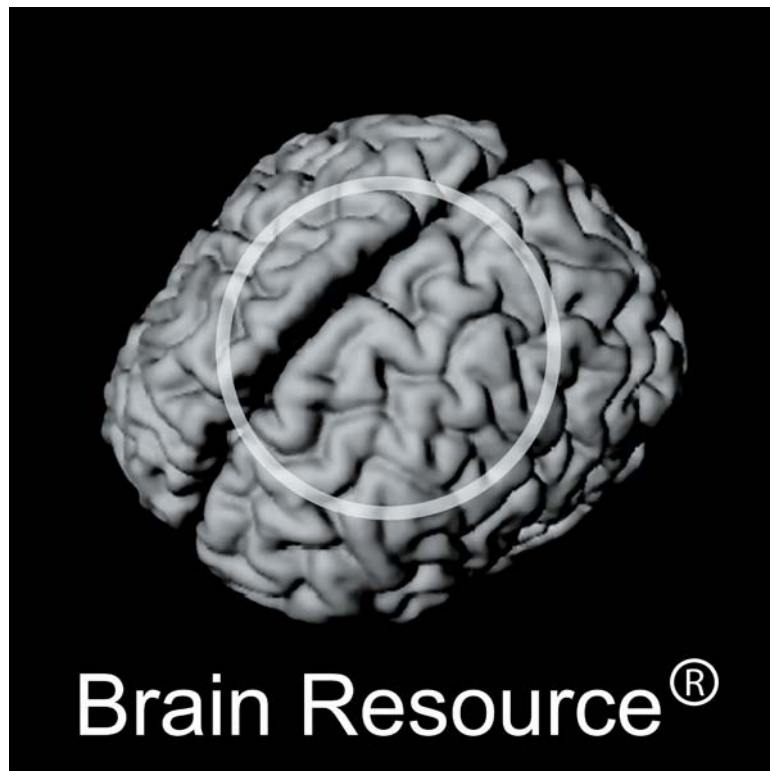


The Brain Resource Company Limited

ACN 094 069 682 / ABN 24 094 069 682



Annual Report 2004

CORPORATE DIRECTORY

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

BOARD OF DIRECTORS

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

COMPANY SECRETARY

Robert Waring

AUDITORS

Ernst & Young

REGISTERED AND PRINCIPAL ADMINISTRATIVE OFFICE

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(from October 2004 we expect to be moving to Level 12, 235 Jones Street, Ultimo)

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Email: info@brainresource.com

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

SHARE REGISTRY

Registries Limited

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

Telephone: +61 (0) 2 9279 0677

Facsimile: +61 (0) 2 9279 0664

STOCK EXCHANGE LISTING

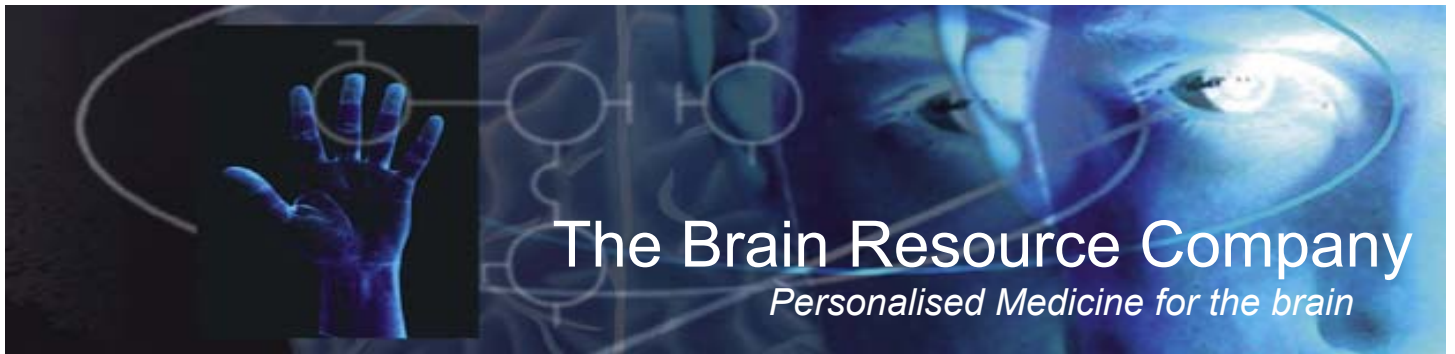
Listed on Australian Stock Exchange Limited - ASX Code: **BRC**



TABLE OF CONTENTS

Chairman's Report	i
Operational Review:	
1. Highlights	ii
2. Personalised Medicine industry background	v
3. BRC Resource and business description	xi
4. Current year achievements	xiv
5. Financial Report	xix
6. Growth Outlook	xxi
Appendices	xxiii
Report of the Directors	1
Statement of Financial Performance	3
Statement of Financial Position	4
Statement of Cash Flows	5
Notes to the Accounts	6
Directors' Declaration	20
Independent Audit Report	21
Corporate Governance Statement	23
Shareholder Information	25

Chairman's Report



30 August 2004

Dear Shareholders

This update marks the third anniversary of BRC. I am most pleased to report that our team continues to make significant strides in positioning BRC as a preeminent global leader in brain function analysis.

There have been many external developments during the current year of tremendous benefit to BRC. Healthcare has begun to transform to a more personalised approach, factoring that everyone is different and hence may respond differently to the same treatment. This transformation is being driven by some of the most powerful US Government agencies (Food and Drug Administration, National Institutes of Health) and corporate giants (including GE and IBM). BRC's methodologies directly service this focus on 'Personalised Medicine'. Thus for the first time since we commenced operations, there are now external developments which support and validate BRC's approach and the need for our type of services.

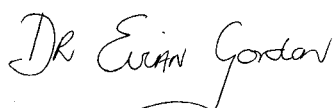
BRC has built a very powerful resource which is now being used in over 40 sites in six countries, including supplying eight major pharmaceutical companies. This is a significant achievement by our team in only three years.

BRC's database remains unique in terms of its size, standardisation and breadth of integration - complemented by BRC's new analytical tools. BRC is well positioned to provide new insights into identifying markers for a range of disorders and to assess whether the treatments are having the desired effects.

Year four of our business plan is expected to aggressively leverage this base.

We remain most appreciative of shareholder support in our pursuit of this rapidly emerging global opportunity.

Yours sincerely

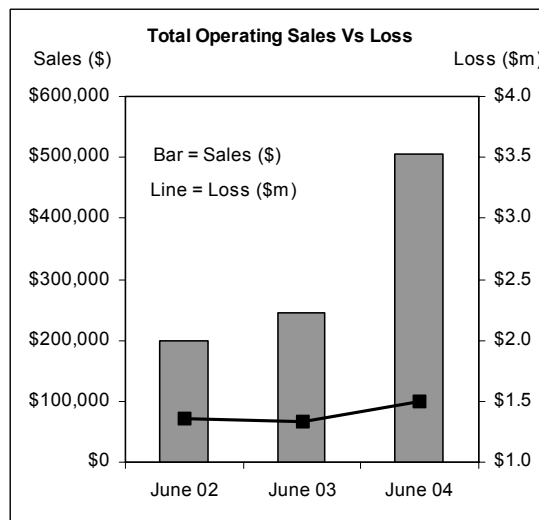
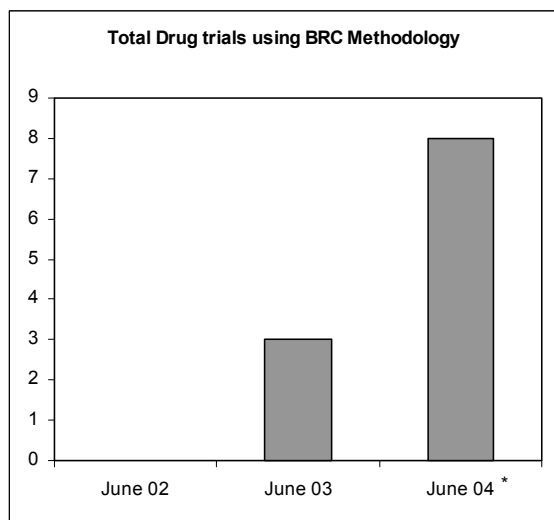
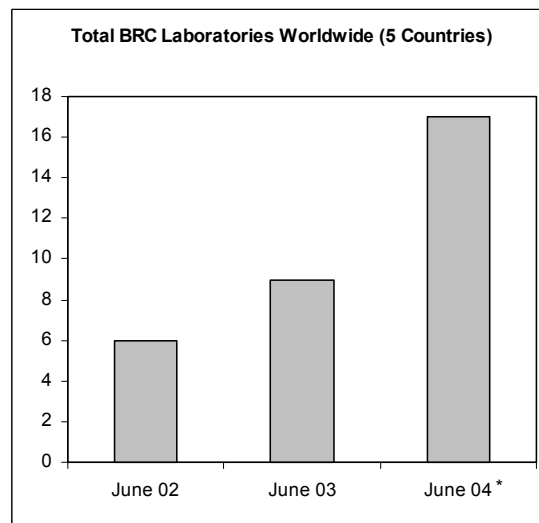
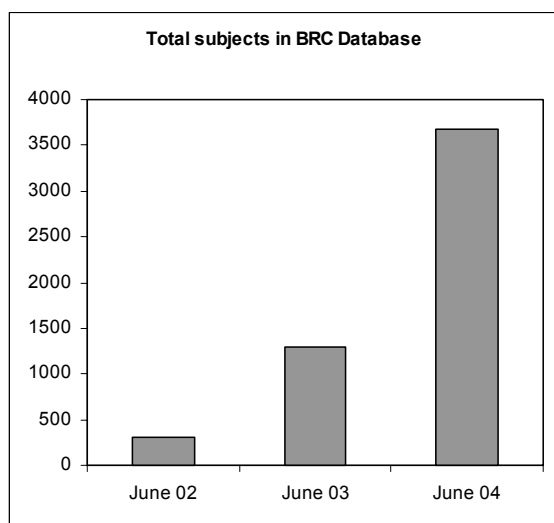


Dr Evian Gordon
Chairman and CEO

Operational Review

Current year highlights – the year to 30 June 2004

- BRC has made strong progress during the current year:
 - the BRC International Standardised Database has almost tripled in size;
 - the number of BRC Laboratories has almost doubled;
 - the number of drug trials using BRC methodology has almost tripled;
 - operating sales have increased by more than 100%; and
 - the loss was held close to the prior year level, despite the increased spend required to drive growth.



* Labs include recent US and South African additions.

- Complementing our achievements, possibly the most significant event of the previous year has been delivered by external drivers: the industry transforming shift towards personalised medicine. BRC directly services this need and accordingly this development is enormously positive for BRC.
- Successful completion of the first major trial (Lilly). Given the complexity and size of this trial, its timely completion was most gratifying. This trial has provided us with the first showcase of what our methodology and global

Operational Review

network can deliver - that is new insights, cost effectiveness and across site reproducibility.

- The database growth, shown above, was delivered without the contribution from the recent scaling of the BRC Laboratory network. This incremental contribution will provide a significant enhancement to our scaling power.
- BRC's resource has shown the first signs of predictive capabilities - that is the ability to predict with a high degree of confidence which patients will respond to which treatment. This evolution has enormous consequences for the business going forward.
- We were most privileged to have both Peter Wodtke and Professor Anthony Sinskey respectively accept Board and Scientific Advisory Committee positions. It is a huge coup to have such highly credentialed people join BRC. Both are US based and should provide significant impetus to our US efforts.
- BRC now has distribution in six countries through BRC agents, Laboratory operators and Integ Neuro Service Providers. Integ Neuro is currently in use in more than 40 locations around the world. The recently launched web products further expand our reach.
- We have launched a succession of new product offerings, most recently we launched our web based Gur Emotion Test developed in conjunction with University of Pennsylvania. Our suite of eight products allows us to meet the needs of any brain function analysis requirement. These were cost effective to develop as they drive off one common resource.
- First exclusive hospital deal with Netcare (Southern Africa's largest healthcare organisation) for five BRC Laboratories to be spread across South Africa.
- Scientific publications in each component of the database have been accepted in international peer reviewed journals. We also continued to present at major conferences including an invitation to speak at internal meetings at the US Food and Drug Administration and the US National Institutes of Health.
- External recognition of the quality of science also include a fourth Government grant and the Eureka prize for Interdisciplinary Research. In addition, BRC Rhode Island received a prestigious US National Institutes of Health SBIR grant award.
- Institutional capital raising organised by Citigroup raising just under \$4m at 45 cents per share.
- Consistent with our business plan, 2005 is the year for major focus on: (1) scaling; and (2) targeting the power of the BRC resource to specific disorders. The opportunity for BRC to entrench its current leading position, as the world's premier brain database company and to build an unassailable position, remains a realistic goal. In part, we are set to benefit from the power of Metcalfe's Law: *"the usefulness, or utility, of a network equals the square of the number of users"* through our ability to roll out BRC 'turn key' standardised laboratories anywhere in the world.

Operational Review

Introduction

This report marks the successful completion of the third year of BRC's current five year plan aimed at: (i) establishing BRC as a global leader in the provision of brain function analysis services to a wide range of users; and (ii) delivering scientific outcomes of the highest quality that underpin the business. The plan targeted annual milestones:

2002 - establish the company and lay foundations; 2003 - scaling the database and robustness of processing systems; 2004 - build on foundation growing the product portfolio and sales and distribution; 2005 - scale distribution and begin identifying markers for specific disorders; and 2006 - begin harnessing and translating database insights into new treatment R&D.
--

BRC is in a far stronger position than foreseen in the original plan due to the following:

- (1) The macro environment is undergoing transformative change. "Personalised Medicine" is emerging as one of the most significant events in healthcare. While our plan was predicated on the need for change, the pace and magnitude of what is occurring is significantly ahead of anything we anticipated. BRC services this need and accordingly is uniquely positioned to capitalise.
- (2) We are on the cusp of being able to demonstrate the capabilities of the resource that has been carefully constructed over the last three years. It is only now that the power can be showcased, including through 'evidence based' data outcomes, publications and case studies drawing on the drug trials completed. In addition, we are also now able to begin meaningful scaling, harnessing the power of our standardised model.

