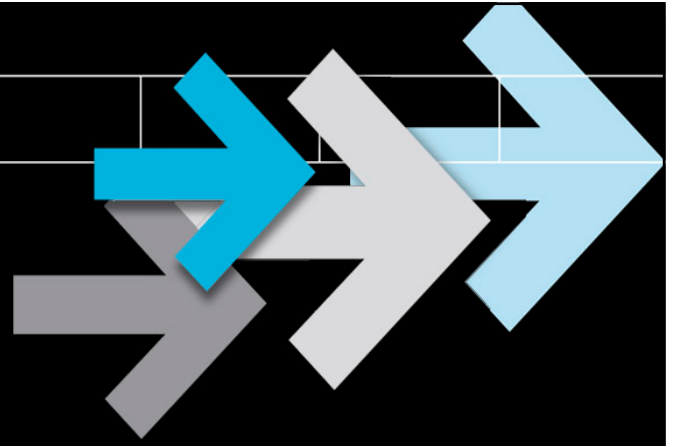


Brain Resource®



Annual Report 2006

The Brain Resource Company Limited

CORPORATE DIRECTORY

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

BOARD OF DIRECTORS

Evian Gordon (Executive Chairman and CEO)
Dan Segal (Executive Director)
Nestor Hinzack (Non-Executive Director)
Russell Jamison (Non-Executive Director)
Brian Joffe (Non-Executive Director)
Paul Keating (Non-Executive Director)
Arthur Toga (Non-Executive Director)
Peter Wodtke (Non-Executive Director – resigned 30 June 2006)

COMPANY SECRETARY

Robert Waring

AUDITORS

Ernst & Young

REGISTERED AND PRINCIPAL ADMINISTRATIVE OFFICE

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STOCK EXCHANGE LISTING

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



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Chairman's Report

4 September 2006

Dear Shareholders

The need for high quality and objective information about the brain continues to build in a way far stronger than anything we anticipated when we started the business.

BRC has built world leading intellectual property in a short time frame and this is generating escalating sales, including:

- (a) 21 trials, including from 12 global pharmaceutical companies, testing the effects of drugs on the brain in 7 disorders; and
- (b) servicing a wide range of clinical users, which now number around 100, in eight countries and 5 languages.

Notably, this intellectual property has also now matured to the point where we recently filed our first provisional patent application covering our discovery of a new drug, based on unprecedented insights from the Brain Resource International Database.

The growing power of our methodology is now being targeted to increase pharmaceutical trial and clinical management business in the USA, with a team in place and links to MIT's Center for Biomedical Innovation in Boston, providing a further platform for growing our presence.

We are pleased to report on our fifth year of operations and would like to extend our appreciation for your on-going support.

Yours sincerely,



Dr Evian Gordon
Chairman of Directors

Operational Review

BRC's Corporate Vision is to build a sustainable competitive advantage by capitalising on the "First Global Standard for Brain Testing" that it has set up to provide new insights into testing and discovering drugs and objective information on brain disorders for clinical application.

Market opportunity for BRC's brain testing

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

BRC's unique methodology and intellectual property (IP). BRC standardised process allows users, anywhere in the world, to access these technologies to collect brain data in exactly the same way. This data is combined in BRC's central database, which together with BRC's new analysis methods forms BRC's IP.

BRC is generating revenues from testing brain performance. BRC's business is selling brain testing reports to pharmaceutical companies (to test and develop their drugs) and to clinicians (to compare their patients to matched controls in the Database).

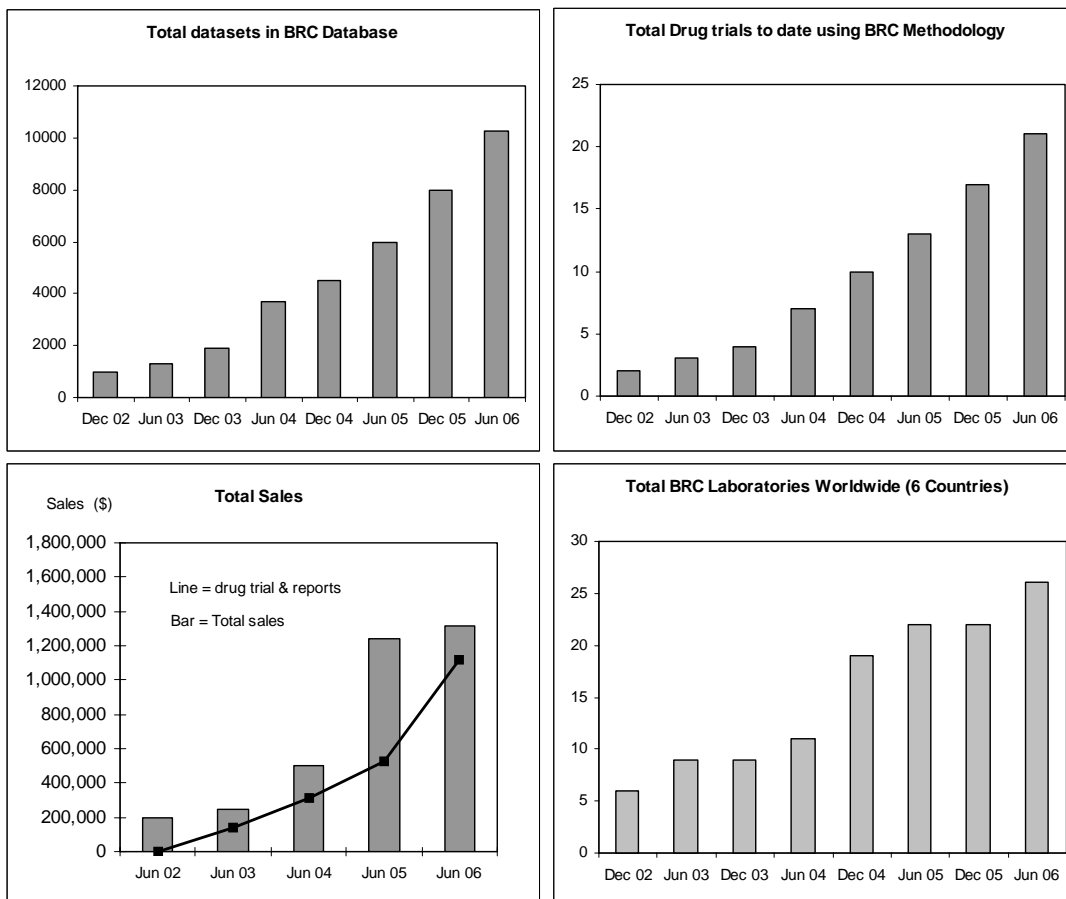
BRC positioned for growth, including from harnessing IP. We are seeing increasing application in three complementary ways (pharmaceutical trials, new drug discovery and clinical), this increasing our confidence in demand. We are implementing an accelerated marketing plan to capitalise, particularly in the US, on this expectation.

Highlights – growing users and database

- Drug trial sales more than doubled, with 8 new trials added both from existing and new pharmaceutical company clients.
- Additional 5 new trial agreements currently in the final stage of conclusion, with a total value of \$1m and would bring total contracts on hand to \$2.6m.
- Report sales increased 85% and new users increased 50%, now numbering around 100.
- First new drug provisional patent application, arising from new insights from the Database.
- Improved quality of revenues with a reduced contribution from equipment sales, which dominated the prior year.
- The Database grew 70% and now numbers more than 10,000. Scientific publications generated off the database now exceed 100.
- Implementing an accelerated marketing plan, including building a US team.

Operational Review

Summary Data



Summary of Drug R&D Trials

Completed in current year:	Contracted & on-going:	Contracted post year end:
GlaxoSmithKline (4 trials)	Bristol Myers-Squibb (3 trials)	Kings College London / Equazen
Astra Zeneca	NIH FREEDOM Trial	University study (US)
Biogen	Johnson & Johnson	
Bristol Myers-Squibb	GlaxoSmithKline	
	Aspect Medical Systems	In final contract stage:
Completed in Prior year:	Schering	University studies (2 contracts)
Lilly	Solagran	Existing client
Pfizer	UCB	New client

Notes:

- i. final contract stage is defined as being where both parties have reviewed at least one copy of the draft and our assessment of there being no major outstanding issues.
- ii. the above list includes investigator initiated trials conducted by academics or clinicians using BRC methodology, funded by a pharmaceutical company.
- iii. further details of the trials contracted post year end and in the final stage will be provided at a later date as appropriate.

Operational Review

1. BRC Intellectual Property: standardisation, database, analysis

1.1 Database background

BRC has set up the “First Global Standard for Brain Testing”. Brain data is collected in an identical fashion from individuals in the USA, Europe and Australia and combined in BRC’s Database. BRC’s standardised methodology brings together 33 dimensions of brain function. The Database contains data from ‘normal’ males and females ranging in age from 5 to 86, individuals clinically diagnosed with a particular disorder¹ before treatment and after treatment. This data, plus our proprietary analysis tools, identifies what is a ‘normal’ response, how anyone in a Pharmaceutical Trial or a Clinical Patient differ to the signature characteristics (termed Biomarkers²). With each new dataset being added, the statistical power of the Database to evaluate new drugs or predict treatment response grows.

BRC’s database now exceeds 10,000 datasets. As the number of subjects paying for our services grow, so does the database, as a large percentage of these subjects consent to their data being added (note that all data is kept in a non-identifiable form, that is, the only identifier is a number and BRC does not keep this linkage internally).

Given this self-fueling nature, growth extends BRC’s competitive advantage, making it harder for a competitor to catch up. We are currently not aware of any other brain Database that has BRC’s scale, breadth, integration and standardisation.

