

19 October 2018

Australian Securities Exchange (ASX) Announcement

September 2018 Quarterly Update and Appendix 4C

Brain Resource Limited ("Brain Resource," "BRC" or "the Company"), a leader in the field of applying clinically-validated brain assessment and brain training to improve behavioural health outcomes, is pleased to report on its activities for the quarter ended 30 September 2018.

HIGHLIGHTS

- Achieved A\$0.92 million in cash receipts, the highest quarterly cash receipt amount in 5 years and 18% quarter-on-quarter growth. This represents 23% average quarterly growth during the last 12 months and a 124% year-on-year increase;
- Launched Total Brain, the world's first brain performance monitoring and training platform, replacing the legacy MyBrainSolutions product. Executed delivery ahead of plan and on budget and successfully migrated 600,000+ existing individual users, 23 corporate customers and 5 channel partners to the new platform;
- Completed the first sale of the new Screening product to Nationwide Insurance, a Fortune 500 insurance company with 39,000 employees across the United States. This early win represents strong market validation of the demand for the Screening product among large employers, its value proposition, and pricing;
- Entered into a B2C distribution and revenue sharing agreement with focus@will (<https://focusatwill.com>), a music streaming service with 1.5 million registered users that utilizes neuro-optimized sound to boost focus and productivity. Following the agreement with AARP and its 38 million members announced last quarter, this partnership represents a significant milestone for Total Brain as it expands its immediately-addressable market to millions of individual consumers through the highly-scalable B2C Affinity model;
- Rolled out the Total Brain platform at the Global Summit on Mental Health Culture Change in London, a marquee industry event featuring top representatives from the government and commercial sectors across the United States and Europe;
- Increased cumulative User Registrations by 25k during the quarter, a 4% quarter-on-quarter and 32% year-on-year growth;
- Increased cumulative Brain Profiles by 22k during the quarter, a 5% quarter-on-quarter and 45% year-on-year growth.

CASH FLOW

<i>For the 3 months ended</i>	FY2018				FY2019
	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Cash Receipts from Customers (\$AUD)	\$410,000	\$497,000	\$658,715	\$781,134	\$919,394
(-) Payments to suppliers and employees	(1,313,000)	(1,290,000)	(2,819,085)	(1,284,749)	(2,796,958)
(-) MBS/TB and Test Development	–	(250,000)	(2,108)	(1,395,518)	(549,263)
Total Quarterly Net Operational Spend *	(903,000)	(1,043,000)	(2,162,478)	(1,899,133)	(2,426,827)
<i>Memo: Monthly net operational spend</i>	<i>(301,000)</i>	<i>(347,667)</i>	<i>(720,826)</i>	<i>(633,044)</i>	<i>(808,942)</i>
<i>Growth in cash receipts from customers</i>		21%	33%	19%	18%

Cash Inflows

In the September 2018 quarter, amidst continued significant operational changes and without the full benefits of the new Total Brain product (launched on 12 September 2018), Brain Resource increased quarterly cash receipts from A\$0.78 million to A\$0.92 million. This is a 18% quarter-on-quarter growth and the highest quarterly cash receipts amount in 5 years.

Cash Outflows

Continued product development, planned operational changes, hiring across technology, product, and sales, and the payout of long service leave to a long-tenured employee were the main drivers of the cash outflows during the past quarter. Looking ahead to the following quarter, BRC expects this level of business expenses to continue in-line with forecast and this past quarter.

