

Brain Resource Ltd

ABN 24 094 069 682

Consolidated Financial Report And Appendix 4D

Half-Year Ended 31 December 2010

This Financial Report on the consolidated Group constitutes the Appendix 4D required by the Australian Stock Exchange. It should be read in conjunction with the Annual Report for the Year Ended 30 June 2010 and any recent public announcements and is lodged with the Australian Stock Exchange under listing rule 4.2A

Brain Resource Ltd

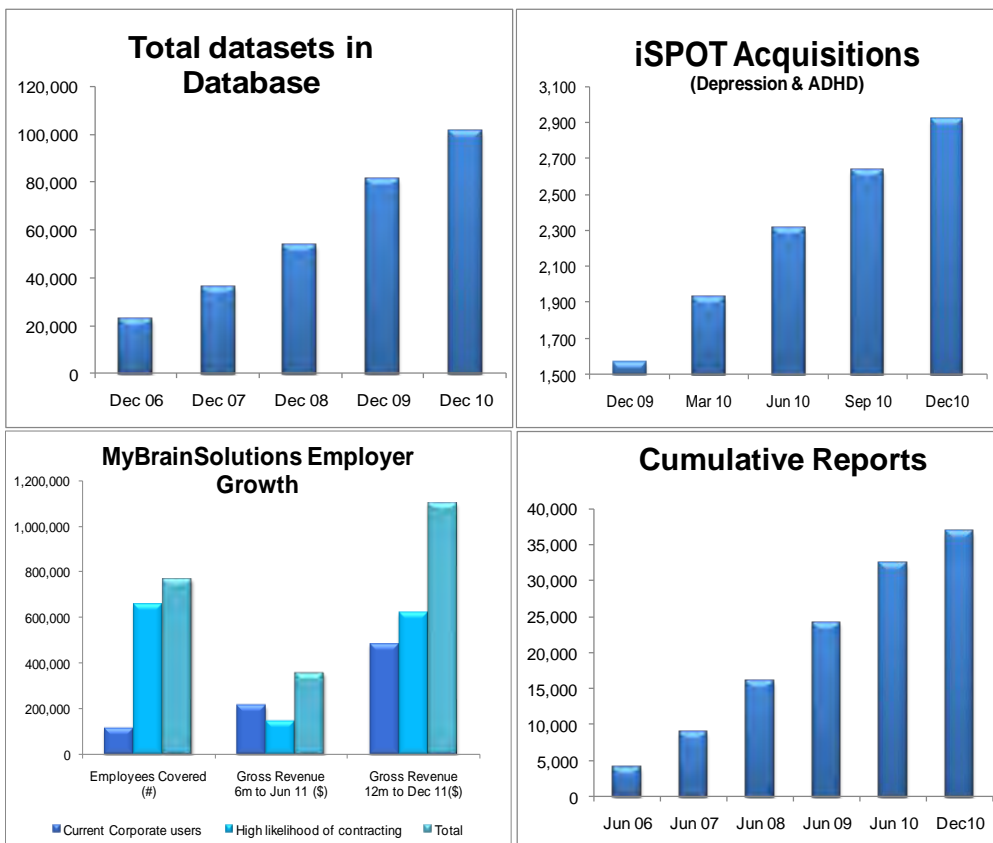
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Operational Review for the 6 months to 31 December 2010

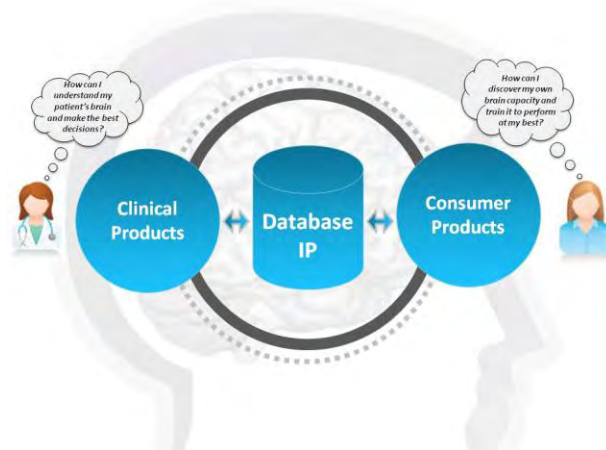
Major recent transformative milestones

- The last 6 months has delivered two transformative milestones that are expected to generate significant near term outcomes:
 - 1,000th Depression subject acquisition in the iSPOT study to determine the best Test to predict who is most likely to respond to which antidepressant. Analysis, patents and FDA submission preparation have all commenced.
 - The web Consumer product, www.MyBrainSolutions.com, has successfully penetrated the US Employer sector, with 6 current corporate users covering 100,000 employees, and now has a growing pipeline of prospective users covering more than 500,000 employees.
- Half year profit of \$1.4m excluding foreign exchange losses or \$0.6m including these losses, revenues of \$3.8m and a cash balance of \$7m.