	Dec-04	Jun-05	Dec-05	Jun-06
BRC database datasets (rounded)	4,500	6,000	8,000	10,000
<i>Growth on preceding 6 month period</i>	23%	32%	34%	25%

1.2 Why is 10,000 an important milestone to stimulate commercial returns?

This size provides the statistical power to detect small and subtle changes and the ability to tease out robust signatures of brain function, with the confidence that the patterns are genuine and not due to chance variation.

This increases the attractiveness to Pharmaceutical companies. BRC’s ability to deliver unique insights into the effects of their drugs on the brain leads to more efficient and cheaper drug trials. Medical practitioners/patients/medical benefit funds also gain from BRC’s insights through: (1) using the brain signatures to help with objective diagnosis; (2) more importantly, to objectively assess what aspects of brain function have changed due to the treatment; and (3) helping to select the right drug for the right person – an emerging field known as ‘Personalised Medicine’. BRC is at the forefront of this field, with CEO Dr. Evian Gordon, one of six invited presenters to the first USA symposium on Brain ‘Personalised Medicine’, held at MIT in Boston.

¹The database includes a wide range of disorders including Depression, Alzheimer’s Dementia, Attention Deficit Disorder, Schizophrenia, Head injury, Bipolar, Sleep/Conduct/Eating Disorders, HIV.

²In essence, Biomarkers are one or a combination of characteristics strongly linked to benchmarking the starting position and assessing performance post an event. By way of a simple example, in developing a drug for baldness, the best (and arguably only) biomarker is hair. Clearly, if a new treatment for baldness does not result in hair growth, then it is not working. In brain disease (and many other diseases), the Biomarkers are non-existent or very poorly defined. For example, there is currently no simple Biomarker for depression. This complexity negates simple approaches and, in our view, demands as much integrated data as possible to identify the best biomarkers.

Operational Review

1.3 Examples of customer benefit from scale

(a) New use of BRC's international Database for Drug Discovery

Most new drugs are discovered by examining the details of how an individual brain cell (neuron) functions. The brain consists of 100 billion highly interconnected neurons. BRC's founders predicted that the Database would ultimately provide a top down view about how drugs affect the brain as a system and this insight would provide a new platform for discovering new drugs. The Database has now reached that point of maturity.

Our first provisional patent application covers a new drug candidate which simultaneously targets both Memory and Mood and has potential use in any disorder that affects Memory and Mood, including Alzheimer's Dementia, Depression and Schizophrenia.

This proof of concept patent shows that a database with links between genetics, whole brain structure and function does indeed provide a revolutionary new platform for drug discovery (which can also be used in combination with traditional single neuron drug discovery approaches).

Insights for this provisional patent application emerged from mining the internally funded normative BRC database collected over the past five years on thousands of subjects across a wide range of ages and across a breadth of measures. Findings showed, for example, that while many aspects of cognition deteriorate with age (like Memory), some things generally improve (such as Mood). Other findings showed the close inter-relationship between Memory and Mood. This patent includes combinations of existing Memory and Mood drugs.

Customer benefit: BRC has now added this discovery layer to existing services provided to Pharma, to collaborate with them on the development of new drugs.

(b) NeuroCognitive Marker

Following a meeting with the FDA in Washington, BRC submitted to that agency a report on a methodology derived from the Database which has potential for widespread use to assess relative benefits of any drug used in the brain. Given that BRC's standardised methods allow everything to be kept constant, the relative size of the effect of each drug on the brain can be quantified. BRC has not yet had a formal response from the FDA about this.

BRC's scientists mined thousands of variables in the Database and extracted the 6 best signatures (which we branded "NeuroCognitive Marker") for potential widespread use. This product is simple, easy to use and cost-effective.

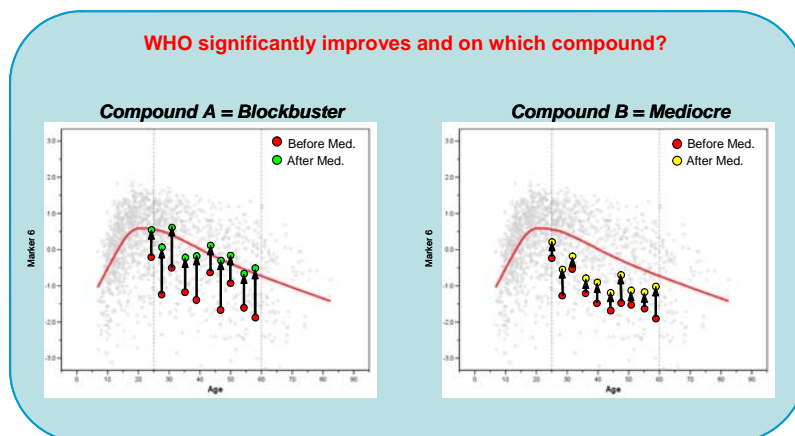
Customer benefit: sensitive signatures for assessing the relative effects of any brain drug in any clinical group, in any phase of drug trial, thereby seeing which drugs are likely to be more effective and maximize returns.

(c) Optimising decisions between drugs in R&D

The following diagram shows how the Database approach allows a Pharmaceutical Company to assess which of their drugs has the most effect on the brain. Both changes shown are statistically significant. However the drug on the left was far more effective at normalising the subject after treatment.

Customer benefit: invest in the relatively best performing drug

Operational Review



1.4 Patents

We have to date filed 4 provisional and 1 non-provisional patent applications. Three of these provisional applications cover new analysis tools and one for a new drug (as discussed above). The non-provisional application covers the overall BRC standardised integrated database methodology.

2. Products

BRC tests the brain and gets paid for delivering a Report to Pharmaceutical companies on the effects of their drug on the brain and to Clinicians for comparing their patient to the Database.

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

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

- Web
- IBM Touchscreen
- Laboratory.



In addition, we now have the capability to supply multiple languages. We currently have English, Swedish, Hebrew, German, Dutch and Afrikaans. Recent investments in our software architecture now mean that we can rapidly translate our software into any language at relatively low cost.

Report generation includes comparison of the individual data to a matched reference group in the database, highlighting any statistically significant deviations, to produce personalised brain profiles. Different users have different data acquisition and analysis requirements and accordingly BRC offers a modular approach which tailors the output to meet customer needs. We have invested during the current year in further refining our templates and also in finalising our web based versions of tests, which provides us with a much greater addressable market.

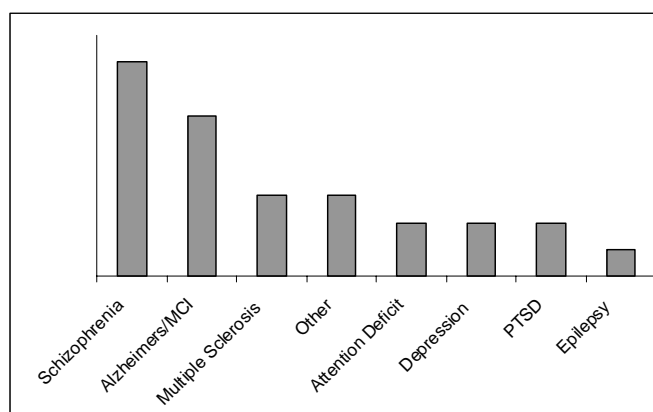
Operational Review

3. Discussion of current year highlights

3.1 Pharmaceutical services

We have added 8 new trials during the current year, bringing our total to date to 21, and have demonstrated an on-going ability to win trials from the major global pharmaceutical companies. We have now serviced 12 global pharmaceutical companies and are winning repeat business.

- See summary table earlier in the report for progress on each trial.
- Five contracts in final stages of negotiation, with major pharmaceutical companies, (two existing clients and one new client) amounting to just under \$1m – bringing our total contracts on hand to \$2.5m
- Continued growth in our relationship with GlaxoSmithKline, as at June 06 we have entered into five contracts, including for the purchase of 4 BRC Labs.
- Collaboration with Aspect Medical Systems, Inc. to conduct a clinical study aimed at elucidating markers in Mild Cognitive Impairment (MCI). Aspect has an alliance with Boston Scientific and BRC is particularly pleased to have been selected to contribute this component.
- BRC was selected to supply services to a Schering funded Multiple Sclerosis study being conducted in Israel.
- Successfully delivered results from the first study for AstraZeneca, conducted in Sweden which has led to a further series of method development studies.
- BRC supplying an epilepsy study that is being conducted in 10 major teaching hospitals across Australia and supported by UCB.
- Our collaborative study with Johnson and Johnson, looking at markers for depression, is making progress.
- Demonstration of proof of concept of the value of the database for discovery.
- Trials have covered more than 7 disorders (see below) and have been commissioned from/undertaken in Australia, Europe, UK and the US.

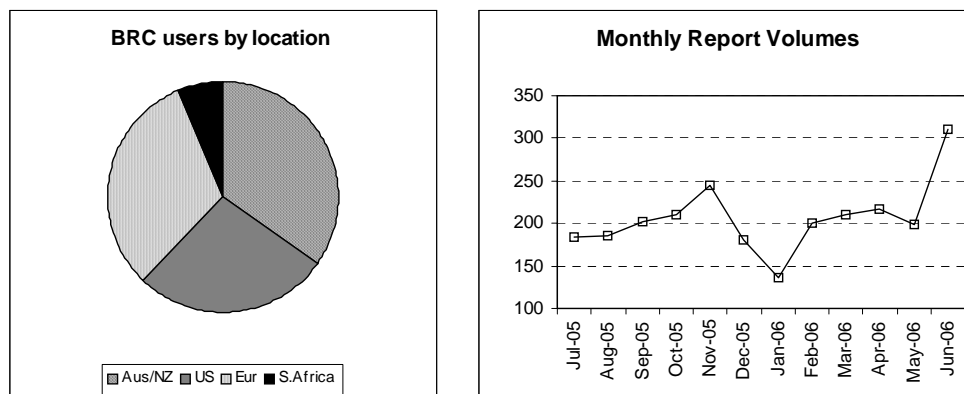


There is a strong outlook for growth in this component given that the addressable market is substantial (the total amount spent on drug development and brain drug sales respectively exceed \$10bn and \$40bn annually).