These themes are the focus of this report and explored in more detail in the following six sections:

1. Personalised Medicine and why this is important for BRC;
2. BRC resource and business description;
3. Current year achievements;
4. Financial report;
5. Growth outlook; and
6. Appendices.

Also, please see our website www.brainresource.com where more detailed information, beyond the scope of this report, is required (for example: specific product information/brochures, list of scientific publications, etc).

Operational Review

1. Personalised Medicine - Industry Background

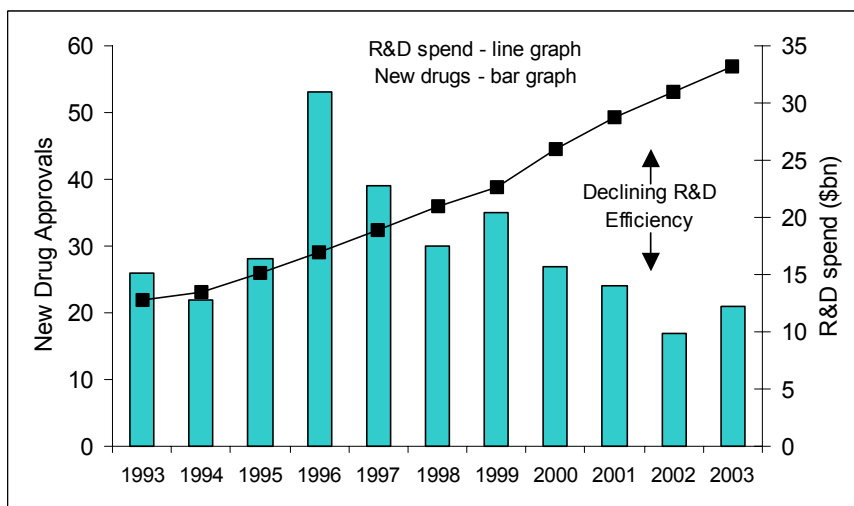
"Using genomic testing to guide drug therapy will constitute a significant shift from the current practice of population-based treatment towards "fine-tuning" individual therapy," Janet Woodcock, Director of the US FDA's Center for Drug Evaluation and Research.

A sectoral shift in healthcare (drug development and treatment) is underway. The current practice of 'population based' treatment is shifting towards 'Personalised Medicine'. BRC was founded on the need for evidence based/Personalised Medicine in assessing brain disorders. The largest business risk outlined in our August 2001 Prospectus was the time frame for this need to become appreciated. In this regard, the changes over the last year have been nothing short of dramatic. This transformation is expected to increasingly lift demand for services of the kind offered by BRC and BRC is ideally placed to capitalise on these opportunities.

1.1 The need for change

- Health care spend continues to escalate around the world.
- New drug development costs are growing with new drug approvals falling.
- Concerns about regarding drug efficacy.

Health care in the US now is now at around 15% of GDP (9% in Australia). Any increases in spend above current levels, will clearly place tremendous pressures on the US economy, which already has to deal with costs of an aging population. There is therefore a great need to extract efficiencies in the health care system.



The above graph shows that while R&D costs are increasing, new drug approvals are falling (Source: PhRMA, FDA). Total spending on drug R&D continues to be robust with US\$33bn spent in 2003 (Pfizer/Pharmacia with the largest spend of US\$6bn). This spend has increased annually, with the 5 year compound average growth rate around 10% per annum (PhRMA). The current estimated cost of developing a new drug, from inception to market, is around US\$900m per drug (Tufts Center for the Study of Drug Development), up from US\$125m in 1980 (Jurgen Drews – In quest of tomorrow's medicines).

Operational Review

The Research and Development programs of the major pharmaceutical companies have been biased towards the development of blockbuster drugs, that is drugs aimed at servicing the widest possible population groups. What is needed, to ensure higher success rates and lower costs, are more targeted drugs which allow more efficient and smaller trials to be conducted. As an example, a 10% improvement in the ability to predict failures early in the trial has been found to save US\$100m in development costs (Boston Consulting).

Benefits from increased targeting would also flow through to marketed drugs. There is a sizable percentage of patients currently that enjoy no real benefits from taking the particular drug or worse, in certain instances, suffer adverse reactions. The reason for this are divergences in human biology which the 'all things to all people' approach of blockbuster drugs fails to reflect. That is, two people could have exactly the same symptoms but respond quite differently to the same treatment (as an example, The Physicians' Desk Reference (2002) shows efficacy rates in Alzheimer's treatments at 30% and for depression at 62%).

1.2 The promise of Personalised Medicine

Personalised Medicine can be defined as being the ability to individualise therapy by predicting which individuals have a greater chance of benefit or risk, helping to maximize the effectiveness and safety of drugs. This relies upon:

- being able to identify key signature markers (biomarkers) associated with a particular disease or disease subgroup;
- having an available treatment for that particular disease; and
- being able to identify those markers in a particular subject so as to effectively match the treatment with the individual.

What has changed is not the model of personalised medicine but its power and breadth of application, this power driven by advances in biological science and the application of IT based solutions. For example, this model already works in heart disease: (1) high cholesterol is a marker; (2) treatments exist for high cholesterol; and (3) individual patient blood samples can be tested for high cholesterol identifying those who will benefit from treatment. Unfortunately, most disorders are not as easy to characterise.

Advances in biomedical science have helped build a much broader profile of individual biology. These advances include bioinformatics, genomics, imaging technologies and computer modelling. Advances such as these are integrally tied to advances in information technology which have allowed these biological insights to be encapsulated into useful new software based diagnostic tools. Databases can also be created to provide highly reliable reference frames (normative averages).

Databases are an ideal source for exploring and identifying the biomarkers that empower Personalised Medicine. These markers can be made up of individual components of the database or emerge from mining the broader correlations and patterns between sub-groups. Clearly, the wider the individual profile that can be databased, the more reliable and richer the insights. Individual profiles can now be databased which encapsulate their genome map, brain structure, etc, with all this

Operational Review

information available for use in finding markers and treatment discovery and evaluation.

The consequences of a personal medicine approach is that drug R&D and treatment are expected to benefit from a better understanding of patient biology, leading to: reductions in trial and error treatments; better dosages; revival of failed drug candidates; reduced development costs, given more targeted subjects; and new opportunities for treatments.

1.3 FDA initiatives kick-start personalised medicine

The US Food and Drug Administration (FDA) is the most powerful healthcare regulatory body in the world. No drug or medical device can be sold in the US market without FDA approval.

The FDA recently issued two vitally important and wide ranging initiatives which could prove seminal in establishing Personalised Medicine as a key part of drug development and healthcare. These well considered and highly constructive initiatives anchor the Personalised Medicine transformation and begin the process of addressing the above issues.

The statements are:

- Guidance on Pharmacogenomics data - issued November 3, 2003.
- Innovation or Stagnation? Challenge and Opportunity on the Critical Path to New Medical Products - issued March 16, 2004.

The common link was that they both called for greater incorporation of new technologies into the drug development and drug evaluation processes. The first deals explicitly with a key element of Personalised Medicine and the second deals with it more implicitly though its usefulness in drug evaluation. Given these are early days, the direction they are pointing towards is as significant as their content driving industry change. These releases are paraphrased below (see www.fda.gov for further detail).

1.3.1 Guidance on Pharmacogenomics data

This guidance is the FDA's first step towards integration of personalised medicine into the process of demonstrating that new drugs are safe and effective, and thus this guidance is intended to facilitate this integration. It encourages drug (pharmaceutical companies) and biologic (biotechnology companies) developers to conduct pharmacogenomic tests during drug development and clarifies how the FDA will evaluate the resulting data. It is intended to ensure that evolving regulatory policies and study designs are based on the best science; provide public confidence in this new field where scientifically appropriate; facilitate the use of such tests during drug development; and clarify for industry what types of pharmacogenomic data to submit to the FDA.

Pharmacogenomics deals with the small genetic differences in individuals that help explain why some people respond positively to a drug, while others don't respond, or may experience a side effect. Thus including pharmacogenomic information in assessing new drugs increases the likelihood of being able to personalise therapy by

Operational Review

using pharmacogenomic markers to predict which individuals have a greater chance of benefit or risk.

"Pharmacogenomics holds great promise to shed scientific light on the often risky and costly process of drug development, and to provide greater confidence about the risks and benefits of drugs in specific populations. It is a new field, but we intend to do all we can to use it to promote the development of medicines." FDA Commissioner Mark McClellan.

1.3.2 Innovation or Stagnation? Challenge and Opportunity on the Critical Path to New Medical Products

This major report identifies both the problems and potential solutions to the daunting task of ensuring that the unprecedented breakthroughs in medical science are quickly converted into safe and reliable new treatments. That is, it examines the "Critical Path" between medical product innovation and product development.

It identified disturbing trends, indicating systemic problems. Despite the tremendous potential for new medicines to emerge from the scientific advances, fewer are actually reaching the FDA and patients. The problem identified was that not enough work has been done in creating new tools which can quickly and cost effectively show the safety and effectiveness of new products – that is tests which will actually show whether the new drug actually benefits people. The report calls for the FDA together with academia, industry and patient groups to embark on an aggressive collaborative effort aimed at creating this new generation of performance standards and product development toolkit. This toolkit requires powerful new scientific and technical methods such as computer based predictive models, biomarkers and new clinical evaluation techniques. Better tools will protect subjects, improve return on R&D investments and bring needed treatments to patients sooner.

"Today, as never before, we face a tremendous potential for new medicines to prevent and cure diseases, but fewer new products are actually reaching the FDA. We need to turn the process of bringing these technologies to patients from a costly and time-consuming art form to a well-understood science" FDA Commissioner Mark McClellan.

Note that these reports have overlap with the National Institutes of Health's (NIH) "Roadmap" for medical research. The NIH is the world's foremost medical research center and the US Federal Government's focal point for medical research in the United States.(see <http://nihroadmap.nih.gov>).

1.3.3 A pharmaceutical company perspective

The following comments were extracted from a National Press Club Address, (Washington 4 November 2003) made by Sidney Taurel, Chairman and Chief Executive Officer at Eli Lilly and Company "...one-size fits all is a formula for excluding a lot of people...medicine is headed in the opposite direction toward what some are calling personalized medicine...the agency [FDA] wants to promote the development of new methods, such as imaging technology and biomarkers in blood samples, that can help industry sort strong candidates from weaker ones earlier and more cheaply....I believe this is the single most encouraging story now emerging in our field."

Operational Review

1.4 IBM and GE Personal Medicine positioning

Both companies have been positioning for this change for some time. IBM created the Life Sciences group four years ago in anticipation of the many changes underway. The GE Medical Systems division provided the natural launch platform.

1.4.1 IBM - Information Based Medicine Unit

"The healthcare industry is under tremendous pressure to address patient safety, quality of care and cost issues. IBM is deeply committed to developing the on demand solutions and offering the consulting expertise and business insights that can help the healthcare industry transform. Working with IBM Business Partners, we can help bring catalytic change and help the industry deliver on the promise of better patient care." Dr. Caroline Kovac, General Manager IBM Healthcare and Life Sciences (IBM February 19, 2004 press release).

IBM has recently formed an Information Based Medicine Business Unit to bring greater focus to the critical role information technology plays in the emerging field of personalised medicine. Information based medicine uses IT to help doctors deliver more personalised healthcare, making available data such as genetic profiles, medical images and other research that can be integrated with clinical information to give a more complete picture of factors that may influence a patient's medical condition. This initiative was part of a \$250 Million IBM Global Healthcare Initiative.

BRC became an Advanced Business Partner of IBM in February 2003, this further recognition of IBM's commitment to capitalising on personal medicine in the brain. At the time, Mr Bill Doak, Life Sciences Executive IBM Asia Pacific stated that the partnership would "strengthen IBM's foothold in the emerging frontier of brain function analysis".



1.4.2 General Electric Company - \$10bn acquisition of Amersham plc

"GE and Amersham will be an exciting combination of talents, businesses and technologies. Amersham's diagnostic pharmaceutical and life sciences business will add new, high growth platforms to GE Medical's diagnostic imaging, services and healthcare information technology businesses. The combination of this technological and market knowledge will allow GE to accelerate the development of molecular imaging and personalised medicine where it will be possible to predict and treat disease with therapies tailored to the individual." Jeffrey Immelt, Chairman of the Board and Chief Executive October 10, 2003 press release.

GE believes the acquisition positions them for a new chapter in medicine by creating a healthcare company with broad expertise in imaging, diagnostic pharmaceuticals and drug discovery. It creates a group of technology and service driven healthcare businesses which will have combined revenues in excess of \$13 billion. GE Healthcare's expertise in medical imaging and information technologies, medical diagnostics, patient monitoring systems, disease research, drug discovery and biopharmaceuticals is dedicated to detecting disease earlier and tailoring treatment for individual patients. They offer a broad range of services to improve productivity in healthcare and enable healthcare providers to better diagnose, treat and manage patients with conditions such as cancer, Alzheimer's and cardiovascular diseases.

Operational Review

1.5 BRC's 5 step approach to Personalised Medicine

Personal medicine covers a very wide spectrum. However, understanding personal differences in the brain has arguably greater importance than any other part of the body, given that the brain's networks are so highly individualised. BRC is especially well positioned to make a significant contribution given that its anticipation of this trend to Personalised Medicine has allowed it to be uniquely positioned.