Brain Resource Summary

The Brain Resource business is developing and selling brain health products to both Clinical and Consumer markets. These scalable web based products have been shaped by key insights from Brain Resource's core Intellectual Property: a new platform for brain health (including the world's largest brain database of over 100,000 datasets and international studies in Depression and ADHD such as iSPOT).



Brain Resource currently sells two web products:

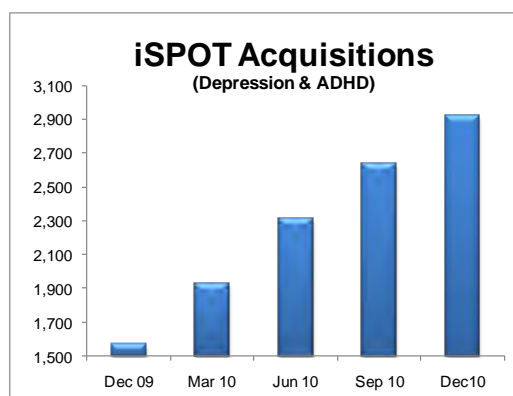
- (1) a Clinical product (WebNeuro) that assesses the clients brain strengths and weaknesses and suggests the best treatment option for each individual; and
- (2) a Brain Training product (MyBrainSolutions) that brings together a range of games and brain insights that have been shown over the past two decades to help change behaviour (such as master stress, boost memory, positivity and productivity).

Brain Resource has, to date, supplied its products to 30 multinational companies and hundreds of clinicians, 250 researchers, benefitting more than 50,000 end users.

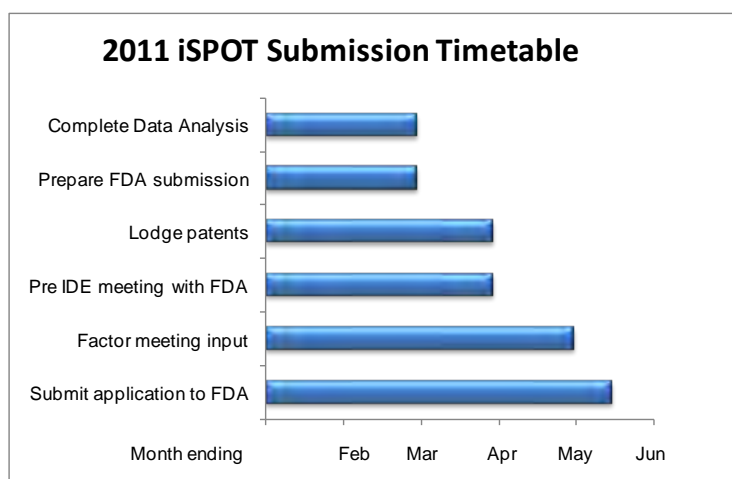
1. Growing intellectual property – FDA filing imminent

iSPOT, the largest objective “Personalized Medicine” study on Depression in the world, completed its 1,000th Depression subject acquisition during December 2010.

Patients were recruited from 20 Brain Resource Laboratories in the US, Europe and Australasia.



The analysis of these 1,000 Depression subjects is now underway. Our pilot data and preliminary analysis support the expectation that the data will support a new Brain Test for diagnosing and predicting treatment response in Depression. The following sets out our planned timetable for gaining FDA approval for this test.



Given the many uncertainties in this process, the above timing should be taken as indicative only. There are however two important factors that may assist the process:

- 1) The methodology, as used in iSPOT, has already been the subject of an FDA submission. We have had an FDA 510K approval in place since October 2005 (FDA Number: K050192).
- 2) The iSPOT protocol and analysis has been shaped by previous meetings and discussions with key opinion leaders, including at the FDA (the US Food and Drug Administration).