Operational Review

3.2 Cognition assessment services

There is a wide market for users of our cognitive assessment services, ranging from clinical where it is an aide to diagnosis to monitoring of performance in the workplace. We currently have around 100 users in 8 countries.



Our previously outlined strategy has been to allow this opportunity to build at its own pace. We have to date not marketed this service with any level of aggression but have made it available where there has been interest. While we achieved our targeted number of users, there is room for improvement to increase per user yield.

Both external and internal developments during the year have allowed us to decide to accelerate growth initiatives. Important considerations have been the overall trends towards personalised medicine and the recognition of the need for better ways of predicting treatment response at the individual level. Our database insights for this market have developed along with the overall database growth and we have invested in tailoring our solutions to meet the specific needs of the clinical markets. Another important consideration in this clinical space is whether the service is reimbursable. As of 1 January 2006, computerised neuropsychological testing became eligible for reimbursement from the US Medicare system. This impetus has in part triggered our plans to target the clinical users. We also obtained US regulatory approvals.

(a) Medicare reimbursement

US Medicare, effective 1 January 2006, included a reimbursement code for computerised neuropsychological testing services, one component of BRC's testing. We have commenced rolling out the first phase of our plan, including testing Medicare reimbursement levels across our target regions in the US. An average reimbursement of US\$48 is expected, with levels expected to vary across the US. IBM, our Business Partner, is assisting us in this endeavor. There is precedent for new Medicare reimbursement codes being taken up by the private health insurance providers and clinicians are now receiving reimbursement from major private health providers for the utilisation of BRC's cognitive tests. We are still finalising our proof of concept market study but our initial modeling implies a potential market opportunity of above 5m reports per annum.

(b) FDA Approval

During the year, we were most pleased to announce that we had received Food and Drug Administration (FDA) approval to market a service for use by qualified medical practitioners (approval number K050192) in the US. This regulatory approval was an important precursor to extending our services in the US beyond the pharmaceutical companies and into the broader medical markets.

Operational Review

4. Growth initiatives to increase sales

Given the abovementioned internal and external developments, we have begun implementing an accelerated marketing plan to target primarily the US clinical market (in addition to supplementing our pharmaceutical company marketing). This was facilitated by our recent \$1.5m placement of shares.

4.1 Increase in sales force

We have increased our US based marketing resources. We began this process with the recent addition of Dick Haiduck as the CEO of North American operations (he was formerly a Managing Director at Burrill & Co). We have since also added another four part time sales people to the team at an annual cost of around A\$500,000. This builds on the groundwork for our US operations that Peter Wodtke (whose executive role ended 30 June 2006) began laying over the last three years.

4.2 Marketing plan

We have begun to implement a US centric plan which includes targeting major hubs which either directly control spend or indirectly influence spend. The over 65's in the US are covered by Medicare (12% of the US population or 37 million people), with the under 65's needing private cover. This private cover is provided by Managed Care, with an estimate that 70% of the under 65's have this cover (or more than 150m people). Given the size of these providers, successful penetration in only one would have significant consequences for BRC. We are also working on the major clinical suppliers to Managed Care including large clinical consortia. Discussions are on-going with the former and we have begun to add clients in the latter category. We are also targeting clinicians through increasing our attendance at conferences.

We are at an early stage of this rollout, and also in assessing the impact of the abovementioned reimbursement.

(a) Example of a supporting initiative

As illustrative of our indirect marketing initiatives, we are in the final stages of agreeing terms with a leading United States citizen advocacy organization, dedicated to enhancing the lives of the elderly. They conduct a variety of research activities and initiatives, including education campaigns for health professionals and the public. They are a central resource which provides recommendations for cognitive exercises and lifestyle improvements that are generally accepted as working towards improved brain performance. Their website attracts hundreds of thousands of visitors monthly. The proposed terms of our agreement include that BRC will provide them with one million BRC WebNeuro tests (BRC's web based cognitive tests) free of charge, to be used within a six month period, with any subsequent tests to be chargeable.

5. Other initiatives to support growth

As with the introduction of any new technology, there are many supporting elements underpinning distribution that are required to ensure commercial success. This includes widespread scientific support – a prerequisite for any commercial uptake or regulatory approvals - and education about how to work with the new technologies. Given BRC's size, these initiatives are seen as important facilitatory adjunct to our growth strategy.

Operational Review

5.1 BRAINnet

The commercial value of the Brain Resource International Database is highly dependent on its scientific credibility. A key measure of scientific credibility is the number of scientific publications in international journals. The more publications that are accepted, the more the scientific credibility is extended and the more widespread the exposure. The scientific insights from the database have helped drive the growing number of pharmaceutical companies that use BRC's methodology.

Scientific access to the Brain Resource International Database is controlled through BRAINnet, an independent scientific consortium. BRAINnet has more than 60 scientists accessing the data. There have also been 103 publications to date, with a further 20 currently under review. Further, BRC methodology has underpinned more than 10 successful grant applications around the world.

5.2 BRC aligned with changes in the strategic direction of US Government Health Policy including the FDA Critical Path Initiative

The U.S. Secretary of Health and Human Services, Michael Leavitt, has pledged to devote his last 1,000 days in office to delivering the vision of personalized medicine by working with the FDA and National Institutes of Health, among others, to reform drug discovery, development and regulation. BRC is ideally positioned to capitalise on these transformative 'Personalised Medicine' changes and the related US Food and Drug Administration's (FDA) Critical Path Initiative.

The FDA released further Critical Path reports in March 2006 which identified specific opportunities that, if implemented, would increase efficiency, predictability, and productivity in the development of new medical products. One such topic (number 13) deals with Diagnostic Markers for Neuropsychiatric Conditions. "Today, diagnosis of psychiatric disorders is based on symptom presentation. For example, there are no diagnostic tests to distinguish an initial presentation of depression from the onset of bipolar disorder or other conditions. Identification of such markers would improve clinical trials by making it possible for sponsors to enrol only those patients with the target condition. Similarly, any successful treatments could better target a patient's disease in clinical practice. If specific aspects of mental disorders could be better quantitated, sponsors could test therapies targeted to a particular patient's constellation of symptoms." BRC's database has identified precursor markers (see Section 1.3b above) which have been submitted to the FDA and is the subject of ongoing development together with the Massachusetts Institute of Technology (MIT).

5.3 BRC a founding member of the MIT Center for Biomedical Innovation

BRC has joined MIT's Center for Biomedical Innovation (CBI) as a Founding Member and Dr Evian Gordon, CEO of BRC, has been invited to sit on CBI's Strategy and Policy Council. The focus of our work with CBI will be on drug development and treatment for brain related disorders, making use of BRC's standardized methodology and extensive database of brain function biomarkers. CBI is uniquely placed to play an important role in fostering change in drug development and to make a real difference through the caliber of the people involved and the ability to bring together the key thought leaders in the space. By way of background, the CBI was formed as a collaboration of the MIT Schools of Engineering, Management, and Science and the Harvard-MIT Division of Health Sciences & Technology.

Operational Review

5.4 BRC joined the Personalized Medicine Coalition and Neurotechnology Industry Organization

We also recognise the importance of select industry representative groups to facilitating change and also helping to raise our own profile.

The Personalized Medicine Coalition (PMC) was one such group we identified and we became a member late in 2005. PMC is working to advance the understanding and adoption of personalized medicine and has a diverse range of members, including the pharmaceutical companies. One of the early outcomes from this was the PMC/MIT Biomedical Innovation Forum in August 2006, at which Dr Gordon spoke, which focused on how personalized medicine is changing the landscape of mental and neurological illnesses.

BRC has also recently joined the Founder's Circle of The Neurotechnology Industry Organization (NIO). "Over 1.5 billion individuals suffer from a brain-related illness and our goal is to promote the development of next generation diagnostics by bringing together all players in the neurotechnology industry. BRC joins other visionary organizations in the NIO founder's circle that will have a substantial impact on the current economic burden of brain diseases which already exceeds \$1 trillion worldwide annually." Zack Lynch, Executive Director of the industry association.

6. Discussion of 2006 Financial Report

Note that this our first report under International Financial Reporting Standards - the major changes are to amortisation of intangibles and the expensing of share based payments.

6.1 Improved quality and breadth of revenues

Sales (A\$)	2006	2005	Growth
Drug Trials	868,464	391,004	120%
Reports	249,920	135,749	84%
Drug Trials and reports	1,118,384	526,753	112%
Brain Resource equipment sales	198,135	711,411	-72%
Total Sales	1,316,519	1,238,164	6%
Government grant (Export Market Development)	250,000	82,193	204%
Interest received - other persons/corporations	266,354	267,721	-1%
Total revenues from ordinary activities	1,832,873	1,588,078	15%

BRC's core revenues are derived from data processing and analysis for drug trials and reports. Drug trial and report sales have been covered in depth above. Equipment sales relate to the Laboratory equipment or Computerised Touchscreens that are needed for clients to acquire data and to access our data analysis services.

This equipment is primarily composed of third party componentry conforming to our specification. Margins reflect this and as such are lower than for our core report sales. Note we do not charge for our data acquisition software as this is recouped in our data processing fees.

Operational Review

Equipment sales declined substantially during the current year. After a very strong 2005 (for a company our size), we made the active decision in the first half of 2006 to prioritise the near term focus on consolidating this growth. Demand for the laboratories remains solid and we added 4 new laboratories in the second half. The equipment revenue contribution per laboratory was however less than the prior year. Customers, with our approval, sourced componentry themselves or already had components required for our standard configuration (particularly the important EEG amplifiers). Hence we only needed to supply a fraction of the componentry that we would ordinarily supply. This is a positive for BRC as it lowered the client's barrier to becoming a BRC laboratory and increased our recurring report revenues. There is a significant pool of customers in a similar position that we intend to target.