BRC's approach is focused on finding the key signature markers which allow predictions to be made as to who will respond best to which treatment. To do this requires "evidence based" tools that can deconstruct the key elements of the process. BRC's standardised "evidence based" database which profile brain function, cognition, structure and genetics (coupled with unique analysis tools) are addressing this problem in a 5 step process:

Data category in Database	Rationale for dataset
1) Normal subjects	To understand dysfunctional responses you first need to understand the baseline average normal brain function characteristics.
2) Subjects with disorders as diagnosed by clinicians	This allows the signature markers for the disease to be identified from the clinical subject groups.
3) Robust characterisation of treatment indicators in normals and clinical subjects	This allows the drug impact to be determined. This results in a matrix of what drugs impact which subject groups.
4) Personalised profiles	This allows the individual subject's profile to be assessed and their individual characteristics identified.
5) An ability to match individual with treatment	The end result is that the database provides insight into finding which drug is best for the particular patient.

Accomplishing each of the above steps are in their own right powerful milestones with commercialisation opportunities. For example, identifying robust signatures associated with a particular disorder has significant implications for furthering an understanding of that disorder, with consequences for testing new drugs and drug development.

As an aside, having a wide range of disorders in the database is as important as having the normative reference frame. The reason for this is to be able to determine specificity (what is unique to that disorder) and to elucidate the effect of comorbidities (interactions which exist between two disease groups – for example between depression and anxiety).

1.6 Benefits to BRC

BRC has built a world leading Personalised Medicine resource. These tools have the power and flexibility to provide any form of subject/database comparison ranging from comparing individuals to the database normative or clinical averages (age and gender matched) to longitudinal studies of individual subjects pre/post medication. As Personal Medicine gains increasing acceptance, implicitly so will BRC. This has many significant benefits:

Operational Review

- 1) Communicating and selling BRC's service becomes easier, as client appreciation of the need and benefits from a personalised approach grows.
- 2) As mentioned above, the FDA and NIH are possibly two of the most influential bodies in the world with regards to health. The FDA is now acknowledging the need for a new toolkit in the way drugs are tested and administered. This provides BRC with the real opportunity of being able to demonstrate that it can fill a component of this need. This in turn opens the longer term opportunity for BRC to become an increasingly accepted/required part of any brain drug trial.
- 3) This has the potential to flow on to being part of the treatment process, for example as tests are required to screen whether a drug will have the desired benefits for a particular individual, together with ongoing monitoring of efficacy. (Theranostics [*therapeutics + diagnostics*] is a term gaining acceptance the link grows between the need for a precursor test, to assess the patient's suitability to a particular medication, and administering the drug. The implications of this need are evolving, and BRC being able to service this need has great significance for the future of our business.

2. BRC resource and business description

BRC has built the world's first standardised integrated international brain database bringing together a range of imaging modalities (personal and medical history, EEG/ERP, Cognition, sMRI, fMRI and genetics).

2.1 Intellectual Property

BRC has built an extensive suite of proprietary intellectual property. This includes the following:

Action & time taken to date	Time*
Establish global collaborations and multidisciplinary team	20 years
Standardisation in global network of 40 scientists	5 years
Processing engine	5 years
Report generator	3 years
Data management	5 years
New analysis tools including simulation model	30 years
Turn key laboratories, caps and multifunction boxes	5 years
INTEG NEURO acquisition software and touch screen modifications	3 years
NEURO MARKER acquisition software and associated hardware	5 years
Functional and quantitative MRI software	4 years
Data acquisition for standardised database	3 years
Convergence of the above into a suite of commercial products	3 years

* indicative only and for example excludes the many years over which the ideas and insights germinated. BRC has software in excess of 1 million lines of operating code.

Provisional patents have been taken out, four to date, covering aspects of the above. We are currently proceeding with applications for registering patents for at least two of these.

Operational Review

2.2 Current Database composition

Subject group	Datasets Numbers*
NEURO MARKER = EEG/ERP/Cognition/Genetics/demographics:	
Normals	1,400
Clinical	750
BRx - Pre/Post Drug	600
Total	2,750
NEURO MARKER + MRI:	
Normals – sMRI	350
Normals – fMRI	80
Total	430
INTEG NEURO = Cognition:	500
TOTAL	3,680

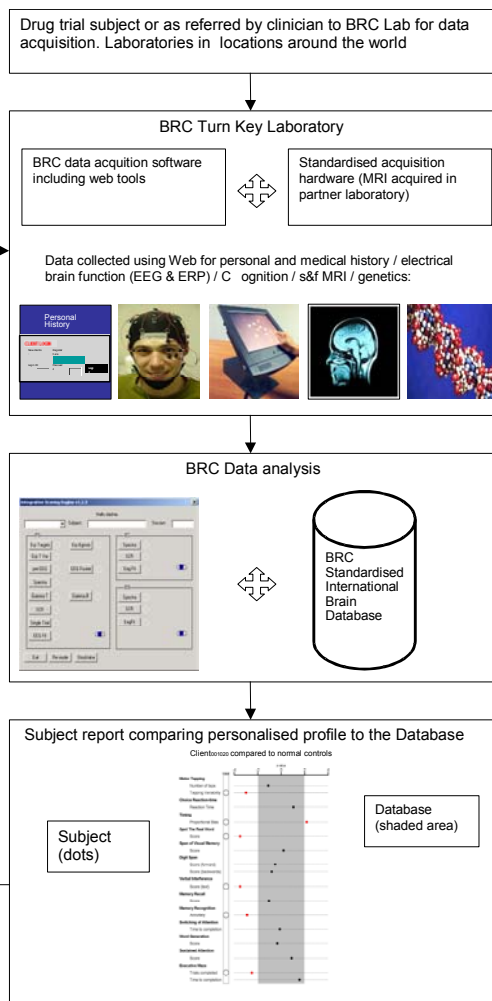
* as of end June 2004. Note there is more than one dataset per individual where appropriate eg pre/post treatment. Subject numbers currently exceed 3,000.

Note this was effectively generated through the multiple Laboratories in operation during the current year. Growth is currently increasing at around 5% per month. Clearly this is expected to accelerate as the new laboratories come on stream in the near future.

2.3 Business cycle: data acquisition, analysis and report income

BRC earns its income from providing analysis of brain function. The following generic steps are followed, in full or in part, depending on the service being provided:

- i) The subject being assessed:
 - is allocated a number by the referring clinician or independent BRC Laboratory ensuring privacy of the data in the BRC database;
 - enters personal and medical history using the BRC website;
 - undertakes BRC's web based tests;
 - visits the BRC Laboratory and undergoes Electrical and Cognitive testing and provides a cheek swab of genetic material; and
 - visits a BRC partner MRI facility for MRI scans.
- ii) The data is then sent to BRC and analysed, including comparison with the database, and a report generated and returned to the referring clinician / BRC Lab (or directly to the subject for the web based tests) with BRC paid for the report.



This full workup undertaken in a BRC Laboratory is shown pictorially to the right.

Operational Review

2.4 Distribution Model & Products

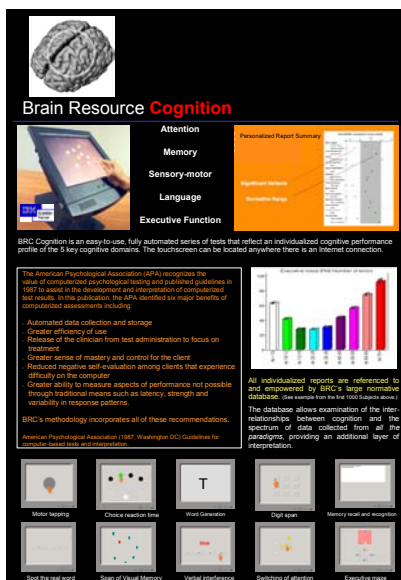
BRC services are currently distributed as follows, with further distribution currently being considered.

Distributor	Location
BRC Agents	US, Australia, Holland, UK, South Africa, Israel.
BRC Laboratory Operators	US, Australia, Holland, UK, South Africa.
BRC Integ Neuro Service Providers	US, Australia, Holland, UK, South Africa, Israel.
The World Wide Web	

BRC products comprehensively cover a wide spectrum of brain function analysis:

- Brain Resource Cognition
- Brain Resource EEG/ERP
- Brain Resource Quantitative MRI
- Brain Resource Functional MRI
- Brain Resource Genetics
- Brain Resource Web Questionnaire
- Brain Resource Gur Emotion Test

Brain Resource NEURO MARKER & INTEG NEURO™ are integrative combinations of the above. The following shows Cognition and Gur brochures (see our website for the full compliment of brochures for each product).



Brain Resource Cognition

Attention
Memory
Sensory-motor
Language
Executive Function

BRC Cognition is an easy-to-use, fully automated series of tests that reflect an individualized cognitive performance profile of the 8 key cognitive domains. The touchscreen can be located anywhere there is an internet connection.

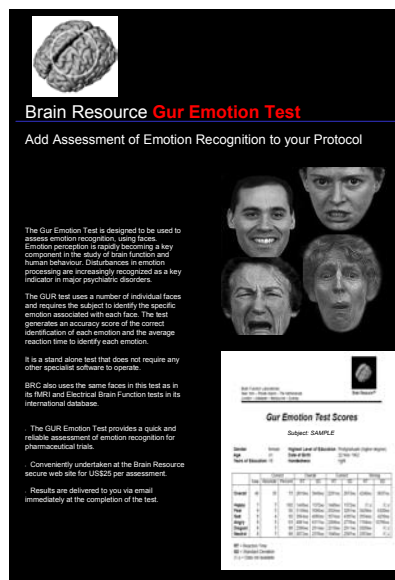
The American Psychological Association (APA) recognizes the value of computerized psychoassessment and published guidelines in 1987 to assist in the development and interpretation of computerized test results. In this publication, the APA identified six major benefits of computerized assessments, including:

- Automated data collection and storage
- Greater efficiency of use
- Release of the clinician from test administration to focus on treatment
- Greater sense of mastery and control for the client
- Reduced negative self-evaluation among clients that experience difficulty on the computer
- Greater ability to measure aspects of performance not possible through traditional means such as latency, strength and variability in response patterns.

BRC's methodology incorporates all of these recommendations, American Psychological Association (1987, Washington DC) Guidelines for Computerized Clinical and Experimental.

All individualized reports are referenced to and generated by BRC's large normative database. Assessment scores can be statistically compared. The database allows examination of the inter-relationships between cognition and the spectrum of data collected from all the paradigms, providing an additional layer of interpretation.

Motor tapping, Choice reaction time, Word Generation, Digit span, Memory recall and recognition, Spot the real word, Spot of Visual Memory, Verbal interference, Switching of attention, Executive maze



Brain Resource Gur Emotion Test

Add Assessment of Emotion Recognition to your Protocol

The Gur Emotion Test is designed to be used to assess emotion recognition, using faces. Emotion perception is rapidly becoming a key component in the study of brain function and human behaviour. Disturbances in emotion processing are increasingly recognized as a key indicator in major psychiatric disorders.

The GUR test uses a number of individual faces and requires the subject to identify the specific emotion associated with each face. The test generates an accuracy score of the correct identification of each emotion and the average reaction time to identify each emotion.

It is a stand alone test that does not require any other specialist software to operate.

BRC also uses the same faces in this test as in its BINA and Electrical Brain Function tests in its international database.

The GUR Emotion Test provides a quick and reliable assessment of emotion recognition for pharmaceutical trials.

Conveniently undertaken at the Brain Resource secure web site for US\$25 per assessment.

Results are delivered to you via email immediately at the completion of the test.

Gur Emotion Test Scores
Subject: SAMPLE

Age	Sex	Higher Level of Education	Psychological Report	Number of Faces
20-29	M	High School	100%	10
30-39	F	College	95%	10
40-49	M	High School	90%	10
50-59	F	College	85%	10
60-69	M	High School	80%	10
70-79	F	College	75%	10
80-89	M	High School	70%	10
90-99	F	College	65%	10

2.5 Current users

BRC is currently supplying services to major pharmaceutical company trials including:



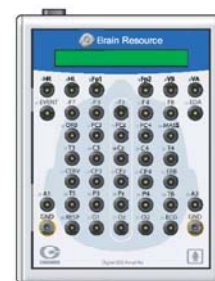
Operational Review

BRC is supplying a range of clinicians with the NEURO MARKER services for their use in Alzheimer's Dementia, Attention Deficit Hyperactivity Disorder, Sleep, Depression, Traumatic Brain Injury, Medico-legal and Post Traumatic Stress Disorder.

BRC is supplying a range of medical and non-medical users with INTEG NEURO services for use in performance markets including screening of train drivers, toxicology, workers compensation. The IBM partnership is also targeting specific tenders.

2.6 Strategic alliances

The formation of strategic alliances is an important component of BRC's strategies. To date, we have established strategic relationships with key best in class suppliers. We are an Advanced Business Partner of IBM and our alliance with Compumedics Limited (CMP) has continued to evolve. EEG technology is a key component of a BRC Laboratory. The CMP NUAMP was selected as our amplifier of choice for the 'turn key' standardised BRC laboratory configuration. CMP have recently provided us with a BRC specification EEG amplifier. Discussions have commenced to find partners in the other key areas (MRI and Genetics).



3. Discussion of current year highlights

BRC has continued to deliver end points ahead of initial expectations in terms of our strategic positioning, the market's receptivity and the power of the resource. We have built a first mover advantage in this emerging space which thus far remains intact. A competitor for BRC's database and integrated offering is still to emerge.