The next meeting with the FDA is planned to be within the next 10 weeks. This meeting (termed a Pre IDE meeting), is expected to shape the final aspects of our submission and determine the exact FDA application pathway that will be followed. The above timeline assumes our Pre IDE meeting will not require any major changes to our submission and whatever issues are raised can be resolved in a matter of weeks. We further expect to gain clarity on the approval timetable post this next meeting.

Were this FDA approval to be obtained, the importance of the first such approval for clinical practice cannot be underestimated.

There are two immediate ways to monetize the iSPOT outcomes:

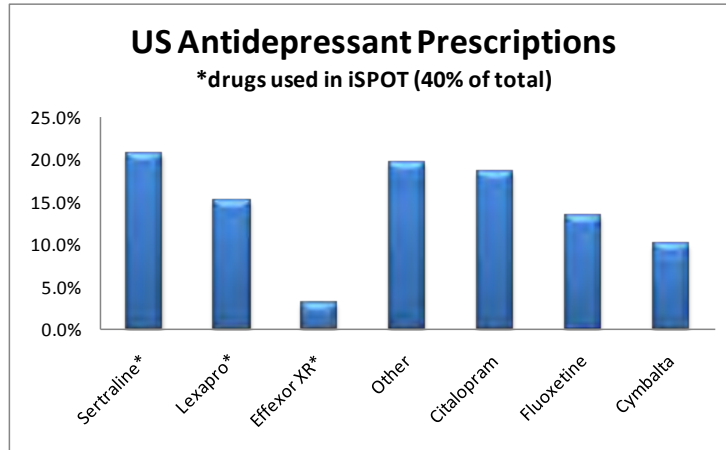
1.1 Clinical

An FDA approved marketing claim would significantly increase the addressable market for our clinical decision support products. The FDA itself has best expressed this need for objective Depression Brain Tests as part of its Critical Path Initiative. This need stems from:

- Studies have shown a less than 1 in 3 chance of getting the right treatment first time for Depression.

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- Depression results in more than 85m clinical visits and costs the US more than \$83bn p.a.
- 212 million antidepressant prescriptions in the US in 2009 (\$12bn sales value).
- The 3 drugs used in Brain Resource's iSPOT treatment prediction study constitute approximately 40% of antidepressant prescriptions in the US (as shown in the following figure):



- US Health Reform prioritises preventative screening for Depression and has also significantly broadened those covered for mental health.

1.2 Strategic potential

This patent and FDA filing will provide a further concrete demonstration of Brain Resource's unique intellectual property. Significant marketing of Brain Resource's new platform for predicting treatment response and drug discovery will then target appropriate Pharmaceutical Companies.

The potential value of iSPOT Markers are illustrated by the following three Pharmaceutical company deals that have occurred in the last 2 months:

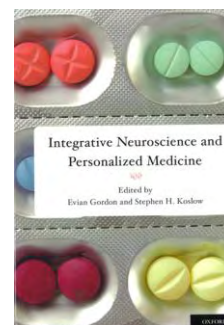
- Eli Lilly paid \$300m (plus \$500m if milestones met) for Avid Radiopharmaceuticals Alzheimer's Dementia Test (a contrast agent used with positron emission tomography to detect beta-amyloid plaque, a pathology linked with Alzheimer's).
- Takeda licensed Zinfandel's Brain Test (based on the TOMM40 gene)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

Note that none of the above has FDA approval and also that Depression impacts more people than Alzheimer's Dementia.

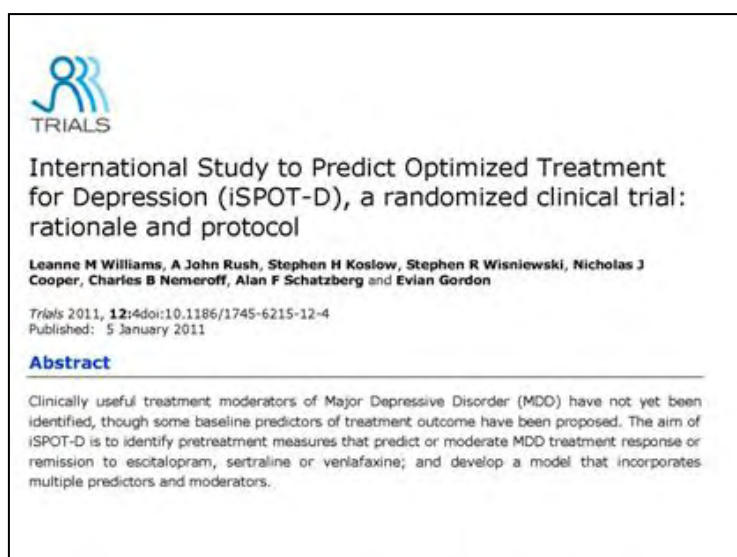
As a further note, Brain Resource has a strategic plan to systematically mine several other studies that are likely to yield new brain tests. This includes the iSPOT ADHD study which has now recruited ~50% of the subjects, and a multi year 100 subject Alzheimer's Dementia study that recently been completed.