Government grants increased substantially. Our expectation for the level of reimbursement under the Government's Export Market Development Grant was previously too conservative, with an underprovision of \$100,000.

6.2 Cost increases of 6% equalled the levels of revenue growth

Expenses (A\$)	2006	2005	Growth %
Cost of sales - third party costs only	450,451	613,239	-27%
Depreciation and Amortisation	93,834	122,808	-24%
Corporate (insurance, legal, accounting, listing)	310,740	337,494	-8%
Office (rent, supplies & miscellaneous)	226,805	138,112	64%
Salaries	1,758,394	1,504,208	17%
Marketing and agent support	337,974	229,599	47%
Communications	82,651	75,901	9%
Regulatory approvals	36,724	38,410	-4%
Travel	214,981	190,469	13%
Share based payments	12,146	31,797	-62%
Other	88,456	99,423	-13%
Total Expenses	3,611,156	3,381,460	7%

This relatively small increase in expenses can be summarised as being a net of the reduced costs associated with the lower level of lower margin equipment sales partially compensating for the increased costs associated with marketing spend.

In terms of select specific costs:

- changes in Amortisation and Share based payments arose from the change in accounting policies, to align with Australian equivalents to International Financial Reporting Standards (see for further detail in our Accounts).
- the decline in cost of sales is tied to the decrease in equipment sales.
- the increase in Office expenses were primarily due to rent - more than half this increase can be accounted for by the incentives obtained as part of head office move in November 2004 which reduced the 2005 costs.
- salaries, marketing and travel reflect our increased marketing initiatives, including an increase of 6 full time equivalents and of our new US team.
- note that given our two collaborations contribute to our intellectual property, project development costs are capitalised in our database intangible.

Operational Review

6.3 Reduction in operating loss

Loss (A\$)	2006	2005	Growth %
Loss before tax	1,778,283	1,793,382	-1%

A factor curtailing the current year loss, despite an increasing spend on marketing and salaries, was the reduced contribution of equipment sales, which attract a lower margin than our other revenues. This is encouraging as it shows continued progress towards a turning point in our losses. At this stage we are continuing to spend on growth and this will continue to play a factor in the timing for achieving breakeven. However, provided we are able to control costs and maintain a relatively low cost base, the leverage from any new significant deals won remains high.

6.4 Capital expenditures remain stable

Capital expenditures were relatively stable compared to prior periods. This mainly comprises the database and internal development costs.

As at	31/12/2004	30/6/2005	31/12/2005	30/6/2006
Database monthly capex (\$/subject)	65	50	34	27
Ratio BRC Cognition/Total Database	22%	30%	39%	44%
Total current monthly capex (\$)	47,088	43,608	44,121	55,254
<i>Growth relative to prior 6 months</i>	14%	-7%	1%	25%

Database costs continue to decline on average. Of critical importance, report growth translates into database growth. The more fee paying subjects we process, subject to their granting approval, the faster our database grows lowering our average cost of growth. We also seek to minimise this average cost through grant funding which helps to fund database growth. What this falling cost does show is that, consistent with our model, the database is beginning to gain its own fuel for growth.

6.5 Cash from operations

	Jun-05	Jun-06
Loss	(1,443,383)	(1,438,283)
Less:		
Depreciation and amortisation	122,808	93,834
(Increase) decrease in inventories	30,609	(11,233)
Increase (decrease) in creditors	59,694	9,801
(Increase) decrease in receivables	23,186	(165,379)
(Increase) decrease in other assets	19,364	(5,537)
<i>Increase (decrease) in other payables</i>	<i>248,494</i>	<i>(177,797)</i>
Increase (decrease) in reserves	31,797	12,146
Increase (decrease) in provisions	45,097	161,032
Operating cash	(862,334)	(1,521,416)

Cash flow from operations showed a significant increase in consumption despite our overall accounting loss being relatively unchanged. This was due to the timing of payments from milestone driven drug trials. We received a significant amount of cash in advance during 2005 which only flowed to revenues in 2006. This movement in unearned income is reflected in the movement in other payables. This level of cash in advance has not been at the same levels during the current year. The timing of cash depends on the contractual terms, which can vary widely between trials.

Operational Review

6.6 Closing cash balance of \$5.4m (including June 2006 Placement)

	<u>To Date</u>
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
Jul 05 Placement (at 30 cents per share)	1,634,510
Jun 06 Placement (26.5 cents per share)	1,499,900
Total funds raised	<u>15,199,442</u>
Less cash balance at 30 June 2006	<u>5,410,144</u>
Cash consumption to 30 June 2005	9,789,298
Application of funds:	
Listing costs	584,926
Foundation IP (cash component)	210,600
Capitalised R&D	1,157,964
Database	1,176,347
Plant and equipment	799,514
Inventory	179,844
Other net operating cash*	<u>5,680,108</u>
Total	<u>9,789,302</u>
*Included in net operating cash:	
Income and other cash rec'd incl tax rebates	7,021,961
Salaries	-6,062,413

BRC is in a relatively sound financial position. To ensure that this increase in US marketing spend is adequately funded without impacting existing budgets, we considered it prudent to bolster cash reserves through our most recent placement. As shown in the above table of source and application of funds since inception, the BRC resource has been constructed with relatively minimal resources:

6.7 Summary of financial data for successive 6 month periods

	Dec-04	Jun-05	Dec-05	Jun-06
Sales	445,961	792,203	493,193	823,326
	19%	78%	-38%	67%
Expenses	(1,689,135)	(1,692,325)	(1,720,666)	(1,890,490)
	9%	0%	2%	10%
Loss pre tax	(1,085,718)	(707,664)	(968,398)	(809,885)
	22%	-35%	37%	-16%
Operating expenses / month*	214,559	221,044	246,038	263,083
	-221%	3%	11%	7%
Net cash consumption / month	176,549	54,389	174,113	189,966
	53%	-69%	220%	9%

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

This table shows that a degree of cyclicalty in our revenues which are skewed towards the second half with a consequential reduction in the loss. To date this has been tied to the timing of drug trials. The deterioration in cash consumption was in part due to the reasons discussed above in our cash from operations and also due to an underlying increase in marketing spend.

Operational Review

7. Outlook

We expect a significant initial increase in our cash consumption over the next 6 months, consistent with our acceleration of US marketing plans and our recent \$1.5m capital raising. This increase in spend is primarily being allocated to increase our impact in the US, including increased US personnel, travel and conference attendances.

As discussed above, we are in the midst of a campaign, led by our new US team, to increase our penetration including into the clinical market. During this time, we will be very closely monitoring our customer conversion rates and other variables in our market assumptions to ensure that this spend is being effectively utilised. We hope to be in a position to report outcomes before calendar year end.

We have an optimistic outlook, based on our ability to leverage our strong infrastructure to grow drug trials and the number of clinical users of our methodology, which we expect will be further boosted by our US marketing campaign. Furthermore, we also expect that the addition of our new web services and our ability in the discovery of new drugs, should further strengthen revenue generating abilities.

We also expect our profile to continue to lift through the many powerful relationships we are forming. Providing we continue to manage costs, given the above escalations, a major trial or intellectual property success could converge our financial performance with the strategic value we have built.

FINANCIAL STATEMENTS AND REPORTS
YEAR ENDED 30 JUNE 2006

REPORT OF THE DIRECTORS

Your Directors submit their report for the year ended 30 June 2006.

DIRECTORS

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

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

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

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

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

The Hon Paul Keating, (Non-Executive Director)

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

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

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

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

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

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

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

Peter Wodtke BA (Non-Executive Director)

Peter Wodtke has extensive global experience in wide range of industries including having been the longest serving non executive director of Holcim Ltd (a Swiss based multinational). He resigned effective 30 June 2006.

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

Brian Joffe founded The Bidvest Group Limited and is its current Chief Executive. Bidvest is a South African based company, listed on the Johannesburg Securities Exchange, with international operations generating more than A\$10bn of revenues and employing more than 80,000. He was appointed 26 July 2005.

COMPANY SECRETARY

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

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

Directors' interests in shares and options as at 30 June 2006 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 \$1,438,283 (2005: \$1,443,382).

This was the first year reporting under Australian Equivalents to International Financial Reporting Standards ("AIFRS"). The impact of the adoption has been documented in Note 1(e).

REPORT OF THE DIRECTORS

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. As of 17 March 2005, BRC Franchising Pty Limited changed its name to BRC Distribution Pty Limited.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

MATTERS SUBSEQUENT TO END OF FINANCIAL YEAR

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

LIKELY DEVELOPMENTS AND FUTURE RESULTS

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

DIRECTORS' EMOLUMENTS

- i) Remuneration policy: Please refer to the report below for remuneration policy and details of Director emoluments paid in the Company and Consolidated entity during the year to 30 June 2006.
- ii) Valuation of Directors options: 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. One director was granted 250,000 options during the previous year with an exercise price of \$0.41, which equated to the prevailing market price at the time the Board approved this issue.
- iii) Executive Officers: There are no executive officers other than the executive directors disclosed below in the remuneration report.

SHARE OPTIONS

Details of share options are disclosed in Note 13.