3.1 Validation

As discussed above, the current year has marked a turning point in terms of external signs validating BRC's approach. Specific validation of BRC include:

- the awarding of a fourth Linkage Grant by the Australian Research Council to explore the use of BRC's brain and genetics methodology in screening for early signs of abnormal function (eg. in Alzheimer's disease) and to assess treatment effects;
- The Royal Societies of Australia awarded the 2003 Eureka Prize (in August 2003) for Interdisciplinary Scientific Research to key BRC scientists "For their model, which is changing our view of how the brain functions". This model is a powerful part of BRC's foundation Intellectual property;
- BRC Rhode Island (an independently owned franchisee) received a prestigious US National Institutes of Health (NIH) Small Business Innovative Research (SBIR) grant award for a project focusing on Mild Cognitive Impairment and early Alzheimer's dementia; and

Operational Review

- Peer reviewed publications in international journals in each area of the database: fMRI, SMRI, Genetics/Cognition, Electrophysiology and validation. In addition, most recently, BRC had eight published poster abstracts at the July 2004 Organisation for Human Brain Mapping International conference (please see our website for reference list);
- Key BRC scientists were invited to present at numerous conferences during the year including, most recently, Dr Evian Gordon being an invited speaker on the use of brain imaging in drug discovery at the abovementioned conference. As importantly, BRC was an invited speaker at internal meetings at the FDA and NIH during the current year

3.2 Drug trials

Drug trials remain BRC's focus. There were four new drug trials using BRC services added during the year to June 2004 including with Biogen, Cephalon and UCB. In addition a further trial was added soon after the financial year end. This brings the total to eight trials that have used BRC methodologies.

An extremely significant development during the current year was completion of our first trial (Lilly). This was a highly complex trial with many challenges and hence we are pleased to report a successful completion. This trial has provided us the platform to showcase the power of our resource and demonstrate the value of our proposition:

- cost effectiveness;
- efficiency – trial data was delivered to Lilly within 6 days of completing the last subject visit, including with a first pass analysis of the trial outcomes;
- quality control – this trial was done at multiple sites, with trial results supported by across site reproducibility; and
- and ability to provide new insights – showed marked dosage effects.

The other trials are in various stages of progress with all active trials running to plan.

As an aside, we now have increasing incidences where the trial work we are undertaking is subject to stringent confidentiality. Accordingly, there will continue to be instances where we are unable to even disclose the name of the company we are doing work for. This is the case in our most recent unannounced trial win.

3.3 Brain Resource Cognition - INTEG NEURO™

Brain Resource Cognition is an automated series of cognitive performance tests launched early in the current year.

Brain Resource Cognition has been built on an IBM Kiosk platform (their top end hardware product) – this integrated solution marketed under INTEG NEURO™. IBM has very recently launched a new product platform equally suited to this use. We believe this will enhance the attractiveness of this solution and appeal to a wider range of users.

It is now being used in more than 40 locations around the world. Our major focus for this product remains to secure large scale contracts. Contract lead times are fairly extended and we are continuing to make progress evolving our position. We are optimistic that our ground breaking efforts will begin to yield outcomes in the not too distant future. We continue to work with IBM on planning for and pursuing these

Operational Review

opportunities. Also, of great significance is that we have added numerous clinicians to the BRC network during the current year.

It is still early days in the life of this product and we are most excited by its prospects and encouraged by the early interest in its use in a wide range of applications including:

- Pharmaceutical industry - drug trials;
- Transport company - testing the vigilance of drivers;
- Managed age care - used in assessing early Alzheimer's Dementia;
- Toxicology - assessment of the effects of metal toxicity and its treatment;
- Clinicians – including Attention Deficit Disorder; sleep studies, medical legal; and
- Government research grants - early Alzheimer's Dementia; Attention Deficit Disorder and Post Traumatic Stress Disorder.

3.4 Clinical

We have made strong progress during the current year in preparing our resource for clinical application in a variety of disorders. As flagged previously, our approach is to work closely with the referring clinicians and to let them decide how they wish to use our service. This includes clinician driven publication of results in international peer reviewed journals. The focus is on identifying robust 'biomarkers' which objectively assess who is showing a benefit from treatment and ultimately to predict who will respond best to which treatment.

Our initial focus has been on identifying the markers for Attention Deficit Disorder. This is a large study across three cities. We have initial indications of being able to predict who will respond to treatment – see following. This is an exemplar that is being extended to a number of selected disorders which our foundation work has showed will be most likely to yield outcomes. Accordingly, our focus for building the database has converged on:

- Alzheimer's Dementia;
- Attention Deficit Disorder;
- Post Traumatic Stress Disorder;
- Depression;
- Traumatic Brain Injury; and
- Schizophrenia.

See Appendix 1 for market size estimates and potential longer term opportunity.

Attention Deficit Disorder 'biomarker' identification

We have following the five step process, outlined in Section 1.5 above, to identify the relevant markers associated with Attention Deficit Disorder. We have found a particular combination of database measures, referenced to our analytical tools, predict a subject's propensity to respond to treatment with a greater than 90% confidence level. This algorithm is currently the subject of additional verification work which could be patentable.

A selection of subject data is summarised in the following diagram.

- i) 'Prediction Coefficient' – BRC has developed an algorithm for calculating a 'prediction coefficient', a summary number for a subject's profile relative to the database and also relative to that subject over time. This includes selected measures of brain function and cognition. A positive number suggests a

Operational Review

positive response prediction, that is that the subject will respond to treatment, and a negative number a negative response prediction.

- ii) The middle section shows selected responses used to assess the subject's performance after medication. That is a shaded block shows a significant change after medication, with an up arrow representing an improvement and a down arrow a deterioration. Overall performance summarises the subject's overall post medication performance. An empty space implies no significant difference with medication.
- iii) The right column assesses the accuracy of the Brain Resource Prediction Coefficient. Consistent with the above comment of greater than 90% accuracy, there was one inaccurate prediction in the sample shown below.

PREDICTION			OUTCOME AFTER MEDICATION							Prediction Accuracy
CASE	Responsive	Prediction Coefficient	memory recall	memory capacity	language	motor	attention	planning	overall performance	
1	Yes	4.24	↓				↑	↑	↑	✓
2	Yes	3.06	↑	↑	↑			↓	↑	✓
3	Yes	2.78		↑		↑	↑	↑	↑	✓
4	Yes	2.22	↑	↑			↑		↑	✓
5	Yes	2.13		↑		↑			↑	✓
6	Yes	1.79	↓			↑		↑	↑	✓
7	Yes	1.55		↑	↑	↑	↑	↑	↑	✓
8	Yes	1.46		↑	↑		↑	↑	↑	✓
9	Yes	0.97		↑			↑	↑	↑	✓
10	Yes	0.17	↑	↓	↑			↑		x
11	Yes	0.16		↑			↑		↑	✓
12	No	-0.01			↑					✓
13	No	-0.36	↓							✓
14	No	-0.39	↓		↓					✓
15	No	-0.95	↓				↑			✓
16	No	-1.30				↑	↓	↑		✓
17	No	-1.50						↑		✓
18	No	-2.60	↑	↓						✓
19	No	-3.00								✓
20	No	-3.60								✓

3.5 New products

Based on customer demand, we are now offering elements of our integrated offering as stand-alone products - see table above in section 2.4. This allows us to better match our service to specific client needs. We initially encountered demand for offering our cognitive test battery as a stand-alone product which led to the development of INTEG NEURO.

We have also now begun to offer web equivalents of select components of our offering. Most recently, we have launched the Gur Emotion Test, developed in conjunction with University of Pennsylvania. This test has been a standard part of the acquisition protocols in the database. In future we will also offer a web equivalent of INTEG NEURO (tailoring to the web does however require significant compromises to be made relative to the current platform).

Operational Review

3.6 BRC Turn Key Laboratories

We had our first 'soft' launch of our BRC Laboratory offering in June 2004. Since then, six new Laboratories have been added (with several others currently under discussion), almost doubling the scale of our network and providing early indication of the potential for growth from future more widespread campaigns. This brings our total to 17 BRC Laboratories worldwide:

Location	Number of BRC Laboratories
Australia	5
USA	4
South Africa	5
Holland	2
UK	1

This growth included the agreement with Netcare Hospital Group Pty Limited (a division of Network Healthcare Holdings Limited – 'Netcare') granting them an exclusive right to operate BRC Laboratories in private hospitals in South Africa. Under the agreement, Netcare will initially open five BRC Laboratories in their hospitals across South Africa over the coming three months. This is the first exclusive deal of its kind. Netcare is the largest, integrated private healthcare organisation in Southern Africa (64 hospitals, 7,650 beds, 2,200 medical specialists).

BRC's 'Turn Key' laboratory allows us to scale anywhere in the world. As the network expands, the faster the data grows which in turn delivers better insights leading to greater demand which drives further scale. We will cross a threshold at some point where this cycle become self fueling (an analogy is Metcalfe's Law: *"the usefulness, or utility, of a network equals the square of the number of users"* - Robert Metcalfe designed the Ethernet protocol for computer networks). By way of example, the telephone is of very limited use if only you have one. As each friend gets one, it then becomes more and more useful. Hence we are hoping that the more that join our network the power will grow exponentially.

3.7 US Team

We were enormously privileged to have Peter Wodtke (based in New York) accept a Board position and for Professor Anthony Sinskey (Professor of Biology, MIT Boston) to accept a position on our Science Advisory Board. It was a huge coup to have such highly credentialed people join BRC. Both are US based and provide significant credibility for our US efforts. We have been working with the highly credentialed MedPharma Partners LLC in growing our US presence. This further enhances the strength of our existing franchisee network in the US.

3.8 Competition

We have not seen any significant change in the competitive landscape during the current year. Our sense though is that, given the magnitude of change that is occurring and the size of the opportunity, it would be naïve to expect that this will go un-noticed. Most importantly, we are continuing to evolve with a growing database and distribution network and are thus in a strong position to maintain our lead. The entrance of competition, at this early stage, could even be beneficial in helping to define and grow the market. This opportunity covers a very broad landscape and can easily accommodate many new entrants. See Appendix 2 for the competitive analysis included in our previous Annual Report, which remains current.

Operational Review

4. Financials

a) Total revenues increased by 120% to just under \$900,000

Sales (A\$)	2004	2003	Growth %
Drug Trials and reports	313,459	137,013	129
Sale of equipment	192,000	109,175	76
Total Sales	505,459	246,188	105
Total Revenues incl. Interest	890,531	407,519	119

Sales revenues increased by 105% to just over \$500,000. The major contributor to this increase was drug trials, and in particular, the successful completion of the Lilly trial. As importantly, the current year revenues included for the first time contributions from the sale of clinical reports (NEURO MARKER and INTEG NEURO). Equipment sales comprise BRC 'turn key' Laboratories and associated equipment and also the sales of IBM Kiosks. While our revenues are expected to be dominated by reports, equipment sales will continue to contribute (with scope for reasonable margins on this equipment).

Other revenues comprised interest and Government grants. Interest income of just under \$250,000 increased due to the greater levels of cash on hand during the current year and grants of just under \$140,000 including the Federal Government's Export Market Development Grant and the NSW Government's BioBusiness Grant.

b) Costs increased by 30%

Expenses (A\$)	2004	2003	Growth %
Total costs	2,738,614	2,104,847	30
Selected significant costs:			
Total salaries & consultants	1,430,558	1,035,612	38
Marketing and travel	237,682	196,413	21
Audit, tax, listing and legal fees	134,812	110,049	23
Rent	86,622	78,077	11
Communications & Web	91,865	65,637	40
Operating expenditure cash spend per month	195,595	138,335	41

We have continued to management costs, with all increases a function of the natural growth of the business.

The major component of expenses remains salaries, which consistent with the overall growth in the business, increased by just under 40%. As flagged in our November 2004 placement announcement, this increase was in part due to increased expenditures on sales and marketing including in the US. In addition, the increase was also due to the drug trials underway. We expect this to continue to increase, aligned with growth in drug trial and other revenues.

Cash burn is expected to begin to show some variability as direct costs begin to escalate, tied to revenues, and as we continue to grow marketing capabilities. We previously flagged (Chairman's Address to the 2003 AGM) that the operating cash burn would grow to \$225,000 per month. This remains the case, with any increases above that level tied to specific revenue growth. The increases in other costs were in

Operational Review

line with plans and merely reflected the increasing costs associated with the business growth, eg communications.

c) The operating loss increased by 13%

Loss (A\$)	2004	2003
Loss before tax	(1,848,083)	(1,697,328)
Add: Income tax benefit	349,437	371,296
Loss after tax	<u>(1,498,646)</u>	<u>(1,326,032)</u>

The complexity of the BRC business, as with many R&D based organisations, requires long lead times to convert sales. To date, our successes in winning drug trials, while faster than expected, has still taken in some instances up to three years of work. Accordingly we need to spend money, including on marketing, well in advance of conversion to sales. As mentioned previously, we have increased our marketing spend. Despite this, we have managed to curtail any increase in the Loss.

d) Monthly capital expenditure fell by 35%

Capital expenditures fell to just under \$500,000 for the current year. The major factors for the decrease was, as set out in the original business plan, the reduced requirements to internally fund the database which now is being partly fueled by other sources including government grants and fee paying customers that consent to have their data included. In addition, we did not need to spend as much on computer infrastructure during the current year. We expect computer spend to occur in 2-3 year cycles, in line with computer lifetimes.

e) Closing cash balance of \$5.8m

BRC is in a relatively strong financial position with just under \$6m in the bank as at June 2004.