1.3 Key Opinion Leader publications

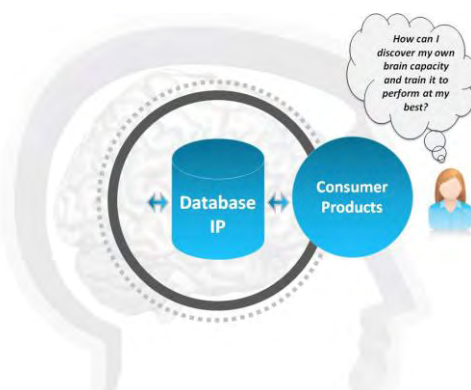
This timing of the above iSPOT milestone coincided with the December 2010 publication (Oxford University Press) of the book that emerged from Brain Resource's Washington conference titled: "Integrative Neuroscience and Personalized Medicine". Contributors include Key Opinion Leaders from Academia, Industry and Clinicians and the focus is on encouraging objective test based Personalized Medicine as the pathway to better Healthcare. This focus supports Brain Resource methodology, the clinical value and timeliness of this iSPOT study and the current 1,000 patient analysis.



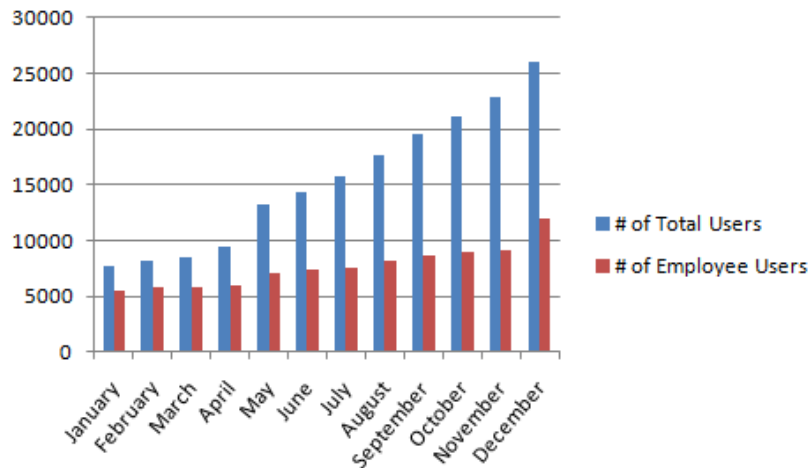
Note that the first iSPOT publications have now also been accepted, including the following published in the journal *Trials* – see abstract below:



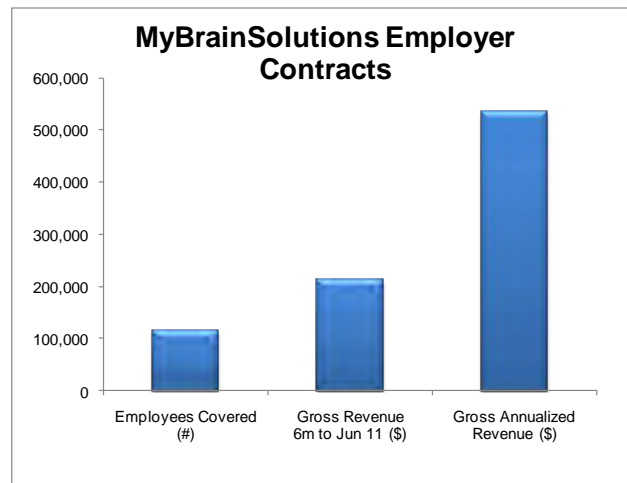
2. Consumer product – www.MyBrainSolutions.com



There has been significant commercial impact over the last 6 months, primarily due to inroads made in the US Employer sector. MyBrainSolutions is now part of the everyday working life of over thousands of employees from large multinational companies, including several in the fortune 100 list.