REMUNERATION REPORT

i) Remuneration Policy

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

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

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

REPORT OF THE DIRECTORS

ii) Director emoluments paid in the Company and Consolidated entity during the year to 30 June 2006 :

<u>Table 1</u> (audited)	Primary	Post Employment	Other	Total
	Salary & Fees	Superannuation	Equity Options	
2006 Executive Directors:				
E Gordon	150,000	13,500		163,500
D Segal	125,000	11,287		136,287
P Wodtke*	25,000	-	6,240	31,240
Total	300,000	24,787	6,240	331,027
2006 Non-Executive Directors:				
N Hinzack	10,000	-	-	10,000
P Keating	10,000	-	-	10,000
A Toga	10,000	-	-	10,000
R Jamison	10,000	-	-	10,000
B Joffe	10,000	-	-	10,000
Total	50,000	-	-	50,000
2005 Executive Directors:				
E Gordon	150,000	13,500	-	163,500
D Segal	125,000	11,287	-	136,287
Total	275,000	24,787	-	299,787
2005 Non-Executive Directors:				
N Hinzack	10,000	-	-	10,000
P Keating	10,000	-	-	10,000
A Toga	10,000	-	-	10,000
P Wodtke	10,000	-	3,744	13,744
R Jamison	10,000	-	-	10,000
Total	50,000	-	3,744	53,744

*It was agreed with Peter Wodtke in April 2005 for him to take on an executive role for 12 months from 1 July 2005 which has now expired. Other refers to the share based payment charge arising from the 250,000 options issued to him (approved at the 2004 AGM).

Services provided by Non Executive Directors were under normal commercial terms and conditions. There are continuous service agreements in place with the Executive Directors, Evian Gordon and Dan Segal, which set out a base salary and require 12 months notice to be given or the equivalent payment in lieu to be given upon termination by the company of such agreements. No other benefits either short term or long term have been received or are receivable by Directors. There are no contracts currently in place which provide for any variable remuneration, including bonuses or commissions from the Company. There were no other executives other than those mentioned above.

iii) Directors' Shareholdings and Options as at 30 June 2006 (Table 2 - audited)

Name	Ordinary Shares Fully Paid		Options over Ordinary Shares	
	2006	2005	2006	2005
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	605,000	605,000	250,000	250,000
Peter Wodtke	100,000	100,000	250,000	250,000
Russell Jamison	-	-	-	-
Arthur Toga	287,500	287,500	250,000	250,000
Brian Joffe	2,880,000	-	-	-
	21,935,293	19,055,293	3,750,000	3,750,000

REPORT OF THE DIRECTORS

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

No additional shares have been issued to Directors during the current year. Options were issued in the prior year to Peter Wodtke as approved by shareholders at the 2004 Annual General Meeting. Prior to Mr Joffe's appointment to the Board, he participated in the 26 July 2005 placement of ordinary fully paid shares.

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.

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

MEETINGS OF DIRECTORS

During the year to 30 June 2006 the Company's Directors held 5 Board meetings. E Gordon, D Segal, R Jamison and N Hinzack were in attendance at all of the meetings. P Keating attended 3 and B Joffe attended 1 of the meetings. A Toga, P Wodtke and B Joffe are not resident in Australia and all were kept up to date with the company's activities through regular email and telephone briefings.

Directors, Messrs D 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 40 people working for the consolidated entity, based on the June 2006 payroll, being a mixture of full time staff, permanent part time and casuals (2005:43). This equated to around 28 full time equivalent employees (2005:22). In addition, we have agreements with around 10 consultants worldwide in relation to sales initiatives (2005:3).

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

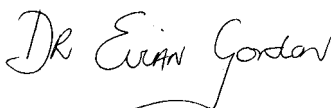
ENVIRONMENTAL REGULATION AND PERFORMANCE

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

AUDITOR INDEPENDENCE

The Directors have received a declaration of independence that there were no non-audit services provided by the auditors, which is included on the following page.

Signed in Sydney on 4 September 2006 in accordance with a resolution of the Directors.



Dr Evian Gordon
Chairman of Directors

AUDITOR INDEPENDENCE



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680 George Street
Sydney NSW 2000
Australia

■ Tel: 61 2 9248 5555
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GPO Box 2646
Sydney NSW 2001

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

In relation to our audit of the financial report of The Brain Resource Company Limited for the financial year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Garry Wayling
Partner
4 September 2006

Liability limited by a scheme approved under
Professional Standards Legislation.

INCOME STATEMENT

Year ended 30 June	Note	Consolidated		BRC	
		2006 \$	2005 \$	2006 \$	2005 \$
REVENUE FROM CONTINUING OPERATIONS	2	1,832,873	1,588,078	-	-
Cost of equipment and third party drug trial costs	3	(450,451)	(613,239)	-	-
Depreciation and amortisation	3	(93,834)	(122,808)	-	-
Insurance and professional fees		(310,740)	(337,494)	-	-
Rent, supplies & office costs		(226,805)	(138,112)	-	-
Salaries		(1,758,394)	(1,504,208)	-	-
Marketing and agent support		(337,974)	(229,599)	-	-
Communications		(82,651)	(75,901)	-	-
Regulatory approvals		(36,724)	(38,410)	-	-
Travel		(214,981)	(190,469)	-	-
Share based payments		(12,146)	(31,797)	(12,146)	(31,797)
Other		(86,456)	(99,423)	298	708
Provision for non recovery	3	-	-	(1,650,000)	(1,100,000)
TOTAL EXPENSES		(3,611,156)	(3,381,460)	(1,661,848)	(1,131,089)
LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX BENEFIT		(1,778,283)	(1,793,382)	(1,661,848)	(1,131,089)
INCOME TAX BENEFIT RELATING TO ORDINARY ACTIVITIES	4	340,000	350,000	-	-
LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX BENEFIT	14	(1,438,283)	(1,443,382)	(1,661,848)	(1,131,089)
NET LOSS ATTRIBUTABLE TO MEMBERS OF THE BRAIN RESOURCE COMPANY LIMITED		(1,438,283)	(1,443,382)	(1,661,848)	(1,131,089)
Basic loss per share (cents per share)	15	(1.7)	(1.8)		
Diluted loss per share (cents per share)	15	(1.7)	(1.8)		

BALANCE SHEET

At 30 June	NOTE	Consolidated		BRC	
		2006 \$	2005 \$	2006 \$	2005 \$
CURRENT ASSETS					
Cash & Cash Equivalents	22	3,910,244	4,460,200	4,505	4,735
Receivables	6	2,326,519	615,113	-	-
Inventories	7	155,844	168,612	-	-
Other	10	8,034	-	-	-
TOTAL CURRENT ASSETS		6,400,641	5,243,925	4,505	4,735
NON-CURRENT ASSETS					
Receivables	6	37,999	120,880	9,527,348	8,042,410
Plant and equipment	8	319,708	368,933	-	-
Intangibles	9	3,711,982	3,093,541	-	-
Other	10	910	3,403	300	300
TOTAL NON-CURRENT ASSETS		4,070,599	3,586,757	9,527,648	8,042,710
TOTAL ASSETS		10,471,240	8,830,682	9,532,153	8,047,445
CURRENT LIABILITIES					
Payables	11	381,175	549,171	4,043	4,043
Provisions	12	163,871	133,819	-	-
TOTAL CURRENT LIABILITIES		545,046	682,990	4,043	4,043
NON-CURRENT LIABILITIES					
Provisions	12	70,229	-	-	-
TOTAL NON-CURRENT LIABILITIES		70,229	-	-	-
TOTAL LIABILITIES		615,275	682,990	4,043	4,043
NET ASSETS		9,855,965	8,147,692	9,528,110	8,043,402
EQUITY					
Contributed equity	13	16,483,266	13,348,856	16,483,266	13,348,856
Accumulated losses	14	(6,677,533)	(5,239,250)	(7,005,388)	(5,343,540)
Other Reserves	14	50,232	38,086	50,232	38,086
TOTAL EQUITY		9,855,965	8,147,692	9,528,110	8,043,402

CASH FLOW STATEMENT

Year ended 30 June	Note	Consolidated		BRC	
		2006 \$	2005 \$	2006 \$	2005 \$
CASH FLOWS FROM OPERATIONS					
Receipts from customers		1,207,209	1,514,853	539	958
Payments to suppliers and employees		(3,345,628)	(3,005,511)	(241)	(250)
Income tax received		350,649	360,603	-	-
Interest received		266,354	267,721	-	-
NET CASH FLOWS USED IN OPERATING ACTIVITIES	22	(1,521,416)	(862,334)	(298)	708
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of plant and equipment		(44,609)	(126,418)	-	-
Development of database and analysis tools		(618,441)	(396,881)	-	-
Loans to subsidiaries		-	-	(1,635,038)	(958)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(663,050)	(523,299)	(1,635,038)	(958)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		1,634,510	-	1,634,510	-
Payment of share issue costs		-	-	-	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		1,634,510	-	1,634,510	-
Net (decrease) in cash & cash equivalents held		(549,956)	(1,385,633)	(230)	(250)
Add opening cash & cash equivalents brought forward		4,460,200	5,845,833	4,735	4,985
CLOSING CASH & CASH EQUIVALENTS CARRIED FORWARD	22	3,910,244	4,460,200	4,505	4,735

STATEMENT OF CHANGES IN EQUITY

	Attributable to the shareholders of The Brain Resource Company Limited			
	Issued Capital (note 13) \$	Accumulated Losses (note 14) \$	Other Reserves (note 14) \$	Total Equity \$
Consolidated				
At 1 July 2004	13,348,856	(3,795,868)	6,289	9,559,278
Loss for the period	-	(1,443,382)	-	(1,443,382)
Cost of share based payments taken directly to Equity	-	-	31,797	31,797
At 30 June 2005	13,348,856	(5,239,250)	38,086	8,147,692
Loss for the period	-	(1,438,283)	-	(1,438,283)
Issue of share capital	3,134,410	-	-	3,134,410
Cost of share based payments taken directly to Equity	-	-	12,146	12,146
As at June 30 2006	16,483,266	(6,677,533)	50,232	9,855,965
Parent				
At 1 July 2004	13,348,856	(4,212,451)	6,289	9,142,694
Loss for the period	-	(1,131,089)	-	(1,131,089)
Cost of share based payments taken directly to Equity	-	-	31,797	31,797
At 30 June 2005	13,348,856	(5,343,540)	38,086	8,043,402
Loss for the period	-	(1,661,848)	-	(1,661,848)
Issue of share capital	3,134,410	-	-	3,134,410
Cost of share based payments taken directly to Equity	-	-	12,146	12,146
As at June 30 2006	16,483,266	(7,005,388)	50,232	9,528,110

NOTES TO AND FORMING PART OF THE ACCOUNTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

(b) Statement of compliance

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

This is the first financial report based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly. The Company has adopted the exemption under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards from having to apply AASB 132: Financial Instruments: Disclosure and Presentation and AASB 139: Financial Instruments: Recognition and Measurement to the comparative period. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in Note 1 (e) below.