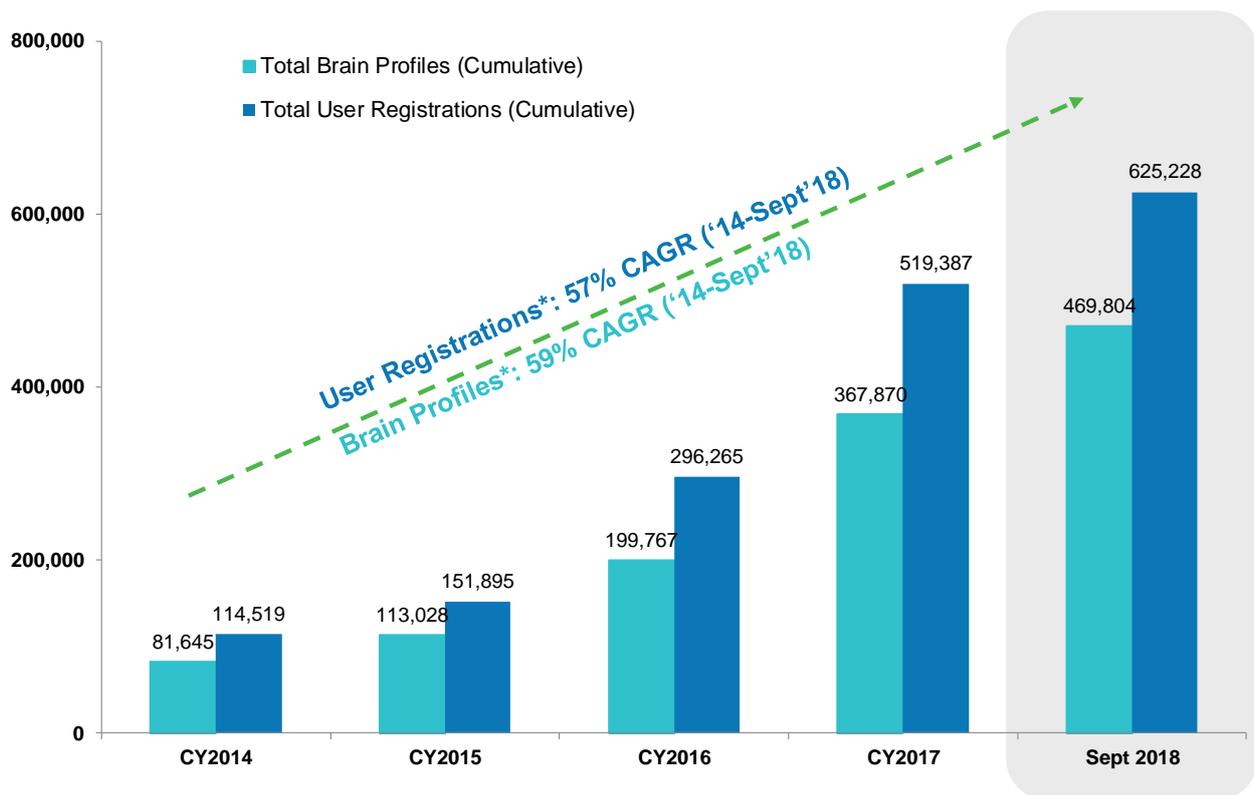
USER KPIS

User Registrations and Brain Profiles are the key user KPIs for the business because they directly reflect product adoption and use among clients, while also powering the value of the Company's proprietary database. Accordingly, in addition to growing cash receipts and revenues, Brain Resource is focused on growing user KPIs to meet its CY2018 targets.

During the September 2018 quarter:

- User Registrations increased by 25k, a 4% quarter-on-quarter, 32% year-on-year growth in cumulative users and a 59% CAGR since 2014; and
- Brain Profiles increased by 22k, a 5% quarter-on-quarter, 45% year-on-year growth in cumulative profiles and a 59% CAGR since 2014.

This growth was achieved without the full benefit of the new Total Brain product or the uplift expected from the launch of the direct partnership with AARP in Q4, as well as several large opportunities in BRC's sales pipeline. This growth is expected to accelerate following the launch of the new platform and the Disorder Screening product.



* Represents cumulative actual figures through the quarter ended 30 September 2018. User Registration figures exclude employer-pre-registered users. Brain Profiles figures include multiple assessments taken by same user.