There are six Employers currently using (or about to use) MyBrainSolutions, covering more than 100,000 employees. The annualised revenues below assumes all contracts to have been in place for a full 12 month period.



The majority of the contracts have been through the ongoing revenue share relationship with OptumHealth (which went non exclusive from January 1, 2011, allowing marketing direct or using other channel partners). Brain Resource has already signed the first direct contract with a multinational company.

2.1 Recognition of the value of MyBrainSolutions

- The user experience among US clients has been showcased at the most prominent symposia. The clients include:
 - Nationwide uses MyBrainSolutions as a differentiator in their wellness programs. Kathleen Hearath, VP Health & Productivity, presented the benefits to Nationwide employees, at 2010's National Business Group on Health meeting in Washington:

"We've also been using it as a differentiator with our Wellness and smoking programs. What better way to lose weight or quit smoking if you know what motivates your brain ... what we started hearing was, this is more than just fun, this really made a difference."

- Wynn Pott, North American Benefits Lead, Accenture also presented the benefits of MyBrainSolutions at the above meeting:
“We’re seeing across the chart improvements including in ability to manage stress and life concerns. And user satisfaction was off the charts. I’ve never seen a satisfaction survey that we’ve put out come back so high ... 98%.”
- SharpBrains Annual Brain Fitness Innovation Awards (Nationwide’s use of MyBrainSolutions won Silver Prize) and recognition by SharpBrains as a leading vendor in the brain training sector, and sole leader in the employer sector (“State of the Brain Fitness Market Report, 2010” – SharpBrains)
- Published user productivity gains from training. Productivity improvements equating to 12 hours additional work time gained from just 4 hours of training in a 30 day period. (*Neuroleadership* Journal Publication in press).

2.2 Growth strategies

Further revenue growth is being driven through the following initiatives:

- Leverage existing customer relationships to up-sell additional services and products.
- Acquire new employer contracts through direct sales.
- Establish new distributor relationships (Health plans, wellness companies).
- Direct to consumer campaigns.

In establishing relationships with existing customers, they have been very open to our additional products and services that can further connect their existing wellness initiatives with the brain. These currently include:

MyCalmBeat stress reduction product: This is a cost-effective way to reduce employee stress. It is sold direct to consumer for \$50, or is offered to the employee population using a Per Employee Per Month fee.

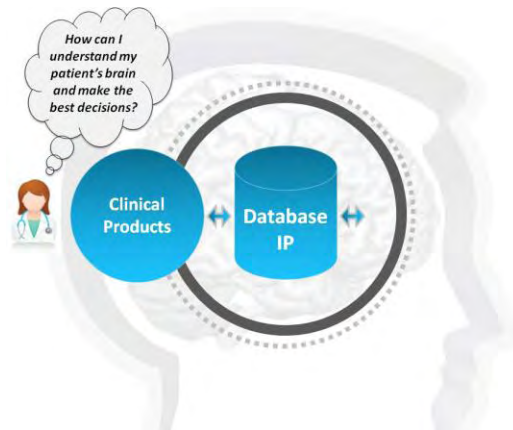


Webinars: The MyBrainSolutions platform provides a broad set of tools that can be used to boost key functions, including:

- Stress mastery
- Memory
- Positivity
- Resilience and Productivity
- Effective Communication
- Creative Thinking

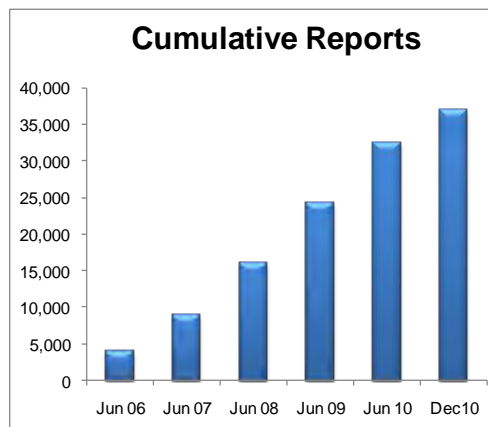
A series of Webinars are provided to employees to further boost their engagement and train these new brain habits. Participants are then given a “30 Day Challenge” and a guide as to how best to use MyBrainSolutions training to achieve their Goal topic identified in the webinar (with pricing around \$125 per employee attending each Webinar).