Citigroup Global Markets acted as lead manager in a \$4m placement at 45 cents per share in November 2003, with institutional clients taking the majority of the issue. These additional funds were to allow BRC to more fully capitalise on the uniqueness of its methodologies, the increasing appetite and receptiveness for brain function analysis services and the breadth of opportunities for our products and services, in part through increasing our US market presence.

f) Reconciliation of Cash consumption to June 2004

The BRC resource has been constructed with relatively minimal resources as shown in the following table of source and application of funds since inception:

Operational Review

	To Date
Source of funds:	
IPO August 2001	5,003,006
Feb 2002 placement (at 25.0 cents per share)	1,000,000
May 2003 placement (at 26.5 cents per share)	2,250,000
Nov 03 Placement (at 45.0 cents per share)	3,812,026
Total funds raised	12,065,032
Less cash balance at 30 June 2004	5,845,833
Cash consumption to 30 June 2004	6,219,199
Application of funds:	
Listing costs	584,926
Foundation IP (cash component)	210,600
Capitalised R&D	506,490
Database	812,497
Plant and equipment	628,489
Inventory	199,220
Other net operating cash*	3,276,977
Total	6,219,199
*Included in net operating cash:	
Income and other cash received including tax rebates	2,493,767
Salaries	(2,894,519)
Other expenses	(2,876,225)

5. Outlook and future opportunities

Consistent with our business plan, our focus in 2005 is on:

- 1) scaling distribution; and
- 2) targeting the power of the BRC resource to specific disorders.

We expect our revenues to remain dominated by drug trials, but with a growing component from reports and other processing fees. As discussed above, we have begun to grow our BRC Laboratory network and this is expected to contribute around \$0.5m to 2005 equipment sales. In addition, we have a growing number of users worldwide and a growing suite of web products which are expected to increasingly contribute. Given BRC's relative stage of immaturity it would however be inappropriate to make any specific forecasts.

The following considerations are however worth noting: (1) our cost structure is such that one material contract could dramatically alter our profitability; (2) we are the global leader and as such there is significant opportunity for growth; and (3) cash flow breakeven will be determined by the extent to which we pursue this growth. The Board is well cognisant of this need for optimise this growth/cash balance. The following tables provide some insight into these opportunities. All are significant and will be pursued at a speed and level which is consistent with our available resourcing.

Capitalising on these opportunities would help ensure that BRC is entrenched as the world's premiere brain database company and the company of choice for providing :

- insights into brain disorders and to help develop new treatments;
- the brain function mandatory component of FDA registerable trials; and
- clinical assessment services and delivering efficiencies in medication.

Operational Review

Table 1. Current services and the scale opportunity

Current services:	Description	Scale opportunity	Customers primarily
NEURO MARKER suite of services	Personalised profiles for use in assessing treatment efficacy in drug trials and selected clinical use.	Increased marketing to widen BRC Laboratory network and to increase database numbers which increase the breadth of application.	Drug developers, clinicians, Pharma benefit schemes, Medico-legal, Workers Compensation.
INTEG NEURO suite of services	Cognitive performance assessment, targeting and monitoring.	Increased marketing targeting the large contract opportunities and a broader spectrum of users/markets.	drug trials, police, security, fire, pilots, train drivers, insurance, sport, workers' compensation.

Table 2. Selected possible future evolution paths stemming from the current BRC resource. (The timing and extent to which these are pursued will depend on future resources).

Future services:	Description	Scale opportunity	Customers primarily
Drug development	Input into developing new drugs using database insights to target.	This opens the opportunity for BRC to benefit from royalty streams.	Drug developers
BRx - responses to marketed CNS drugs	Monitoring of marketed drugs, supplying information on the most efficient treatments available.	Servicing increasing focus on drug efficacy.	Drug companies, pharma benefit/insurance schemes and government departments.
Patented biomarkers	Identifying markers of diseases and drug responses.	Pathology type tests for a range of disorders.	Assessment service providers including radiology and pathology, drug developers.
Cognitive Gym	Brain function retraining and self monitoring.	Services a very wide market of those concerned with cognitive fitness.	Those seeking to improve performance.
BR-Engine	Licensing the key BRC analysis tools.	Pharma and other large scale users will increasingly want access to BRC processing capabilities in house.	Pharmaceutical and large organisational users.

Operational Review

Appendix 1 - Pharmaceutical market opportunity

US pharmaceutical sales for the year to June 2004 grew 10% to around US\$180bn. Of particular relevance to BRC, US sales of Central Nervous System drugs (CNS refers primarily to the brain) were the fastest growing category at 23% to just under US\$40bn. This is driven off an R&D spend per annum of more than US\$7bn on brain related drugs. More than 300 new brain drugs are currently in the pipeline (including 26 Alzheimer's, 25 depression and 4 ADHD). In the US, 7% of total health spend is on mental disorders. Depression is now the leading cause of disability globally with around 19.1m Americans affected, costing the US economy an estimated US\$44bn per annum. Sales of anti depressives are by far the largest of any CNS category, with more than 18m prescriptions filled per annum in the US alone. An estimated 12 million people worldwide suffer from Alzheimer's disease. Growth in pharmaceutical spend is outpacing that of healthcare in many markets, with the need to control drug costs an increasing focus of governments. (Sources for the above and following include: PhRMA - the US Pharmaceutical industry body and IMS).

The following is an attempt to estimate the addressable market size for BRC type brain function services. These estimates are at best indicative given that many of the assumptions made are very difficult to objectively quantify.

1) Drug R&D: Conservatively, these services are relevant to at least 25% of CNS drugs in development and around 5% of each drug's development processes. This equates to an addressable market of more than US\$100m per annum. In addition, this excludes the application to other drugs which may also have indirect brain impacts.

2) Clinical: These services have an important future role in assessing treatment selection and efficacy. The table below shows the number of US sufferers for each disorder targeted. We have applied a factor estimating that percentage seeking treatment and another factor for those we estimate would benefit from BRC type services. This shows a theoretical addressable market of 10.4m patients per annum. This addressable market revenues could range from US\$0.4bn to US\$1.5bn assuming 10% and 40% of that market could be serviced.

Disorders	ADHD	Alzheimers	Depression	Schizophrenia	PTSD	Sleep	Pain	Head Injury	Total
Costs to US economy pa (\$bn)		100	44	32		100	80	48	404
Drugs in development 2000/1	10	24	26	16	2	5	41	3	127
Drugs in development 2002/3	4	26	25	12		7	44		118
Number of key drugs available	9	4	13	7			5		38
Number of prescriptions pa (m)	2.5	0.8	18	3.5			13		37.8
Number of sufferers US (m)	2	4	19	2	5	20	75	5	132
Assumed % of patients seeking treatment	75%	80%	45%	75%	40%	5%	10%	80%	
Total treated (m)	2	3	9	2	2	1	8	4	29
<i>Source : www.fda.gov / who / PhRMA/IMS/JP Morgan</i>									
Est. treated patients benefit from BRC type service	80%	40%	50%	40%	85%	20%	10%	10%	
Addressable market pa (m)	1.2	1.3	4.3	0.6	1.7	0.2	0.8	0.4	10.4

Brain function services revenue opportunity

	10%	15%	25%	40%
% US sufferers tested				
Number of tests per patient pa	2	2	2	2
Implied number of tests	2,081,000	3,121,500	5,202,500	8,324,000
Patient throughput per day	5	5	5	5
Number of days	200	200	200	200
Implied number of laboratories	2,081	3,122	5,203	8,324
Assumed charge per test	500	500	500	500
Brain function service provider share	200	200	200	200
Total Revenue from US market alone (US\$m)	\$416	\$624	\$1,041	\$1,665

Operational Review

Appendix 2 – Competition

We are not aware of any significant change in the competitive landscape since our last Annual Report. BRC is targeting very large markets and thus clearly all have a wide range of service providers offering elements of BRC's total offerings. We remain unable to identify a company with BRC's identical focus, depth and breadth. Hence the following repeats the table included in the 2003 Annual Report. BRC's competitive advantage rests on:

- a leading position;
- standardisation and quality control;
- an integrative and multidisciplinary approach;
- an unprecedented profile of the brain in one Database;
- evidence based statistical comparison of subjects to the International Database;
- new computerised analysis tools, including a simulation model
- commercial grade high efficiency processing and analysis engine; and
- highly scalable business model, with additional clinics easily added and standalone products allowing wide distribution globally.

Current suppliers	Attraction of BRC offer	Direct competitors
1. Drug R&D		
Contract Research Organisations (CRO), academic departments and internal departments within the Pharmaceutical Companies themselves.	Standardisation, across site reproducibility, new insights from integrative approach and new analytical tools, centralised analysis efficiencies (succeed/fail fast), breadth of modalities and protocols, backed by International Database.	While several suppliers offer elements of BRC's offering, the insights and efficiencies provided by BRC's depth and breadth of integration and standardisation is unmatched.
2. Screening/INTEG NEURO		
Psychological testing has been around for decades, and thus there are many players world wide offering services including: CDR, BARS, CATs, Cognisyst, Cogstate, Cambridge Cognition.	Empowered by standardisation and integrative database allowing broader insights than cognitive databases alone, automation, ease of use, ease of administration, voice files, quality control through standard IBM hardware solution, efficient analysis and report generation.	Only one or two have BRC's level of automation using a stand alone touchscreen, with most pencil and paper based. None are backed by an integrative database.
3. Assessing treatments in individuals		
An emerging market with great demand for evidence based assessments of the efficacy of the prescribed drugs.	Scientific credibility and unprecedented integration of evidence based assessment.	Hard to identify specific competitors other than the neurofeedback suppliers which target markets including ADHD.

Barriers to entry are high and possibly best summed up in a 2000 Nature editorial entitled "Databasing the Brain". This review emphasized the power of databasing the brain. However, the challenges of doing this were also well summed up, specifically:

- the ability of international researchers to reach a consensus on what to include;
- the technical differences across the way the data is acquired; and
- the reluctance of researchers to share their data in what has traditionally been a "data hugging" community.

BRC has successfully overcome all these obstacles and this is one of its strongest advantages.

FINANCIAL STATEMENTS AND REPORTS
YEAR ENDED 30 JUNE 2004

REPORT OF THE DIRECTORS

Your Directors submit their report for the year ended 30 June 2004.

DIRECTORS

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

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

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

Dan Segal, BCom, CA, MSc (Commercial Director)

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

The Hon Paul Keating, (Non-Executive Director)

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

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

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

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

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

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

Russell Jamison has more than 25 years of experience as a legal practitioner in South Australia. He is the current Chairman of the Board of Victim Support Service of SA Inc. He was appointed on 5 August 2003.

Peter Wodtke (Non-Executive Director)

Peter Wodtke has extensive global experience in wide range of industries including being the longest serving non executive director of Holcim Ltd (a Swiss based multinational). He was appointed 8 September 2003.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

Directors' interests in shares and options as at 30 June 2004 and at the date of this report are set out in Note 16 to the financial statements.

ACTIVITIES

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

RESULTS

The net consolidated result of operations after applicable income tax benefit was a loss of \$1,498,646 (2003: \$1,326,032).

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

The Brain Resource Company Limited is a company incorporated and domiciled in Australia. Three wholly owned subsidiaries BRC Operations Pty Limited, BRC IP Pty Limited and BRC Franchising Pty Limited were incorporated in November 2001 and began to act as the operating companies from that date.

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

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

DIRECTORS' EMOLUMENTS

- i) Remuneration policy: Please refer to Note 16 for remuneration policy and details of Director emoluments paid in the Company and Consolidated entity during the year to 30 June 2004.
- ii) Valuation of Directors options: No Directors received any options during the current year. Directors were granted a total of 3.5 million options prior to the listing, at which time there was no market value for The Brain Resource Company Limited's shares and as such the Directors were of the view that the fair value of these options at that date of issue was negligible.
- iii) Executive Officers: There are no executive officers other than the executive directors disclosed in Note 16.

SHARE OPTIONS

Details of share options are disclosed in Note 13.

MEETINGS OF DIRECTORS

During the year to 30 June 2004 the Company's Directors held 4 Board meetings. E Gordon, D Segal, P Keating, R Jamison and N Hinzack were in attendance at all of the meetings. A Toga and P Wodtke are both resident in the USA. P Wodtke attended one of the three meetings held in the period during which he was a Director. A Toga did not attend any of the formal Board meetings. Both are however kept up to date with the company's activities through regular email and telephone briefings.

Directors, Messrs D C Segal and N D 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.

EMPLOYEES

There were 41 people working for the consolidated entity, being a mixture of full time staff, consultants, permanent part time and casuals, as at 30 June 2004 (2003:34). This equates to around 21 full time equivalent employees (2003:18).

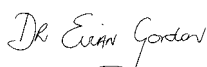
INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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.

Signed at Sydney on 30 August 2004 in accordance with a resolution of the Directors.