BUSINESS OPERATIONS

Product and Technology

The September 2018 quarter represented a turning point for the Product and Technology functions, and the Company as a whole:

- After 9 months of development, Brain Resource launched Total Brain, the world's first brain performance monitoring and training platform, replacing the legacy MyBrainSolutions product;
- The launch was executed ahead of plan and on budget;
- Represents a complete overhaul of the product, including cloud-hosted infrastructure on the back-end and modern design on the front-end, both required elements of scaling as a SaaS business
- Over 600,000 existing individual users, 23 corporate customers and 5 channel partners were all successfully migrated to the new platform with very positive customer feedback to-date.

Sales and Customer Success

As expected, the launch of the Total Brain platform has driven a material increase in sales activity during Q3, accelerating the Company's trajectory towards the CY2018 revenue objective of US\$3.2 million. Highlights from the quarter included:

- Successful roll-out of the new Total Brain platform to 23 corporate customers and 5 channel partners and commencement of formal upsell conversations with all current clients for the new Screening product;
- Completed the first sale of the Screening product to Nationwide Insurance, a Fortune 500 insurance company with 39,000 employees across the United States. This early win represents strong market validation of the demand for the Screening product among large employers, its value proposition, and pricing. The team is now focused on replicating this success across the portfolio of clients with several large opportunities in the works for Q4 CY2018;
- Entered into a B2C distribution and revenue sharing agreement with focus@will (<https://focusatwill.com>), a music streaming service that uses neuraly-optimized sound to boost focus and productivity. The Total Brain product will initially be offered as a 3-month trial to all 1.5 million registered focus@will users, after which time users will be charged a monthly fee and revenue will be shared with focus@will;
- Grew the sales pipeline by 66% with an average weighted probability of 30%, on the heels of increased lead flow from marketing automation and new product rollout;
- Completed a re-structuring of legal contracts with the key Mercer and Kaiser Permanente channel partners, reflecting the improved positioning and economics of the Total Brain platform;
- Hired 2 seasoned sales leaders with tenure in human capital management and healthcare to further accelerate pipeline growth and conversion;
- Implemented customer service software and integrated it with the existing Customer Success workflows to support best-in-class SaaS business practices.

Marketing

BRC has continued to make significant progress in establishing the necessary marketing infrastructure required to scale a B2B SaaS business. Areas of focus in the September quarter included:

- Successfully executed a complete rebrand of MyBrainSolutions to Total Brain, including a fundamentally-redesigned website (<http://totalbrain.com>), new social assets, revamped sales enablement materials, and updated go-to-market positioning for the Total Brain platform and the Screening product;
- Continued execution against CY2018 event plan, representing BRC with speaker slots at the marquee Global Summit on Mental Health Culture Change in London, featuring top policymakers, government officials and commercial sector representatives from the United States and Europe, as well as the leading HCI Conference in Chicago;
- Increased lead generation efforts on social media sites and deepened the automated B2B prospect campaign via additional nurture tactics (webinars, social ad retargeting, account-based marketing) to shorten the sales cycle and accelerate conversion;

- Continued to build thought leadership credibility via publications such as Forbes
- Utilized momentum from cause-based campaigns to drive brand awareness, offering free trial accounts to users on the occasion of World Mental Health Day.

Human Resources

During the September 2018 quarter, BRC continued to establish best-in-class HR processes in compliance with Australian and U.S. law, while fostering a culture focused on collaboration and personal well-being across the organization:

- Finalized Company bonus policy to eligible employees;
- Launched a modern HRIS software system providing management and employees with a centralized repository of all administrative information pertaining to HR;
- Held Company-wide retreat in New York City in September 2018, allowing employees to engage in a variety of group working sessions, presentations by all departments, and reflective workshops to improve their relationship with their teammates and themselves, ahead of pursuing BRC's goals for Q4.

Corporate

On 12 September 2018, Brain Resource participated in the Jefferies Fitness Summit in New York City presenting to the US investor community. Supporting investor presentation is available via the ASX website.

OUTLOOK

The Company is tracking well against the CY2018 objectives released to the market on 7 February 2018, summarized below. The Total Brain product launch and rebrand was a major milestone for the Company this year. Following the ahead-of-plan and on-budget execution of this major deliverable, all items with a Q3 CY2018 timeframe have been completed and outstanding priorities are on-track.