The following Australian Accounting Standards have recently been issued or amended but are not yet effective and have not been adopted for the annual reporting period ending 30 June 2006:

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard [*]	Application date for Company
2005-1	AASB139: <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-4	AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , AASB 132 <i>Financial Instruments: Disclosure and Presentation</i> , AASB 1 <i>First-time adoption of AIFRS</i> , AASB 1023 <i>General insurance Contracts</i> and AASB 1038 <i>Life Insurance Contracts</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-6	AASB 3: <i>Business Combinations</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-10	AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> , AASB 101: <i>Presentation of Financial Statements</i> , AASB 114: <i>Segment Reporting</i> , AASB 117: <i>Leases</i> , AASB 133: <i>Earnings per Share</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , AASB 1: <i>First-time adoption of AIFRS</i> , AASB 4: <i>Insurance Contracts</i> , AASB 1023: <i>General Insurance Contracts</i> and AASB 1038: <i>Life Insurance Contracts</i>	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
2006-1	AASB 121 <i>The Effects of Change in Foreign Currency Rates</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
New standard	AASB 7 <i>Financial Instruments: Disclosures</i>	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
UIG4	UIG 4 <i>Determining whether an Arrangement contains a Lease</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
UIG8	UIG 8 <i>Scope of AASB 2</i>	No change to accounting policy required. Therefore no impact.	1 May 2006	1 July 2006
UIG9	UIG 9 <i>Reassessment of Embedded Derivatives</i>	No change to accounting policy required. Therefore no impact.	1 June 2006	1 July 2006

* Application date is for the annual reporting periods beginning on or after the date shown in the above table.

NOTES TO AND FORMING PART OF THE ACCOUNTS (CONTINUED)

(c) Significant accounting judgements, estimates and assumptions

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

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

(d) Summary of significant accounting policies

(i) Basis of consolidation

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

(ii) Foreign currency translation

Both the functional currency and presentation currency of The Brain Resource Company and its subsidiaries is Australian Dollars (AUD). Transactions denominated in currencies other than AUD are initially recorded at the exchange rates ruling at the date of each transaction. Monetary assets denominated in currencies other than AUD are retranslated at the rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a currency other than AUD are translated using the exchange rate ruling at the date of the initial transaction.

(iii) Cash and cash equivalents

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

(iv) Trade and other receivables

The group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other receivables applicable for the years ending 30 June 2006 and 30 June 2005. Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified. The policy for the year ended 30 June 2005 was that trade receivables were recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts was made when collection of the full amount was no longer probable. Bad debts were written off as incurred.

(v) Inventories

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

NOTES TO AND FORMING PART OF THE ACCOUNTS (CONTINUED)

(vi) Plant and equipment

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

(vii) Intangible assets

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

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

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

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

These intangible assets have been determined to have indefinite useful lives and the cost model is utilised for their measurement. These allowed the Group to determine that these assets have an indefinite useful life.

(viii) Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(ix) Trade and other payables

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. The accounting policies applicable for the year end 30 June 2006 is that trade and other payables are carried at amortised costs and represent liabilities for goods and

NOTES TO AND FORMING PART OF THE ACCOUNTS (CONTINUED)

services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The policy for the year ended 30 June 2005 was that trade and other payables are carried at costs which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

(x) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(xi) Revenue recognition

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

a) Drug Trials

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

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

c) Government grants

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

(xii) Share-based payment transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'). There is currently an Employee Share Option Plan (ESOP) in place which provides benefits to all employees, including senior executives and directors. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a binomial model and the following assumptions: expected volatility of 20.0%, risk-free interest rate of 5.5% and an expected life of 5.0 years.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of BRC ('market conditions'). The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

NOTES TO AND FORMING PART OF THE ACCOUNTS (CONTINUED)

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described above. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has applied the requirements of AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' in respect of equity-settled awards and has applied AASB 2 'Share-Based Payments' only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

(xiii) Income tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the taxbases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

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

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

Where BRC can reliably estimate that R&D expenditure for the full year will fall within this \$1m limit, a tax benefit and associated receivable is recognised. Where the expectation is that the limit will be exceeded then a benefit will only be recognised in accordance with the abovementioned requirements.

NOTES TO AND FORMING PART OF THE ACCOUNTS (CONTINUED)

(xiv) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages, salaries and annual leave. Liabilities arising in respect of wages, salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of the following categories: wages and salaries, non-monetary benefits, annual leave and other leave benefits; and other types of employee benefits are recognised against profits on a net basis in their respective categories. The value of the equity-based compensation scheme described in note 25 is not being recognised as an employee benefits expense. Long service leave is provided for after the employees fifth anniversary with an assumption made over the likelihood of that employee achieving their tenth anniversary.

(xv) Leases

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

(xvi) Earnings per share

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

(xvii) Comparatives

Comparative figures have been reclassified and repositioned to provide consistency with current year disclosures.

(e) Transition to AIFRS & AASB 1 Transitional exemptions

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first the Group is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS). Accordingly, the Group has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 2. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 July 2004, the Group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 First-time adoption of AIFRS.

The Group has made an election in relation to the transitional exemptions allowed by AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" as follows;

NOTES TO AND FORMING PART OF THE ACCOUNTS (CONTINUED)

- a) Share-based payment transactions under AASB 2 is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.
- b) The Group has adopted the exemption under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards from having to apply AASB 132 'Financial Instruments: Presentation and Disclosure' and AASB 139 'Financial Instruments: Recognition Measurement' to the comparative period. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in note (f) below.
- c) Under AASB 138 'Intangible Assets' the Group has reassessed the designation of its intangible assets. Whereas previously the Group has separately identified components of development expenditure and treated different aspects differently the interpretation reached under AIFRS is that the Brain Database of the company should be treated as a single integrated asset for presentation, amortisation and impairment testing. As the Brain Database is still in its development phase it is considered not to be available for use until it operates in the manner intended by management and so any amortisation will not commence until future periods. As the business is still in early stage of commercialization, management are still evaluating whether the asset has a finite or indefinite useful life. It is considered that amortisation, if any, will commence after the Database is capable of being used as a diagnostic test to identify a disorder, or as a predictor of treatment response. The immediate impact of this reassessment of the definition and basis of the Brain Database is any amortisation recorded up to 30 June 2004 will not be reversed under AASB 1 'First Time Adoption of Australian Equivalents to International Financial Reporting Standards'. However, amortisation in the year to 30 June 2005 will be reversed as the asset has not yet reached its intended use. The Brain Database as an intangible asset will be subject to impairment testing in the future either annually or when an indicator of impairment arises.
- d) As disclosed in Note 1 under AGAAP the Group changed its accounting policy in 2005 to record grants and tax benefits from research and development tax offsets from a cash basis to accrual basis. Under AIFRS these items would have been recorded in prior years under an accrual basis. Therefore the change to AIFRS is reflected in the reconciliation statements by reduced prior year earnings and increased retained earnings at 1 July 2004.

(f) Impact of adoption of AIFRS

The impact of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 July 2004 ('AGAAP'), the company's transition date to AIFRS, is detailed below.

NOTES TO AND FORMING PART OF THE ACCOUNTS (CONTINUED)

(1) Reconciliation of total equity as presented under AGAAP to that under AIFRS

	Notes	Consolidated 30 Jun 2005	Consolidated 1 July 2004	BRC 30 Jun 2005	BRC 1 July 2004
Total Equity under AGAAP as previously recognised		8,019,054	9,142,035	8,043,402	9,142,694
<i>Adjustment to accumulated losses (net of tax):</i>					
Write back of amortization	(i)	128,638	-		
Recognition of share based payment expense	(ii)	(38,086)	(6,289)	(38,086)	(6,289)
Accrual of Tax and Export Development Grants	(iii)	-	417,243		
		8,109,606	9,552,989	8,005,316	9,136,405
<i>Adjustment to other reserves (net of tax):</i>					
Recognition of share-based payment expense	(ii)	38,086	6,289	38,086	6,289
Total Equity as reported under AIFRS		8,147,692	9,559,278	8,043,402	9,142,694

(2) Reconciliation of profit after tax as presented under AGAAP to that under AIFRS

	Notes	Consolidated 30 June 05	BRC 30 June 05
Net Loss as reported under AGAAP		(1,122,980)	(1,099,292)
Write back of amortization	(i)	128,638	
Less share based payments	(ii)	(31,797)	(31,797)
Accounting Policy change	(iii)	(417,243)	
Net Loss after Tax under AIFRS		(1,443,382)	(1,131,089)
(i)	Amortisation for the year to 30 June 2005 has been reversed as the intangible is not yet available for use.		
(ii)	Share based payments recognise the fair value of options granted to employees as an expense on a pro rata basis over the vesting period.		
(iii)	The timing of recognition of Grants and tax benefits (from research and development tax offsets) was changed from a cash to accrual basis.		