Dr Evian Gordon - Chairman of Directors

STATEMENT OF FINANCIAL PERFORMANCE

Year ended 30 June	Note	Consolidated		BRC	
		2004 \$	2003 \$	2004 \$	2003 \$
REVENUE FROM ORDINARY ACTIVITIES	2	890,531	407,519	-	101,835
Cost of equipment sales	3	(181,345)	(103,679)	-	-
Depreciation and amortisation	3	(238,935)	(341,150)	-	-
Salaries, consultancies & other employee benefits		(1,430,558)	(1,035,612)	-	-
Franchise marketing training and travel		(237,682)	(196,413)	-	-
Audit, tax, listing and legal fees		(134,812)	(110,049)	-	-
Rent		(86,622)	(78,077)	-	-
Communications & web		(91,865)	(65,637)	-	-
Insurance		(73,731)	(60,294)	-	-
Drug trial third party costs		(89,896)	(1,040)	-	-
Shipping costs		(29,165)	(12,700)	-	-
Clinic Consumables		(48,878)	(45,809)	-	-
Other expenses		(95,125)	(54,387)	(240)	(111,764)
Provision for non recovery	3	-	-	(1,500,000)	(1,500,000)
TOTAL EXPENSES		(2,738,614)	(2,104,847)	(1,500,240)	(1,611,764)
LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX BENEFIT		(1,848,083)	(1,697,328)	(1,500,240)	(1,509,929)
INCOME TAX BENEFIT RELATING TO ORDINARY ACTIVITIES	4	349,437	371,296	-	187,127
LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX BENEFIT	14	(1,498,646)	(1,326,032)	(1,500,240)	(1,322,802)
NET LOSS ATTRIBUTABLE TO MEMBERS OF THE BRAIN RESOURCE COMPANY LIMITED		(1,498,646)	(1,326,032)	(1,500,240)	(1,322,802)
Share issue costs		(179,724)	-	(179,724)	-
TOTAL REVENUE, EXPENSES AND VALUATION ADJUSTMENTS ATTRIBUTABLE TO MEMBERS OF THE BRAIN RESOURCE COMPANY LIMITED		(179,724)	-	(179,724)	-
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS ATTRIBUTABLE TO MEMBERS OF THE BRAIN RESOURCE COMPANY LIMITED		(1,678,370)	(1,326,032)	(1,679,964)	(1,322,802)
Basic loss per share (cents per share)	15	(2.0)	(2.1)		
Diluted loss per share (cents per share)	15	(2.0)	(2.1)		

The accompanying notes form an integral part of this Statement of Financial Performance.

STATEMENT OF FINANCIAL POSITION

At 30 June	NOTE	Consolidated		BRC	
		2004 \$	2003 \$	2004 \$	2003 \$
CURRENT ASSETS					
Cash assets	22	5,845,833	3,422,932	4,985	1,182,192
Receivables	6	216,052	482,732	-	187,127
Inventories	7	175,457	233,229	-	-
Other	10	-	-	-	-
TOTAL CURRENT ASSETS		6,237,342	4,138,893	4,985	1,369,319
NON-CURRENT ASSETS					
Receivables	6	150,880	139,880	9,141,452	5,485,933
Plant and equipment	8	365,326	393,148	-	-
Intangibles	9	2,190,167	2,139,500	-	-
Other	10	529,253	293,377	300	300
TOTAL NON-CURRENT ASSETS		3,235,626	2,965,905	9,141,752	5,486,233
TOTAL ASSETS		9,472,968	7,104,798	9,146,737	6,855,552
CURRENT LIABILITIES					
Payables	11	240,982	240,714	4,043	24,643
Provisions	12	89,959	35,437	-	-
TOTAL CURRENT LIABILITIES		330,941	276,151	4,043	24,643
NON-CURRENT LIABILITIES					
Payables	11	-	-	-	-
TOTAL NON-CURRENT LIABILITIES		-	-	-	-
TOTAL LIABILITIES		330,941	276,151	4,043	24,643
NET ASSETS		9,142,027	6,828,647	9,142,694	6,830,909
EQUITY					
Contributed equity	13	13,348,856	9,536,830	13,348,856	9,536,830
Accumulated losses	14	(4,206,829)	(2,708,183)	(4,206,162)	(2,705,921)
TOTAL EQUITY		9,142,027	6,828,647	9,142,694	6,830,909

The accompanying notes form an integral part of this Statement of Financial Position.

STATEMENT OF CASH FLOWS

Year ended 30 June	Note	Consolidated		BRC	
		2004 \$	2003 \$	2004 \$	2003 \$
CASH FLOWS FROM OPERATIONS					
Receipts from customers		562,239	370,399	166,287	-
Payments to suppliers and employees		(2,422,044)	(1,940,548)	-	(125,820)
Income tax received		720,733	-	-	-
Interest received		247,603	112,383	-	101,835
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	22	(891,469)	(1,457,766)	166,287	(23,985)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of plant and equipment		(64,518)	(199,075)	-	2,029,960
Database additions		(197,262)	(416,420)	-	-
Research and development		(235,876)	(185,966)	-	41,753
Loans to subsidiaries		-	-	(5,155,520)	(6,467,224)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(497,657)	(801,461)	(5,155,520)	(4,395,511)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		3,991,750	2,250,000	3,991,750	2,250,000
Payment of share issue costs		(179,724)	-	(179,724)	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		3,812,026	2,250,000	3,812,026	2,250,000
Net increase/(decrease) in cash held		2,422,901	(9,227)	(1,177,207)	(2,169,496)
Add opening cash brought forward		3,422,932	3,432,159	1,182,192	3,351,688
CLOSING CASH CARRIED FORWARD	22	5,845,833	3,422,932	4,985	1,182,192

The accompanying notes form an integral part of this Statement of Cash Flows.

NOTES TO AND FORMING PART OF THE ACCOUNTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention using the accounting policies described below and do not take account of changes in either the general purchasing power of the dollar or in the prices of specific assets.

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act (2001) which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year.

Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising The Brain Resource Company Limited (the parent company) and all entities that The Brain Resource Company limited controlled from time to time during the year and at reporting date.

Three wholly owned subsidiaries BRC Franchising Pty Limited, BRC IP Pty Limited and BRC Operations Pty Limited were incorporated in November 2001 to conduct all operations of the group allowing The Brain Resource Company Limited (BRC) to act as the non operating holding company henceforth.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control. Subsidiary acquisitions are accounted for using the purchase method of accounting. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Foreign Currency

Transactions in foreign currencies of entities within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the report date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

A monetary item arising under a foreign currency contract outstanding at the report date where the exchange rate for the monetary item is fixed in the contract is translated at the exchange rate fixed in the contract.

Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts stated at nominal amount.

NOTES TO AND FORMING PART OF THE ACCOUNTS

Inventories

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

Receivables

Receivables, including amounts due from related parties, are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Plant and equipment

Plant and equipment is included at cost. Depreciation is provided on a diminishing value basis on all plant and equipment at rates calculated to write off the cost, less estimated residual value at the end of the useful lives of the assets, over those estimated useful lives. The majority of the assets, comprising primarily computer equipment and software, are being depreciated over a three year period (2003: three years).

Intangibles

The software and associated licences purchased prior to 30 June 2001 were capitalised at their purchase price (being cash paid and the fair value of shares issued). Amortisation of this asset, which commenced in August 2001, was on a diminishing value basis over a five year period. The unamortised balance is reviewed annually at each balance date and to the extent that they exceed the recoverable amount is written off to the Statement of Financial Performance. The original lifetime was determined when the business commenced. Consistent with the progress made in the business to date, which has allowed a relatively greater transparency of the outlook and asset value, the estimated lifetime of this asset was increased to a ten year period effective 1 January 2003. The impact of this change to the 30 June 2003 net loss was to reduce the amortisation expense from \$346,140 (assuming no change to the asset lifetime) to \$264,740.

Depreciation of the databases and database protocols will commence when a finite lifetime can be accurately assessed or when the value of the database is believed to begin to erode.

Research and Development

Research and development costs are expensed as incurred except to the extent that future benefits are expected, beyond reasonable doubt, to equal or exceed those costs and any future costs necessary to give rise to the benefits. Amortisation of capitalised research and development will commence from the time these assets begin to generate revenues. Also see discussion in revenue recognition note below in regard to the capitalised element of government grants used to fund research and development.

Recoverable Amounts of Non-Current Assets

The carrying amounts of all non-current assets are reviewed at least annually to determine whether their carrying amounts require write down to recoverable amount. The recoverable amounts of all non-current assets have been determined using net cash flows which have been discounted to their present values.

Payables

Liabilities for trade creditors are recognised for amounts to be paid in the future for goods and services received, whether billed or not billed to the Company. Trade creditor liabilities are carried at cost and are normally settled on 30 day terms.

Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

NOTES TO AND FORMING PART OF THE ACCOUNTS

Share issue costs

The Brain Resource Company Limited bore the costs in relation to the placement of shares in November 2003. These costs amounting to \$179,724 have been charged against equity in the Statement of Financial Position at 30 June 2004 (2003: \$nil).

Financial Instruments included in Equity

Ordinary share capital bears no special terms or conditions affecting capital entitlements of the shareholders. Ordinary share capital is recognised at the fair value of the consideration received by the Company. Details of shares issued and the terms and conditions of options outstanding over ordinary shares at balance date are set out in note 13, 16 and 25.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Interest is recognised when the control of a right to receive is obtained.

a) Drug Trials

Drug trials are typically contract based with payments to BRC tied to achieving agreed milestones. These milestones can include equipment set-up, completing a selected number of subjects, etc. Revenues are only recognised where the milestones have been met or where the stage of completion can be reliably measured. Expenses are recognised when incurred. 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 undertaken.

b) Government grants

i) Export Market Development Grants and subsidies under the New South Wales Department of State and Regional Development's High Growth BioBusiness Program have been recognised on a receipts basis in other income in the year to 30 June 2004.

ii) BRC is also an industry partner to Academic Institutions in four Government Australian Research Council Linkage grants. These grants are awarded to the Academic Institution with BRC matching the Government's contribution to the R&D project. These projects use BRC methodologies and are an important mechanism for growing the database and the scientific outcomes, essential for commercialising our services, in a cost effective way. BRC retains the rights to commercialise any emergent outcomes and also retains ownership to a negotiated percentage of any emergent intellectual property. Valuation of any emergent intellectual property to be created in these projects is however difficult to accurately assess, particularly in the early stages.

BRC's contribution to the project is both in cash and in-kind, with the Government contributing only cash. In kind contributions include access to BRC's analysis tools, database, equipment, employee time, etc. All in-kind contributions made by BRC (in-kind or non cash contributions are the major component of BRC's contribution) are expensed. Where BRC supplies services to the project which are beyond the scope of the in-kind contribution, the project is invoiced for these services with this included in revenues. Revenues are only recognised where the right to be compensated for the work to be undertaken and the stage of completion can be reliably measured. The receivable is recognised when invoices for work undertaken are rendered. Where cash is received in advance, this is recorded as unearned income until such time as the work to which the grant relates has been undertaken.

The Company's motivation for undertaking these projects is that there is a high likelihood that valuable intellectual property will be created, with long term benefits. Accordingly, reflective of this potential, the cash contributions made by BRC are capitalised in research and development as the future benefits are expected beyond reasonable doubt to equal or exceed this contributed component. As mentioned above, this component is the smaller part of BRC's contribution.

c) Interest on sales which include deferred payment terms is recognised as income on receipt.

Income tax

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the accounts and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates,

NOTES TO AND FORMING PART OF THE ACCOUNTS

is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of being realised.

Research and Development tax offsets are refundable tax offsets equivalent to the value of deductions available under the R&D Tax Concession provisions. This receivable is only recognised at the time when the tax claim is lodged and is offset against any future tax benefits carried forward.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except: where 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 are stated with the amount of GST included.

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 and salaries, annual leave, sick leave and long service leave. Liabilities arising in respect of wages and salaries, annual leave, sick 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, long service leave, sick leave and other leave benefits; and other types of employee benefits are recognised against profits on a net basis in their respective categories. The value of the equity-based compensation scheme described in note 25 is not being recognised as an employee benefits expense.

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.

Earnings per share

In accordance with the revised AASB 1027, basic earnings per share is calculated as net loss attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element, outstanding during the financial year.

Diluted earnings per share is calculated as the net loss attributable to members, adjusted for: costs of servicing equity (other than dividends) and preference share dividends; the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and other non-discretionary changes in revenues or expenses during the year that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element. Potential ordinary shares are only dilutive in calculating earnings per share when the conversion to ordinary shares would decrease (increase) net profit (loss) per share.

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

30 June	Consolidated 2004 \$	Consolidated 2003 \$	BRC 2004 \$	BRC 2003 \$
2. REVENUE FROM ORDINARY ACTIVITIES				
Revenue from operating activities:				
Drug Trials and reports	313,459	137,013	-	-
Sale of equipment	192,000	109,175	-	-
Government grants (incl. EMDG and NSWBIO)	137,469	48,948	-	-
Revenue from non-operating activities:				
Interest received - other persons/corporations	247,603	112,383	-	101,835
Total revenues from ordinary activities	890,531	407,519	-	101,835

3. EXPENSES

Cost of equipment sales	181,345	103,679	-	-
Depreciation of non current assets:				
Plant and equipment	92,339	76,410	-	-
Amortisation of non current assets:				
Intangibles assets	146,596	264,740	-	-
Total Amortisation and depreciation	238,935	341,150	-	-
Operating lease costs	82,530	77,530	-	-
Annual leave	54,522	8,045	-	-
Superannuation contributions	97,832	56,068	-	-
Provision for non recovery*	-	-	1,500,000	1,500,000
Net Foreign Currency Gain	11,448	-	-	-

* The provision for non recovery in the parent entity reflect losses incurred in subsidiaries thereby ensuring that the assets of the parent entity do not exceed those of the consolidated entity.

4. INCOME TAX

Prima facie income tax (credit) on operating (loss) at 30%	(554,425)	(509,199)	(72)	(452,979)
Add: Current year future income tax benefit in respect of tax losses – not recognised	554,425	509,199	72	452,979
Less: Tax benefit receivable – Research and Development tax concession	(349,437)	(371,296)	-	(187,127)
Income tax benefit recognised	(349,437)	(371,296)	-	(187,127)

The R&D Tax Concession is a Commonwealth Government initiative to increase the level of R&D being conducted by Australian companies. It enables companies to deduct up to 125% of eligible expenditure incurred on R&D activities from assessable income when lodging their tax returns. BRC has benefited from

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

30 June	Consolidated 2004 \$	Consolidated 2003 \$	BRC 2004 \$	BRC 2003 \$
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claiming the R&D Tax Offset (that is a refundable tax offset), equivalent to the value of the deduction available under the R&D Tax Concession provisions.