	Objective	Timeframe	Status
FINANCIAL & USER KPIS	2x CY18 revenue to US\$3.2mm (from US\$1.6mm in CY17)	CY-18	Ongoing
	75%+ Recurring SaaS-based revenue (from 60% in CY17)	CY-18	Ongoing
	2x Total User Registrations (from 223k in CY17)	CY-18	Ongoing
	2x Total Brain Profiles (from 131k in CY17)	CY-18	Ongoing
PRODUCT	Upgrade MBS value proposition, new features & UX	CY-18	✓

	Transition to scalable cloud-based software infrastructure	Q2-18	✓
	Complete iSPOT GWAS Testing and Validation and explore Strategic Options	Q2-18	✓
	Rebrand MBS to Total Brain	Q3-18	✓
CORPORATE	Enable sale of unmarketable parcel share	Q1-18	✓
	Appoint 3 New Advisors & 1 New Board Director	Q1-18	✓
	Complete hiring plan	Q1-18	✓
	Increase media engagement and PR	CY-18	✓

Note: User Registrations defined as total individuals who create a registration in Brain Resource system. Brain Profiles defined as number of total assessments captured.

Given the ongoing positive sales momentum following the launch of Total Brain, the Company's focus for the remaining 3 months of the calendar year is to continue its quarter-on-quarter growth in cash receipts, revenue, user KPIs, and build a solid recurring revenue base for CY2019 and beyond.

QUARTERLY INVESTOR CALL

CEO Louis Gagnon will be conducting investors meetings in Australia and Hong Kong the week of 22 October 2018 and the Company will be releasing an investor presentation, which will include additional updates on the CY2018 YTD growth of the MBS/Total Brain business, as well as the iSPOT study. Investors are also invited to participate in the subsequent quarterly conference call the details of which will be provided via the ASX platform.

Louis Gagnon
 Managing Director
 Brain Resource Limited

For further queries please contact:

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About Brain Resource Limited (ASX: BRC)

Brain Resource Limited is a San Francisco- and Sydney-based company at the forefront of applying clinically-validated brain assessment and brain training to improve behavioral health outcomes. The Company has developed the world's largest standardised brain database and predictive analytics, which serve as platform technology for products that benefit the behavioural health sector. BRC's SaaS-based online brain assessment and training tools, geared towards large employer and consumer groups, decrease stress, increase resilience and productivity for individual users and lead to reductions in healthcare costs for employers and insurers across the United States. For more information, please visit www.brainresource.com

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Brain Resource Limited

ABN

24 094 069 682

Quarter ended ("current quarter")

30 September 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	919	919
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(405)	(405)
(c) advertising and marketing	(164)	(164)
(d) leased assets	-	-
(e) staff costs	(2,014)	(2,014)
(f) administration and corporate costs	(214)	(214)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	8	8
1.5 Interest and other costs of finance paid		
1.6 Income Taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(1,870)	(1,870)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment		
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
(d) intellectual property	(549)	(549)
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	100	100
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(449)	(449)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	
3.5 Proceeds from borrowings	-	
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	-	

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	6,616	6,616
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,870)	(1,870)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(449)	(449)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	148	148
4.6	Cash and cash equivalents at end of quarter	4,445	4,445

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	738	6,011
5.2	Call deposits	3,682	552
5.3	Bank overdrafts	-	-
5.4	Other – Term Deposit	25	53
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	4,445	6,616

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter
\$A'000**

488

(100)

Salaries of Executive Directors.

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

**Current quarter
\$A'000**

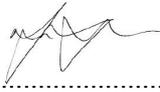
8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		
N/A		

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	-
9.2 Product manufacturing and operating costs	(279)
9.3 Advertising and marketing	(186)
9.4 Leased assets	-
9.5 Staff costs	(2,032)
9.6 Administration and corporate costs	(559)
9.7 Other (provide details if material)	
9.8 Total estimated cash outflows	(3,056)

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:  Date: 19 October 2018

(Director/Company secretary)

Print name: Matthew Morgan

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.