3. Clinical products - WebNeuro



WebNeuro is the web Assessment and Clinical Decision Support Report for Adults and Children, for use by clinicians. Using a patient completed 40 minute online assessment, Brain Resource provides a Report in minutes to the clinician. This report provides a rapid overview of the patient's cognitive strengths and limitations, which increases the objectivity of diagnosis and treatment decisions.

Brain Resource currently has more than 150 clinical users of its assessment and Clinical products, generating around 8,000 reports per annum. This includes IntegNeuro, the computer touchscreen product precursor of WebNeuro (used by some clinicians and in numerous Pharmaceutical trials). Being online and not touchscreen based, WebNeuro is a vastly more scalable product.



WebNeuro currently includes versions in multiple languages for:

- Depression;
- Anxiety
- ADHD (also flags Learning Disorder)
- Schizophrenia
- Traumatic Brain Injury and Post Traumatic Stress Disorder;
- Mild Cognitive Impairment and Alzheimer's disorder.

3.1 Growth Strategies

Apart from the impetus that an FDA approval could provide to our existing products, Brain Resource has a specialist Medicare Consultant who is selling the targeted use of WebNeuro in several US State Medicaid systems (the US Government funded health plan covering low income families). The first of these formal submissions has recently

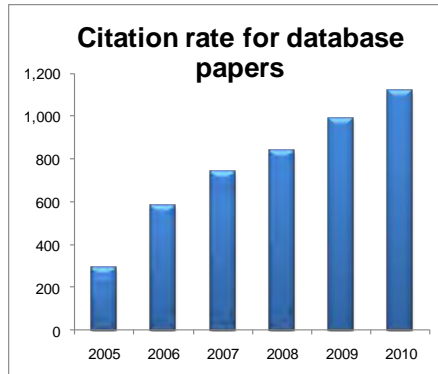
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made progress. Were this contract to conclude, and at the levels of coverage discussed, it would have a material impact on our business. Equally significant, success in one State bodes well for success in our other State submissions.

US Health Reform is expected to increase demand for products like WebNeuro, in turn increasing reimbursement prospects. Note that WebNeuro falls under existing reimbursement codes and does not require new coverage codes to be created for reimbursement and our users are being reimbursed.

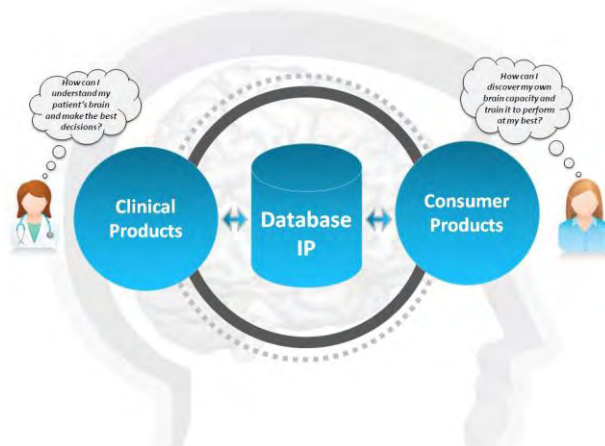
3.2 IP grounded in scientific research

Customers of Brain Resource products want to know that the research underpinnings are endorsed by the broader scientific and healthcare community. There are now more than 265 scientists across 16 countries using aspects of Brain Resource methodology (through BRAINnet.net) to carry out their research and they are publishing outcomes in scientific journals. Having this endorsement in place is a key success factor in user uptake. One indicator of endorsement is 'citation' rate, that is, the number of times that published research on Brain Resource tests is being referred to by other leading scientists. The following graph shows this growing impact and endorsement.



4. Outlook

Brain Resource currently sells two highly scalable web products: (1) a Clinical product (WebNeuro) that assesses the clients brain strengths and weaknesses and suggests the best treatment option for each individual; and (2) a Brain Training product (MyBrainSolutions) that brings together a range of games and brain insights that have been shown over the past two decades to help change behaviour (such as master stress, boost memory, positivity and productivity).