No provision for income tax is considered necessary in respect of the Company for the year ended 30 June 2004. The Company has not recognised estimated unconfirmed income tax benefits of \$630,383 (2003: \$553,753). A benefit will only be obtained if:

- The Company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised,
- The Company continues to comply with the conditions for deductibility imposed by the law, and
- No changes in tax legislation adversely affect the Company in realising the benefit from the deductions for the losses.

No franking credits are available for subsequent years (2003: nil).

The Brain Resource Company Limited and its 100% owned subsidiaries have not yet determined whether to form a tax consolidated group for income tax purposes.

5. AUDITORS' REMUNERATION

Total amounts receivable by the current auditors of the Company for:

Audit of the Company's accounts	44,046	24,934	-	-
	44,046	24,934	-	-

6. RECEIVABLES

Current

Sale of equipment & drug trial receivables	182,255	34,100	-	-
Government grant	16,800	35,156	-	-
Advances to laboratories for database acquisition	16,997	22,620	-	-
Income tax rebates receivable	-	371,296	-	187,127
Other receivables	-	19,560	-	-
	216,052	482,732	-	187,127

Non Current

Sale of equipment receivable	150,880	139,880	-	-
Amounts owing by controlled entities	-	-	12,641,452	7,485,933
Less Provision for non recovery (see note 3)	-	-	(3,500,000)	(2,000,000)
	150,880	139,880	9,141,452	5,485,933

a) Terms and Conditions

- Certain equipment sales disclosed in Non Current Assets above were supplied under sale agreements which provided for deferred payment terms of around three years, tied to laboratory performance, which are interest bearing at 6% pa. Interest receivable has not been accrued.
- Current debtors typically have repayment terms of between 14 to 30 days or 30 days after achievement of milestones.

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

30 June	Consolidated 2004 \$	Consolidated 2003 \$	BRC 2004 \$	BRC 2003 \$
7. CURRENT INVENTORIES				
Laboratory hardware – at cost	69,242	148,531	-	-
Laboratory software – at cost	19,692	30,453	-	-
INTEG NEURO IBM Kiosks – at cost	97,291	53,100	-	-
Other – at cost	12,995	1,145	-	-
Provision for obsolescence	(23,763)	-		
	175,457	233,229	-	-
8. PLANT AND EQUIPMENT				
Plant and equipment	537,385	505,668	-	-
Less Accumulated depreciation	(172,059)	(112,520)	-	-
	365,326	393,148	-	-
Carrying amount at beginning	393,148	271,587	-	299,257
Additions (transfers)	64,519	199,075	-	(299,257)
Depreciation expense	(92,341)	(76,408)	-	-
Asset write-off	-	(1,106)	-	-
	365,326	393,148	-	-
9. INTANGIBLES				
Database	870,800	673,537		
Software and associated licences at cost	2,079,350	2,079,350	-	-
Less Accumulated amortisation	(759,983)	(613,387)	-	-
	1,319,367	1,465,963		
	2,190,167	2,139,500	-	-
10. OTHER ASSETS				
Non current assets:				
Research and development costs	506,491	270,615	-	-
Less Accumulated amortisation	-	-	-	-
	506,491	270,615	-	-
Deposits	22,762	22,762		-
Other financial assets – Investments in controlled entities:				
BRC Operations Pty Limited	-	-	100	100
BRC IP Pty Limited	-	-	100	100
BRC Franchising Pty Limited	-	-	100	100
	529,253	293,377	300	300

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

30 June	Consolidated 2004 \$	Consolidated 2003 \$	BRC 2004 \$	BRC 2003 \$
Research & development costs capitalised in the current year	235,876	185,966	-	-
<p>Research and development costs relate to the development of the brain simulation model and also extensions to the central processing engine included in the database disclosed in note 9.</p> <p>The above subsidiaries are all 100% owned by The Brain Resource Company Limited and were incorporated in Australia.</p>				
11. PAYABLES				
Current				
Trade creditors	204,541	154,708	4,043	4,343
Unearned Income	2,642	-	-	-
Amounts owing to academic institutions	-	20,300	-	20,300
Other creditors	33,799	65,706	-	-
	240,982	240,714	4,043	24,643

a) Terms and Conditions

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

12. PROVISIONS

Employee provisions	89,959	35,437	-	-
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13. CONTRIBUTED EQUITY

(a) Share capital

Ordinary shares fully paid – opening balance	9,536,830	7,286,830	9,536,830	7,286,830
Issued during period	3,991,750	2,250,000	3,991,750	2,250,000
	13,528,580	9,536,830	13,528,580	9,536,830
Deduct share issue costs	(179,724)	-	(179,724)	-
Ordinary shares fully paid – closing balance	13,348,856	9,536,830	13,348,856	9,536,830
	Number	Number	Number	Number
Number of ordinary shares – opening balance	69,990,566	61,500,000	69,990,566	61,500,000
Issued during period	8,870,555	8,490,566	8,870,555	8,490,566
Number of ordinary shares - closing balance	78,861,121	69,990,566	78,861,121	69,990,566

(b) Shares issued during the period

In November 2003, the company made a placement of 8,870,555 shares at 45.0 cents per share. This followed two earlier placements (May 2003, 8,490,566 shares at 26.5 cents each and February 2002, 4,000,000 shares at 25.0 cents each). The purpose of these funds was to increase the working capital of the company and the establishment of a sales and marketing team to support the next stage of development.

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

30 June	Consolidated 2004 \$	Consolidated 2003 \$	BRC 2004 \$	BRC 2003 \$
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(c) Share options

Particulars of options granted over unissued shares:

Number of Options	Exercise price Cents per share	Expiry Date	Holders
5,425,000	25	28 Aug 06	3,500,000 held by Directors as above, 750,000 by members of the scientific advisory committee and 1,175,000 by Tricom Equities Limited (the underwriter to the Initial Public Offering)
2,100,000	28	8 May 07	issued to foundation clinic franchisees as well as two key consultants - currently, 1,900,000 of these have vested with 200,000 remaining subject to performance hurdles.
338,000	25	17 April 08	issued to 23 eligible staff under the Employee Share Option Plan
7,863,000	Total Issued to June 2003		
Added during current year:			
80,000	40	7 Aug 08	issued during the current year to 6 eligible staff under the Employee Share Option Plan (see note 25)
30,000	50	18 Nov 08	
150,000	60	15 Mar 09	
260,000	Total issued during year to June 2004		
8,123,000	Total issued as at June 2004		

- i) There were no shares issued during the year ended 30 June 2004 by virtue of the exercise of options.
- ii) Board approval has been given subsequent to the end of the financial year to issue 391,500 options to 32 eligible staff and new scientific advisory committee member under the Employee Share Option Plan with an exercise price of 50 cents and which expire on 20 July 2009.
- iii) Board approval has been granted and pending shareholder approval at the forthcoming AGM, Peter Wodtke's previous option issue will be ratified (as previously disclosed to the ASX on 26 August 2003, the Board approved the issue of 250,000 options exercisable at 41cents, with an expiry date of 23 November 2009).
- iv) 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

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

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

14. ACCUMULATED LOSSES

Balance at the beginning of year	2,708,183	1,382,151	2,705,922	1,383,119
Operating loss after income tax expense	1,498,646	1,326,032	1,500,240	1,322,802
Balance at the end of year	4,206,829	2,708,183	4,206,162	2,705,921

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

30 June	Consolidated 2004 \$	Consolidated 2003 \$	BRC 2004 \$	BRC 2003 \$
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15. EARNINGS PER SHARE

Basic and diluted earnings per share was (2.0) (2003: (2.1)) cents per share. The net loss used in the calculation of EPS was \$1,498,646 (2003: \$1,326,032). The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share is 75,555,928 (2003: 62,639,829). Note, were the dilutive shares to have been factored, this would have reduced the net loss per share.

16. REMUNERATION OF DIRECTORS AND EXECUTIVES

i) Remuneration Policy

To date, the Non Executive Directors have been responsible for determining and reviewing compensation arrangements for all directors. The Non Executive Directors assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. A remuneration committee was established during the year, comprising two non executive directors who reviewed the remuneration of all Directors and executives.

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

ii) Director emoluments paid in the Company and Consolidated entity during the year to 30 June 2004:

	Primary Salary & Fees	Post Employment Superannuation*	Other Other*	Total
Executive Directors:				
E Gordon				
2004	134,462	16,308	24,696	175,466
2003	56,776	18,788	91,728	167,292
D Segal				
2004	125,000	11,250	-	136,250
2003	125,000	11,254	-	136,254
Total Remuneration: Executive Directors				
2004	259,462	27,558	24,696	311,716
2003	181,776	30,042	91,728	303,546
Non-Executive Directors:				
N Hinzack				
2004	10,000	-	-	10,000
2003	10,000	-	-	10,000
P Keating				
2004	10,000	-	-	10,000
2003	10,000	-	-	10,000
A Toga				
2004	10,000	-	-	10,000
2003	10,000	-	-	10,000
P Wodtke				
2004	9,000	-	-	9,000
R Jamison				
2004	8,300	-	-	8,300
Total Remuneration: Non Executive Directors:				
2004	47,300	-	-	47,300
2003	30,000	-	-	30,000

*Other refers to payments made to The University of Sydney under a two year arrangement which allowed Dr Gordon to retain his tenured position while working full-time at BRC as part of a two year secondment. This arrangement expired in August 2003 and Dr Gordon chose to relinquish his tenure in order to remain working full-time at BRC. Note payments to Dr Gordon under this arrangement from the University included superannuation payments at levels significantly above the statutory rate.

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

30 June	Consolidated 2004 \$	Consolidated 2003 \$	BRC 2004 \$	BRC 2003 \$
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Services provided by Non Executive Directors were under normal commercial terms and conditions. There are service agreements in place with the Executive Directors which 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 have been received or are receivable by Directors.

iii) Directors' Shareholdings as at June 2004

Name	Ordinary Shares Fully Paid		Options over Ordinary Shares	
	2004	2003	2004	2003
Evian Gordon	11,356,250	11,356,250	1,000,000	1,000,000
Dan Segal	6,131,543	6,131,543	500,000	500,000
Paul Keating	575,000	575,000	1,500,000	1,500,000
Nestor Hinzack	567,500	567,500	250,000	250,000
Peter Wodtke	-	-	-*	-
Russell Jamison	-	-	-	-
Arthur Toga	287,500	287,500	250,000	250,000
	18,917,793	18,917,793	3,500,000	3,500,000

* Board approval has been granted for the issue of 250,000 options exercisable at 41cents to Peter Wodtke which require shareholder approval at the forthcoming AGM (previously disclosed to the ASX on 26 August 2003 - Shareholder approval for this issue was inadvertently not sought at the 2003 AGM but will be sought at the AGM to be held on 23 November 2004).

All of the above options have vested and have an expiry date being 28 August 2006 with an exercise price of \$0.25

The above shares and options were issued to Directors of The Brain Resource Company Limited in the period from incorporation on 8 August 2000 to 30 June 2001. No additional shares or options have been issued to Directors during the current year. DC Segal purchased an additional 400,293 shares and ND Hinzack an additional 280,000 shares as part of the Initial Public Offering.

Shares and options held by Directors included 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.

17. RELATED PARTY DISCLOSURES

(a) Directors

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

Evian Gordon	appointed 8 August 2000	Arthur Toga	appointed 16 May 2001
Dan Segal	appointed 8 August 2000	Russell Jamison	appointed 5 August 2003
Paul Keating	appointed 16 May 2001	Peter Wodtke	appointed 8 September 2003
Nestor Hinzack	appointed 16 May 2001		

(b) Ultimate parent

The Brain Resource Company Limited is the ultimate parent company. All subsidiaries are wholly owned.

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

30 June	Consolidated 2004 \$	Consolidated 2003 \$	BRC 2004 \$	BRC 2003 \$
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18. AGREEMENTS WITH ACADEMIC INSTITUTIONS

The Company is a party to agreements with academic institutions including University of Sydney, Flinders University and University of New South Wales allowing access fixed blocks of time in respect of select researchers associated with BRC and covering the ARC Linkage Grants. .

19. FINANCIAL REPORTING BY SEGMENT

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

20. CONTINGENT LIABILITIES

There are no contingent liabilities.

21. EXPENDITURE COMMITMENTS

a) Capital expenditure commitments

Estimated capital expenditure contracted for at balance date, but not provided for, payable not later than one year amounted to \$nil (2003: \$39,468).

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

Minimum lease payments:

- not later than one year amount to \$nil (2003: \$52,500)*
- later than one year but not later than five years - \$nil (2003: \$nil)

* BRC is currently negotiating a lease for new premises

22. STATEMENT OF CASH FLOWS

Reconciliation of net cash outflow from operating activities to operating loss after income tax

Operating profit after tax	(1,498,646)	(1,326,032)	(1,500,240)	(1,322,802)
Depreciation and amortisation	238,935	341,150	-	-
Provision for non recovery	-	-	1,500,000	1,500,000
(Increase) decrease in inventories	34,009	(40,960)	-	-
Increase (decrease) in creditors	49,833	(160,427)	-	(51,240)
(Increase) decrease in receivables	255,476	(281,784)	187,127	(149,943)
(Increase) decrease in other assets	202	17,173	-	-
Increase (decrease) in other payables	(49,563)	(14,931)	(20,600)	-
Increase (decrease) in provisions	78,285	8,045	-	-
Net cash outflow from operating activities	<u>(891,469)</u>	<u>(1,457,766)</u>	<u>166,287</u>	<u>(23,985)</u>

- (b) For the purpose of the Statement of Cash Flows, cash includes cash on hand, at bank, deposits and bank bills used as part of the cash management function. The Company does not have any unused credit facilities. Cash balance comprises:

Cash Assets	<u>5,845,833</u>	<u>3,422,932</u>	<u>4,985</u>	<u>1,182,192</u>
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NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

30 June	Consolidated 2004 \$	Consolidated 2003 \$	BRC 2004 \$	BRC 2003 \$
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23. SUBSEQUENT EVENTS

There were no material subsequent events post June 2004.