(3) Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

There was no impact of adopting AASB 132 and AASB 139 on 1 July 2005.

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

30 June	Consolidated 2006 \$	Consolidated 2005 \$	BRC 2006 \$	BRC 2005 \$
2. REVENUE FROM CONTINUING OPERATIONS				
Revenue from operating activities:				
Drug trials	868,464	391,004	-	-
Reports and other data processing	249,920	135,749	-	-
Sale of equipment	198,135	711,411	-	-
Government grants (incl. EMDG and NSWBio)	250,000	82,193	-	-
Revenue from non-operating activities:				
Interest received - other persons/corporations	266,354	267,721	-	-
Total revenues from ordinary activities	1,832,873	1,588,078	-	-

3. EXPENSES FROM CONTINUING OPERATIONS

Cost of sales (equipment and third party drug trial expense)	450,451	613,239	-	-
Depreciation of non current assets:				
Plant and equipment	93,834	122,808	-	-
Total Depreciation	93,834	122,808	-	-
Operating lease costs	157,188	83,725	-	-
Annual leave	54,638	43,860	-	-
Long Service Leave	45,644	-	-	-
Superannuation contributions	148,168	125,120	-	-
Provision for non recovery*	-	-	1,650,000	1,100,000
Net Foreign Currency Loss (Gain)	(5,793)	18,775	-	-

* 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%	(533,485)	(538,015)	90	212
Add: Current year future income tax benefit in respect of tax losses – not recognised	533,485	538,015	(90)	(212)
Less: Tax benefit receivable – Research and Development tax concession	(340,000)	(350,000)	-	-
Income tax benefit recognised	(340,000)	(350,000)	-	-
Current Income Tax Receivable	(340,000)	(350,000)	-	-

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 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.

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

30 June	Consolidated 2006 \$	Consolidated 2005 \$	BRC 2006 \$	BRC 2005 \$
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The group has a deferred tax liability of \$638,873 due to temporary differences from accelerated tax amortisation on the group's intangibles assets. This has been offset by a deferred tax asset of \$638,873 available from income tax benefits from prior year unused tax losses which are expected to be realised in the periods when the liability will arise.

In addition, the group has income tax benefits arising from temporary differences of \$88,455 and estimated remaining income tax losses of \$701,874. These amounts have not been recognised as realisation of the benefits is not considered probable given the stage of the group's development.

No franking credits are available for subsequent years (2005: 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	43,445	42,560	-	-
	43,445	42,560	-	-

6. RECEIVABLES

Current

Sale of reports, equipment & drug trials	207,206	193,189	-	-
Provision for doubtful debts	(23,750)	(6,000)	-	-
Advances to laboratories for database acquisition	36,354	15,924	-	-
Income tax rebates receivable	340,000	350,000	-	-
Share placement receivable	1,499,900	-	-	-
Export market development grant receivable	150,000	50,000	-	-
Other receivables	116,809	12,000	-	-
	2,326,519	615,113	-	-

Non Current

Sale of equipment receivables	75,999	139,880	-	-
Provision for doubtful debts	(38,000)	(19,000)	-	-
Amounts owing by controlled entities	-	-	15,777,348	12,642,410
Less Provision for non recovery (see note 3)	-	-	(6,250,000)	(4,600,000)
	37,999	120,880	9,527,348	8,042,410

a) Terms and Conditions

- i) Certain equipment sales disclosed in Non Current Assets above were supplied under sale agreements which provided for deferred payment terms of around three years, tied to laboratory performance, which are interest bearing at 6% pa. Interest receivable has been accrued where recovery is certain.
- ii) Current debtors typically have repayment terms of between 14 to 30 days or 30 days after achievement of milestones.

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

30 June	Consolidated 2006 \$	Consolidated 2005 \$	BRC 2006 \$	BRC 2005 \$
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7. CURRENT INVENTORIES

Laboratory hardware – at cost	63,562	64,047	-	-
Laboratory software – at cost	19,728	24,993	-	-
Computer touchscreens – at cost	67,448	63,665	-	-
Miscellaneous componentry – at cost	29,106	15,907	-	-
Provision for obsolescence	(24,000)	-	-	-
	<u>155,844</u>	<u>168,612</u>	-	-

8. PLANT AND EQUIPMENT

	Consolidated \$	Parent \$
At 1 July 2004, net of accumulated depreciation and impairment	365,323	-
Additions	126,418	-
Depreciation expense	(122,808)	-
At 30 June 2005 net of accumulated depreciation and impairment	<u>368,933</u>	-
At 1 July 2005, net of accumulated depreciation and impairment	368,933	-
Additions	44,609	-
Depreciation expense	(93,834)	-
At 30 June 2006, net of accumulated depreciation and impairment	<u>319,708</u>	-
At 1 July 2004		
Cost	537,382	-
Accumulated depreciation and impairment	(172,059)	-
Net Carrying Value	<u>365,323</u>	-
At 30 June 2005		
Cost	663,803	-
Accumulated depreciation and impairment	(294,870)	-
Net Carrying Value	<u>368,933</u>	-
At 30 June 2006		
Cost	708,410	-
Accumulated depreciation and impairment	(388,702)	-
Net Carrying Value	<u>319,708</u>	-

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

30 June	Consolidated 2006 \$	Consolidated 2005 \$	BRC 2006 \$	BRC 2005 \$
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9. INTANGIBLES – INTERNATIONAL DATABASE AND ASSOCIATED ANALYSIS TOOLS

Development cost at 1 July	3,853,524	3,456,641	-	-
Accumulated amortisation and impairment	(759,983)	(759,983)	-	-
Net Carrying Amount at 1 July	3,093,541	2,696,658	-	-
Additions – internal development	618,441	396,883	-	-
Less Impairment and amortisation	-	-	-	-
Net Carrying amount at 30 June	3,711,982	3,093,541	-	-

No impairment loss was recognised for continuing operations in the 2006 financial year.

10. OTHER ASSETS

Current

Prepayments	8,034	-	-	-
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Non Current

Deposits	910	3,403	-	-
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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
	910	3,403	300	300

All above subsidiaries are 100% owned by The Brain Resource Company Limited and incorporated in Australia.

11. PAYABLES

Current

Trade creditors	274,036	264,235	4,043	4,043
Unearned income	49,894	225,229	-	-
Other creditors	57,245	59,707	-	-
	381,175	549,171	4,043	4,043

a) Terms and Conditions

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

12. PROVISIONS

Current Employee provisions	163,871	133,819		
Non-Current Employee provisions	70,229	-	-	-

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

30 June	Consolidated 2006 \$	Consolidated 2005 \$	BRC 2006 \$	BRC 2005 \$
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13. CONTRIBUTED EQUITY

(a) Share capital

Ordinary shares fully paid – opening balance	13,348,856	13,348,856	13,348,856	13,348,856
Issued during the year	3,134,410	-	3,134,410	-
Ordinary shares fully paid – closing balance	16,483,266	13,348,856	16,483,266	13,348,856
	Number	Number	Number	Number
Number of ordinary shares – opening balance	78,861,121	78,861,121	78,861,121	78,861,121
Issued during the year	11,588,333	-	11,588,333	-
Number of ordinary shares - closing balance	90,449,454	78,861,121	90,449,454	78,861,121

(b) Shares issued during the prior year

In July 2005 and June 2006, the company made a placement respectively of 5,928,333 shares at an average of 27.5 cents per share and 5,660,000 shares at an average of 26.5 cents per share. The purpose of these funds was to increase the working capital of the company and the establishment of a sales and marketing team to support the next stage of development.

(c) Share options

Particulars of options granted over unissued shares:

Number of Options	Exercise price Cents per share	Expiry Date	Holder (note ESOP refers to the Employee Share Option Plan)
5,425,000	25	28 Aug 06	Directors, Scientific Advisory Committee & Tricom Equities.
1,900,000	28	8 May 07	Foundation BRC Laboratories and two key consultants.
338,000	25	17 April 08	23 eligible staff under the ESOP.
80,000	40	7 Aug 08	16 eligible staff under the ESOP.
30,000	50	18 Nov 08	3 eligible staff under the ESOP.
150,000	60	15 Mar 09	1 eligible staff under the ESOP.
391,500	50	21 Jul 09	32 eligible staff under the ESOP.
300,000	41	23 Nov 09	2 eligible staff (including Peter Wodtke's issued in accordance with shareholder approval at the 2004 AGM).
400,000	40	23 Mar 10	20 eligible staff under the ESOP
9,014,500	Total issued as at June 2005		
750,000	32	28 April 11	1 eligible staff.
9,764,500	Total issued as at June 2006		

- i) There were no shares issued during the year ended 30 June 2006 by virtue of the exercise of options.
- ii) Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate or in the interest issue of any other registered scheme.
- iii) Note that the 5,425,000 options with an exercise price of 25 cents expired on 28 August 2006 without being exercised prior to expiry date

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

30 June	Consolidated 2006 \$	Consolidated 2005 \$	BRC 2006 \$	BRC 2005 \$
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(d) Terms and Conditions of contributed equity

Ordinary shares

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

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

14. ACCUMULATED LOSSES AND RESERVES

Accumulated Losses:

Balance at the beginning of year	5,239,250	3,795,868	5,343,540	4,212,451
Operating loss after income tax expense	1,438,283	1,443,382	1,661,848	1,131,089
Balance at the end of year	6,677,533	5,239,250	7,005,388	5,343,540

Reserves:

Balance at the beginning of year	38,086	6,289	38,086	6,289
Cost of share based payments taken directly to Equity	12,146	31,797	12,146	31,797
Balance at the end of year	50,232	38,086	50,232	38,086

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

15. EARNINGS PER SHARE

Basic and diluted earnings per share was (1.7) (2005: (1.8)) cents per share. The net loss used in the calculation of EPS was \$1,438,283 (2005: \$1,443,383). The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share is 84,615,271 (2005: 78,861,121). Based on the share price at 30 June 2006 of 22 cents per share, there were no dilution impact.