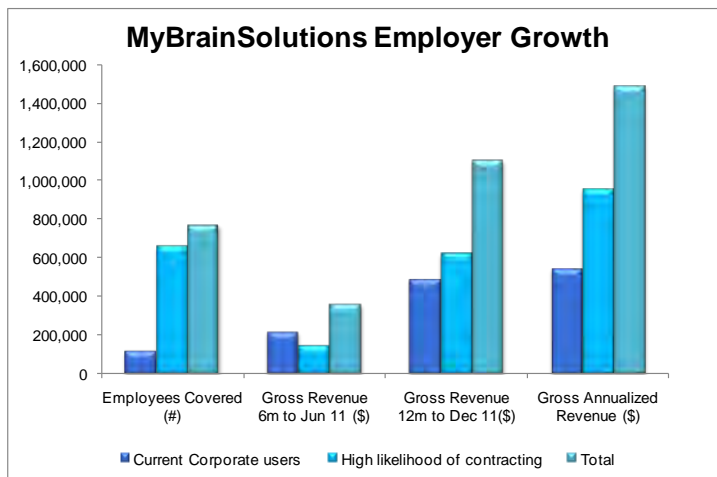


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Industry trends, US Health Reforms that increase reimbursement and Brain Resource initiatives are a timely confluence for growth. Both the Clinical and Consumer web products are now established in the US market. Marquee clients have presented the product benefits at various symposia which is further helping to cascade growth. There is also the increasing realisation by clients that unless the brain is working effectively, nothing else matters.

There are two streams of specific value creation :

- *Growing Intellectual Property* – given the imminent filing of our Depression brain test submission with the FDA, an approval would significantly increase the addressable market for our Clinical products.
- *Sales growth of our existing Consumer and Clinical products* – the following graph shows Employers in our current sales pipeline that have been qualified as highly likely to convert, an additional 8 Employers covering 650,000 employees. It also factors current contracted sales from our first upsell, MyCalmBeat, as discussed above. There is also an additional 20 Employers currently being processed in our sales pipeline.



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

Product:	MyBrainSolutions	WebNeuro
Revenue model:	Employers pay Per Employee Per Month (PEPM)	Medical Practitioners pay per patient use
Selling Price:	Industry av. PEPM ~40 cents. Upsells: MyCalmBeat \$50 per unit and Brain Training courses \$125 per employee	~\$25 per report, increasing coverage and reimbursement opportunities from US Health Reform
EBIT margins:	~30%	~40%
US Market size:	17,000 employers with >500 employees	85m US depression consults pa employees
Near term targets:	1-2 new employers per month (achieved 1 per month to date)	1 contract with any of Medicaid, Health Plan or Managed Care provider

We are currently adding to our US team of talented sales and marketing professionals to ensure we keep pace with the levels of demand.

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5. Financials

5.1 Revenues

The sales from our products excluding Personalized Medicine solutions grew 5%. Note that the timing of payments under MyBrainSolutions contracts meant that they had not yet meaningfully impacted period end revenues.

6 months to 31 December	2010	2009	Change
Clinical Decision Support	1,896,685	1,881,210	1%
Brain Training (newly launched)	51,417	n/a	n/a
Discovery (newly launched)	85,234	16,047	431%
Personalized Medicine Solutions	1,647,998	1,917,434	(14%)
Equipment sales	25,577	13,771	86%
Product revenues	<u>3,706,911</u>	<u>3,828,462</u>	<u>(3%)</u>

- Clinical Decision Support: We have been transitioning growth in reports to our on-line solutions, WebNeuro. While overall Report Growth was minimal at around 4% to ~4,400 reports for the half, WebNeuro Reports almost doubled during the current period, and are now 20% of the total reports. The contribution from our partnership with OptumHealth, however remained the dominant component of Clinical revenues, this the last period of the current licence arrangement.
- MyBrainSolutions for Brain Training: This is a newly launched product, with early revenues coming from our first Employer contracts.
- Discovery: This is a newly launched offering to academics who want to access our services for research.
- Personalized Medicine Solutions: iSPOT revenues are tied to the stage of completion of the contract (based off a range of factors including spend and recruitment levels). Recruitment levels can vary substantially between periods with factors internal (we can ramp up or slow down particular sites) and also external (eg weather). While there were fewer acquisitions than in the previous corresponding period, around 17% less, this variability remains well within our trial plans, as shown above with the planned FDA filing.