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.

Long-term loans receivable: The fair values of long-term loans receivable are estimated using discounted cash flow analysis, based on current incremental lending rates for similar types of lending arrangements.

Interest Rate Risk

Interest rates applicable to cash financial assets were around 5.29% (2003: 4.5%) with maturities of less than 1 year.

25. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

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

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

	Number of options	Exercise price
Balance at 30 June 2003	338,000	
- granted 7 August 2003	80,000	40 cents
- granted 18 November 2003	30,000	50 cents
- granted 15 March 2004	150,000	60 cents
- forfeited	0	
- exercised	0	
Balance at 30 June 2004	<u>598,000</u>	
Exercisable at 30 June 2004	118,300	

26. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

The Brain Resource Company Limited has commenced transitioning its accounting policies and financial reporting from current Australian Accounting Standards to Australian equivalents of International Financial Reporting Standards (IFRS). The company is in the process of conducting impact assessments to isolate key areas that will be impacted by the transition to IFRS.

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

30 June	Consolidated 2004 \$	Consolidated 2003 \$	BRC 2004 \$	BRC 2003 \$
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As The Brain Resource Company Limited has a 30 June year-end, priority has been given to considering the preparation of an opening balance sheet in accordance with AASB equivalents to IFRS as at 1 July 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when The Brain Resource Company Limited prepares its first fully IFRS compliant financial report for the year ended 30 June 2006. Set out below are the key areas where accounting policies will change and may have an impact on the financial report of The Brain Resource Company. At this stage the company has not been able to reliably quantify the impacts on the financial report.

Intangible Assets

Under AASB 138, costs incurred in the research phase of the development of internally generated intangibles must be expensed. This will result in a change in the group's current accounting policy which allows for the capitalisation of costs incurred in the research and development phase of an internally generated intangible asset where future benefits are expected beyond reasonable doubt. Under the new policy, all research costs will be written off as incurred. The Brain Resource Company Limited currently does not have any amounts capitalised that relate to internally generated research costs. The Brain Resource Company also has \$1,319,367 for software and associated licenses at the 30 June 2004 which are currently being amortised over a 10 year period. It is not anticipated that the treatment under IFRS for these assets will change significantly, as these assets are considered to have a finite life. As such they will continue to be amortised over their anticipated useful lives, as well as subject to impairment testing under AASB 136.

The Brain Resource Company also has \$870,800 at the 30 June 2004 related to its database, another intangible asset. The database is anticipated to have an infinite useful life under AASB 138, with the result being the carrying value of the asset will be subject to annual impairment testing under AASB 136. On transition there is not expected to be any change to the carrying value unless it is evident the asset is impaired, in which case the asset's carrying value will need to be written down.

Share Based Payments

Under AASB 2 *Share based payments*, the company will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the Statement of Financial Performance. This standard is not limited to options and also applies to other forms of equity based remuneration. It applies to all share-based payments issued after 7 November 2002 which have not vested as at 1 January 2005. Reliable estimation of the future financial effects of this change in accounting policy is impracticable as the details of future equity based remuneration plans are unknown, however on transition it will result in increased expenses in the Statement of Financial Performance and an adjustment against opening retained earnings, as current Australian standards do not require the expensing of share based payments.

Impairment of Assets

Under AASB 136 the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in a change in the group's accounting policy which currently determines the recoverable amount of an asset to be on the basis of discounted cash flows.

Under the new policy it is likely that impairment of assets will be recognised sooner and that the amount of write-downs potentially greater. Reliable estimation of the future financial effects of this change in accounting policy is impracticable because the conditions under which impairment will be assessed are not yet known.

Income Taxes

Under AASB 112 *Income Taxes*, the company will be required to use a balance sheet liability method which focuses on the tax effects of transactions and other events that affect amounts recognised in either the Statement of Financial Position or a tax-based balance sheet.

This is a fundamental change from the AGAAP tax effect accounting that The Brain Resource Company Limited currently applies. It requires the company to determine tax values and may result in adjustments to existing deferred tax assets and liabilities which have not yet been quantified. These adjustments will initially be made through opening retained earnings on transition to IFRS at 1 July 2004.

DIRECTORS' DECLARATION

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

(1) In the opinion of the Directors:

- (a) the financial statements and notes of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2004 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board.



Dr Evian Gordon
Chairman of Directors

Sydney, 30 August 2004

INDEPENDENT AUDIT REPORT



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Australia

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GPO Box 2646
Sydney NSW 2001

Independent audit report to members of The Brain Resource Company Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for The Brain Resource Company (the company) and the consolidated entity, for the year ended 30 June 2004. The consolidated entity comprises both the company and the entities it controlled during that year. The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW).

INDEPENDENT AUDIT REPORT



Audit opinion

In our opinion, the financial report of The Brain Resource Company Limited is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of The Brain Resource Company Limited and the consolidated entity at 30 June 2004 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.

A handwritten signature in cursive script, appearing to read 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script, appearing to read 'Garry Wayling'.

Garry Wayling
Partner
Sydney
30 August 2004

CORPORATE GOVERNANCE STATEMENT

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

Principle 1: Lay solid foundations for management and oversight

BRC has a small Board (five non-executive directors plus the Executive Chairman/CEO and Commercial Director) and a small management team. This allows for the open dialogue consistent with an emerging company of our size and type. Accordingly, the Company has not yet formalised those functions reserved to the Board and those delegated to management.

Principle 2: Structure the Board to add value

This principle is strongly endorsed by BRC. We have paid special attention to the composition of the Board since inception in 2001 and in particular have sought to build a Board with a common vision, outlook and belief in what we are doing but with divergent relevant experience. We are of the view that our current structure meets these and our overall objectives. We have also ensured that we have always had a majority of independent directors. Five of the BRC's seven directors are currently non-executives.

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

Principle 3: Promote ethical and responsible decision-making

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

Principle 4: Safeguard integrity in financial reporting

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

BRC current Audit committee, comprising Messrs Segal and Hinzack, meets with the Company's external auditors at least once during each half-year prior to the finalisation of the financial statements and prior to the signing of the Audit Report. As an added safeguard, Mr Hinzack as Chairman of the Audit Committee also holds a private meeting each half-year with the external auditors and reports back to the Board on this. 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 is being reviewed by the Company but there we do have size constraints.

Principle 5: Make timely and balanced disclosure

The Board is very aware of the ASX's continuous disclosure requirements and operate in an environment where strong emphasis is placed on full and appropriate disclosure to the market. Whilst the Company does not have formal written policies regarding disclosure, it uses strong informal systems underpinned by experienced individuals.

CORPORATE GOVERNANCE STATEMENT

Principle 6: Respect the rights of shareholders

All significant information disclosed to the ASX is posted on the Company's website as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the Group's operations, the material used in the presentation is released to the ASX and posted on the Company's website. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed, and if so, this information is also immediately released to the market. Whilst the Company does not have a formal communications strategy, our releases are comprehensive and relatively regular.

Principle 7: Recognise and manage risk

At this stage, no formal policy is in place. Clearly as the business grows, this will need to be reviewed with policies on risk oversight and management of risk implemented.

Principle 8: Encourage enhanced performance

A remuneration committee has been established during the year, comprising two non executive directors Mr Hinzack and Mr Jamison, who review the remuneration of all Directors and executives. The Committee will seek 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 no formal performance evaluation of the Board during the past financial year, although its composition was reviewed when it was expanded from five members to seven members.

Principle 9: Remunerate fairly and responsibly

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. In accordance with Corporations Act requirements, the Company discloses the fees or salaries paid to all Directors, plus Executive Officers. The Company has an Employee Share Option Plan that was introduced at the time the Company listed on ASX in August 2001.

Principle 10: Recognise the legitimate interests of stakeholders

Due to the Company's size and relative level of operational activity, which makes legal compliance a less onerous task than with larger companies, the Company does not have a formal code of conduct to guide compliance with legal and other obligations. The Board of Directors continues to review the situation to determine the most appropriate and effective operational procedures.

Functions of the Board

The functions of the Board include:

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

SHAREHOLDER INFORMATION

Information relating to shareholders at 20 August 2004 (per ASX Listing Rule 4.10)

Substantial Shareholders:	Number of Shares
Evian Gordon	11,356,248
Stuttgart Pty Limited	9,936,882
Queensland Investment Corporation	7,159,740
Dan Segal	6,131,543

Distribution of Shareholders

Number of ordinary shares held	Number of Holders	Ordinary Shares	Percentage
1 - 1,000	8	4,280	0.005
1,001 - 5,000	77	253,573	0.322
5,001 - 10,000	232	1,948,920	2.471
10,001 - 100,000	189	6,525,978	8.275
100,001 - and over	69	70,128,370	88.926
	<u>575</u>	<u>78,861,121</u>	<u>100</u>

At the prevailing market price of 32.5 cents per share, there were 12 shareholders with less than a marketable parcel of \$500.

Top 20 Shareholders of Ordinary Shares	Number of Shares	% Shares Issued
Dr Evian Gordon	11,356,248	14.40
Stuttgart Pty Limited	9,490,566	12.04
Queensland Investment Corporation	7,159,740	9.08
Dan Segal	5,731,250	7.27
Cogent Nominees Pty Limited	2,300,000	2.92
Tricom Nominees Pty Limited	2,267,077	2.88
Tricom Nominees Pty Limited	2,231,650	2.83
The University of Sydney	2,012,500	2.55
Dr Chris Rennie	2,012,499	2.55
Western Sydney Area Health	1,800,500	2.28
Professor Jim Wright	1,437,500	1.82
Professor Peter Robinson	1,437,500	1.82
King's College London	1,437,500	1.82
Link Traders (Aust) Pty Limited	1,420,229	1.80
Cardy & Company Pty Limited	1,278,364	1.62
Krzysztof Kozek	1,150,000	1.46
Mental Health Research Institute	1,012,500	1.28
Professor Michael Brammer	862,500	1.09
Dr Tim Cooper	840,423	1.07
Gregory Stoloff	600,000	0.76
	<u>57,838,546</u>	<u>73.35</u>
Total Fully Paid Shares and Quoted on the ASX	78,861,121	

SHAREHOLDER INFORMATION

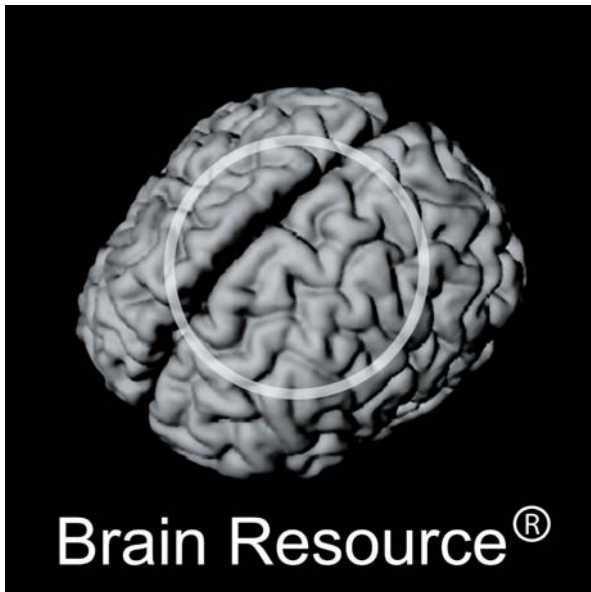
Unquoted Options

The Company has 8,123,000 options on issue (or 10.3% of the total shares on issue) comprising:

- 1) 5,425,000 with an exercise price of 25 cents and which expire on 28 August 2006 issued to founding directors, scientific advisory committee and underwriter. The parties holding more than 20% of these options are Paul John Keating 1,500,000 options (27.65%) and Tricom Equities Limited 1,175,000 (21.65%).
- 2) 2,100,000 with an exercise price of 28 cents and which expire on 8 May 2007 – issued to foundation clinic franchisees as well as two key consultants. Currently, 1,900,000 of these have vested with 200,000 remaining subject to performance hurdles and 250,000 having lapsed unexercised. There is one party holding more than 20% of these options: Richard Clark 1,250,000 options.
- 3) 338,000 options were issued during the June 2003 year to 23 eligible staff under the Employee Share Option Plan. The options have an exercise price of 25 cents and which expire on 17 April 2008.
- 4) 260,000 options were issued during the current year to 6 eligible staff under the Employee Share Option Plan – 80,000 of these have an exercise price of 40 cents and which expire on 7 August 2008, 30,000 of these have an exercise price of 50 cents and which expire on 18 November 2008 and 150,000 of these have an exercise price of 60 cents and which expire on 15 March 2009.
- 5) Board approval has been given subsequent to the end of the financial year to issue 391,500 options to 32 eligible staff and new scientific advisory committee member under the Employee Share Option Plan with an exercise price of 50 cents and which expire on 20 July 2009.
- 6) Board approval has been granted and pending shareholder approval at the forthcoming AGM, Peter Wodtke's previous option issue will be ratified (as previously disclosed to the ASX on 26 August 2003, the Board approved the issue of 250,000 options exercisable at 41cents, with an expiry date of 23 November 2009).

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.



The Brain Resource Company Limited

ASX CODE: BRC