16. REMUNERATION OF DIRECTORS AND EXECUTIVES

These remuneration disclosures are provided in the Directors' Report designated as audited.

17. RELATED PARTY DISCLOSURES

(a) Directors

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

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

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

30 June	Consolidated 2006 \$	Consolidated 2005 \$	BRC 2006 \$	BRC 2005 \$
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(b) Ultimate parent

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

Name	\$ Investment	
	2006	2005
BRC Operations Pty Limited	100	100
BRC IP Pty Limited	100	100
BRC Franchising Pty Limited	100	100

The Brain Resource Company Limited is the ultimate parent company.

(c) There were no transactions between the parent and its subsidiaries or between subsidiaries during the financial year (2005: \$nil).

18. AGREEMENTS WITH ACADEMIC INSTITUTIONS

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

19. FINANCIAL REPORTING BY SEGMENT

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

20. CONTINGENT LIABILITIES

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

21. EXPENDITURE COMMITMENTS

a) Capital expenditure commitments

Estimated capital expenditure contracted for at balance date, but not provided for, payable not later than one year amounted to \$nil (2005: \$nil).

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

Minimum lease payments:

- not later than one year amount to \$150,000 (2005: \$140,000)
- later than one year but not later than five years - \$240,000 (2005: \$350,000)

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

30 June	Consolidated 2006 \$	Consolidated 2005 \$	BRC 2006 \$	BRC 2005 \$
22. STATEMENT OF CASH FLOWS				
Reconciliation of net cash outflow from operating activities to operating loss after income tax				
Operating loss after tax	(1,438,283)	(1,443,383)	(1,661,848)	(1,131,089)
Depreciation	93,834	122,808	-	-
Provision for non recovery	-	-	1,650,000	1,100,000
(Increase) decrease in inventories	(11,233)	30,609	-	-
Increase (decrease) in creditors	9,801	59,694	-	-
(Increase) decrease in receivables	(165,379)	23,186	-	-
(Increase) decrease in other assets	(5,537)	19,364	-	-
Increase (decrease) in other payables	(177,797)	248,494	-	-
Increase (decrease) in reserves	12,146	31,797	12,146	31,797
Increase (decrease) in provisions	161,032	45,097	-	-
Net cash (outflow) from operating activities	<u>(1,521,416)</u>	<u>(862,334)</u>	<u>298</u>	<u>708</u>

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

Cash & cash equivalents	<u>3,910,244</u>	<u>4,460,200</u>	<u>4,505</u>	<u>4,735</u>
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23. SUBSEQUENT EVENTS

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

24. NET FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Net Fair Value

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

Recognised financial instruments

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

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

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

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

Interest Rate Risk

Interest rates applicable to cash financial assets were around 6.0% (2005: 5.2%) with maturities of less than 1 year. All other balances are non interest-bearing.

Credit Risk

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

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

30 June	Consolidated 2006 \$	Consolidated 2005 \$	BRC 2006 \$	BRC 2005 \$
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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.

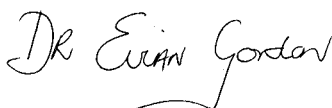
	Number of options	Exercise price
Balance at 30 June 2004	598,000	
- granted 21 July 2004	391,500	50 cents
- granted 23 November 2004	300,000	41 cents
- granted 23 March 2005	<u>400,000</u>	40 cents
Balance at 30 June 2005	1,689,500	
- granted at 28 April 2006	<u>750,000</u>	32 cents
Balance at 30 June 2006	<u><u>2,439,500</u></u>	
Exercisable at 30 June 2006	928,025	

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 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2006.

On behalf of the Board.



Dr Evian Gordon
Chairman of Directors

Sydney, 4 September 2006

INDEPENDENT AUDIT REPORT



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Sydney NSW 2000
Australia

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Independent audit report to members of The Brain Resource Company Limited

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for The Brain Resource Company Limited ("the company") and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 Related Party Disclosures ("remuneration disclosures"), at Table 1 and Table 2 under the heading "Remuneration Report" of the directors' report, as permitted by ASIC CO 06/5.

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. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion 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 and the remuneration disclosures comply with Accounting Standard AASB 124 Related Party Disclosures. 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 and whether the remuneration disclosures comply with Accounting Standard AASB 124 Related Party Disclosures.

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 the remuneration disclosures; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Liability limited by a scheme approved under
Professional Standards Legislation.

INDEPENDENT AUDIT REPORT



2

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 and the remuneration disclosures¹. 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 the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration a copy of which is included in the Directors' Report.

Audit opinion

In our opinion:

1. the financial report of The Brain Resource Company Limited is in accordance with:
 - (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of The Brain Resource Company Limited and the consolidated entity at 30 June 2006 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.
2. the remuneration disclosures that are contained in the Remuneration Report under Table 1 and Table 2 of the directors' report comply with Accounting Standard AASB 124 Related Party Disclosures.

Ernst & Young

Garry Wayling
Partner
Sydney
4 September 2006

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

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

Principle 4: Safeguard integrity in financial reporting

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

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

Principle 5: Make timely and balanced disclosure

The Board is very aware of the ASX's continuous disclosure requirements and operate in an environment where strong emphasis is placed on full and appropriate disclosure to the market. Written systems have been implemented to ensure compliance with ASX Listing Rule disclosure requirements and to ensure

CORPORATE GOVERNANCE STATEMENT

accountability at a senior management level for that compliance. A regular review takes place to ensure compliance with ASX Listing Rule 3.1A.

Principle 6: Respect the rights of shareholders

All significant information disclosed to the ASX is posted on 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. Written policies have been established for reviewing whether any price sensitive information has been inadvertently disclosed, and if so, this information is also immediately released to the market. These written policies and procedures are designed to ensure appropriate communication with and participation by shareholders.

Principle 7: Recognise and manage risk

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

Principle 8: Encourage enhanced performance

A remuneration committee has been established during the prior 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 a formal performance evaluation of the Board during the past financial year.

Principle 9: Remunerate fairly and responsibly

The Company's Remuneration Committee determines remuneration levels on an individual basis. Directors believe that the size of the Company makes individual salary negotiation more appropriate than formal remuneration policies. In accordance with Corporations Act requirements, the Company discloses the fees or salaries paid to all directors. Non-executive directors are remunerated by way of fees and they are not provided with retirement benefits. This Committee will seek independent external advice and market comparisons as necessary.

Principle 10: Recognise the legitimate interests of stakeholders

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

Functions of the Board

The functions of the Board include:

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

SHAREHOLDER INFORMATION

Information relating to shareholders as at 31 August 2006

Substantial Shareholders (includes indirect interests):	Number of Shares
Evian Gordon	11,356,248
Julie Rosenberg	10,422,228
Stuttgart Pty Limited	10,156,882
Queensland Investment Corporation	6,980,374
Dan Segal	6,131,543

Distribution of Shareholders

Number of ordinary shares held	Number of Holders	Ordinary Shares	Percentage
1 - 1,000	7	3,780	0.004
1,001 - 5,000	77	252,615	0.279
5,001 - 10,000	226	1,895,984	2.096
10,001 - 100,000	176	6,207,287	6.863
100,001 - and over	77	82,089,788	90.758
	563	90,449,454	100.000

At the prevailing market price of 25 cents per share, there were 28 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	12.6
STUTTGART PTY LTD	9,490,566	10.5
QUEENSLAND INVESTMENT CORPORATION	6,980,374	7.7
DAN SEGAL	5,731,250	6.3
JULIE ROSENBERG	5,660,000	6.3
ANZ NOMINEES LIMITED	4,316,639	4.8
FERBROS NOMINEES (PROPRIETARY) LIMITED	2,880,000	3.2
TRICOM NOMINEES PTY LIMITED	2,231,650	2.5
NATIONAL NOMINEES LIMITED	2,018,666	2.2
THE UNIVERSITY OF SYDNEY	2,012,500	2.2
DR CHRIS RENNIE	2,012,499	2.2
THE WESTERN SYDNEY AREA HEALTH	1,792,700	2.0
LINK TRADERS (AUST) PTY LTD	1,449,813	1.9
PROFESSOR JIM WRIGHT	1,437,500	1.6
PROFESSOR PETER ROBINSON	1,437,500	1.6
KING'S COLLEGE LONDON	1,437,500	1.6
CARDY & COMPANY PTY LIMITED	1,305,064	1.6
KRZYSZTOF KOZEK	1,150,000	1.4
TIM COOPER	840,423	1.3
AMP LIFE LIMITED	744,756	0.9
	66,285,648	
Total Fully Paid Shares and Quoted on the ASX	90,449,454	

SHAREHOLDER INFORMATION

Unquoted Options

The Company has 4,339,500 options on issue (or 4.8% of the total shares on issue) comprising:

- 1) 1,900,000 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.
- 2) 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.
- 3) 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.
- 4) 391,500 options were issued 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.
- 5) 250,000 options were issued with shareholder approval at the 2004 AGM to Peter Wodtke with an exercise price of 41cents and which expire on 23 November 2009. A further 50,000 options were issued to an eligible staff member on the same terms.
- 6) 400,000 options were issued to 20 eligible staff under the Employee Share Option Plan with an exercise price of 40cents and which expire on 23 Mar 2010.
- 7) 750,000 options were issued to Richard Haiduck who is heading BRC's North American operations with an exercise price of 32cents and which expire on 28 April 2011.

Note that 5,425,000 options, with an exercise price of 25 cents, expired on 28 August 2006 without being exercised prior to the expiry date. These were previously issued to founding directors, scientific advisory committee and underwriter.

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

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