5.2 Other sales

6 months to 31 December	2010	2009	Growth %
Total Sales	3,706,911	3,828,462	(3%)
Government export grant (EMDG)	-	100,000	nm
Interest received	126,275	106,118	19%
Total revenues and other income	<u>3,833,186</u>	<u>4,034,580</u>	<u>(5%)</u>

The Export Market Development Grant in the prior period is only available for a discrete number of claims, our quota now exhausted.

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5.3 Expenses

6 months to 31 December	2010	2009	Growth %
Cost of sales - third party costs & commissions	190,823	233,983	(18%)
Depreciation and amortisation	96,049	51,026	88%
Corporate (insurance, legal, accounting, listing)	203,240	213,922	(5%)
Office (rent, supplies & miscellaneous)	124,190	98,554	26%
Salaries and consultancy fees	1,411,580	1,545,065	(9%)
Marketing and agent support	200,965	193,095	4%
Communications	56,370	49,424	14%
Travel	85,760	101,108	(15%)
Foreign exchange losses / (gains)	852,924	732,170	16%
Share based payments	19,306	25,724	(25%)
Other	25,733	12,324	109%
Total expenses / (gains)	<u>3,266,940</u>	<u>3,256,395</u>	<u>0%</u>
Total expenses (excluding foreign exchange losses / gains)	<u>2,414,016</u>	<u>2,524,225</u>	<u>(4%)</u>

Total expenses (excluding foreign exchange gains / losses) fell by around 4%. Brain Resource employed an average of around 38 full time equivalents (June 2010:44) for the period. This number was around 35 at year end, with this reduction a consequence of our overall evolution from a development to a product/sales and US focus. The depreciation increase reflected the first contribution from MyBrainSolutions.

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

iSPOT explanatory note:

Note that costs are net of the capitalisation of expenditures associated with iSPOT. The amount capitalised for iSPOT in the 6 months to 31 December 2010 amounted to around \$1.6m (2009:\$1.9m), this includes salaries (both direct and allocated), direct site expenditures and allocated overhead.

The current Personalized Medicine Solutions Revenue includes around \$1.6m (2009: \$1.8m) from the iSPOT contract. Brain Resource's accounting policies (compliant with Australian equivalents to International Financial Reporting Standards) distinguish Marker development from Drug trials. In Marker development, Brain Resource retains a right to use and significantly benefit from the Intellectual Property created during the collaboration. Payments received from a collaborating partner for participating in the collaboration and undertaking the work are recognised as revenues, reflecting the relative stage of project progress. The associated costs are capitalised to the extent that the future benefits are expected to at least equal those costs with any excess expensed as incurred, this consistent with our policy for the treatment of Intangible Assets. Capitalised amounts are reviewed periodically to

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ensure that there is no impairment and also to determine an appropriate sales linked amortisation point. Accordingly, iSPOT's impact on accounting profit is significant.

5.4 Profit before foreign exchange

6 months to 31 December	2010	2009	Growth %
Profit (Loss) after tax and excluding foreign exchange gains / losses	1,419,170	1,510,355	(6%)
Profit (Loss) after tax	566,246	778,185	(27%)

Foreign exchange losses as mentioned above have had a significant impact on the results for both periods. The fall in profit, was mainly due to the lower contribution from the iSPOT trial to revenues. These revenue are tied to the progress with the contract and the subject recruitment levels.

5.5 Cash flow

6 months to 31 December	2010	2009
Net cash flows from operating activities	(1,704, 595)	1,462,214
Net cash flows from investing activities (09 excludes the sale of bonds)	<u>(1,803,942)</u>	<u>(2,835,609)</u>
Increase (decrease) in free cash flow	(3,508,537)	(1,373,395)
Closing cash	6,928,016	14,672,976
Total net monthly cash usage (excludes impact of foreign currency gains/losses)	584,756	228,899

MyBrainSolutions revenues from our current 6 major US employer contracts (covering over 100,000 employees) is still to impact and will begin contributing in coming quarters, as will Clinical Decision Support revenue channel initiatives. Note that the ongoing deterioration of the USD (and our policy of holding cash in currencies aligned with future expenditures) continued to impact. Investing cash flows reflected an expedited closing the first phase of the iSPOT study, discussed above, and a consolidation of MyBrainSolutions.

We are reviewing our cash position to ensure that we remain optimised. As a note regarding our capital management efficiencies, the entire business has been built off \$15.5m of raised funds (no funds have been raised since 2006).