



RESONANCE HEALTH LIMITED

(ABN 96 006 762 492)

FINANCIAL REPORT

30 JUNE 2012

Corporate Information

ABN 96 006 762 492

Directors

Dr Martin Blake
Non-executive Chairman

Ms Liza Dunne
Managing Director

Mr Simon Panton
Non-executive Director

Dr Timothy St Pierre
Executive Director

Company secretary

Mrs Naomi Haydari

Securities exchange listing

Resonance Health Limited
shares are listed on the
Australian Securities Exchange.
ASX Code: RHT

Registered office and Principal place of business

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CLAREMONT WA 6010
Telephone: +61 8 9286 5300
Facsimile: +61 8 9286 1179

Postal address

PO Box 1135
NEDLANDS WA 6909

Website and e-mail address

www.resonancehealth.com
Email: info@ferriscan.com

Auditors

HLB Mann Judd
Level 4,
130 Stirling Street
PERTH WA 6000

Share registry

Advanced Share Registry Ltd
150 Stirling Highway
NEDLANDS WA 6009
Tel: +61 8 9389 8033
Fax: +61 8 9389 7871

Bankers

National Australia Bank Limited

Solicitors

Cole Legal
Unit 9
569 Wellington Street
PERTH WA 6000

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DIRECTORS' REPORT

The Directors present their report on the consolidated entity, consisting of Resonance Health Limited and the entities it controlled, together with the annual financial report for the financial year ended 30 June 2012. In order to comply with the provisions of the Corporations Act, the directors report as follows:

Directors

The names, qualifications and experience of directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Dr Martin Blake *Position:* Chairman — Independent and Non-Executive (appointed as Director 4 October 2007 and as Chairman 16 December 2010)
MBBS, FRANZCR, MBA, GAICD

Experience: Dr Blake is a Radiologist and Nuclear Physician and brings significant technical and industry experience to Resonance Health. He has been a Partner of Perth Radiological Clinic since 1997 and is currently the Chairman of that Company.

Dr Blake has an MBA from Melbourne University, is a Graduate of the Australian Institute of Company Directors and holds directorships on a number of private Company boards.

Other current directorships:

None

Former directorships in last 3 years:

None

Special responsibilities:

Chairman of the Audit Committee

Chairman of the Remuneration Committee (from 16 December 2010)

Ms Liza Dunne
B.Bus, GDipAppFin,
GAICD

Position: Managing Director —Executive (appointed 23 October 2008)

Experience: Ms Dunne joined Resonance Health in October 2003 and has been actively involved in all aspects of the business including business development, commercialisation of FerriScan, developing alliances with pharmaceutical industry partners and obtaining regulatory approval in various countries.

Ms Dunne has in depth experience in senior positions across industry. She worked for IBM for eleven years in financial, marketing and management positions and spent five years with KPMG Consulting working across a broad spectrum of industry and project areas that focused on improved business processes and implementation of new technology.

Ms Dunne holds a Business Degree, a Graduate Diploma in Applied Finance and is a Graduate of the Australian Institute of Company Directors.

Other current directorships:

None

Former directorships in last 3 years:

None

DIRECTORS' REPORT (Cont'd)

Mr Simon Panton

Position: Director — Non-Executive (appointed 5 October 2009)

Experience: Mr Panton has been a strong supporter of the Company and the FerriScan technology over a number of years and is a major shareholder of Resonance Health. Mr Panton brings skills in business and marketing having run his own successful business.

Other current directorships:

None

Former directorships in last 3 years:

None

Special responsibilities:

Member of the Audit Committee

Member of the Remuneration Committee

Dr Timothy St Pierre
B.Sc(Hons), PhD

Position: Director — Executive (appointed 21 August 2006)

Experience: Dr St Pierre is widely published in the field of iron in medicine and biology and has built a reputation as a physicist with an outstanding understanding of the fundamental properties of the iron deposits that occur in iron overload diseases. Dr St Pierre, a Professor at The University of Western Australia, led the team which developed the FerriScan technology. Dr St Pierre has strong links with international key opinion leaders in the field of iron overload diseases and regularly participates in international research collaborations. Dr St Pierre won a Clunies Ross Award from the Australian Academy of Technological Sciences and Engineering for his work on non-invasive measurement of tissue iron deposits.

Other current directorships:

None

Former directorships in last 3 years:

None

Special responsibilities:

None

Company Secretary

Mrs Naomi Haydari
B.Bus, B SSc, CPA

Position: Company Secretary (appointed 19 March 2012)

Experience: Mrs Haydari has experience in managing the financial obligations of ASX listed corporations across a diverse range of industries.

Mrs Haydari holds a Business Degree (Accounting), a Social Science Degree, is a qualified CPA and is currently completing her MBA at Deakin University.

DIRECTORS' REPORT (Cont'd)

Interests in the Shares of the Company

The following relevant interests in shares of the Company were held by the directors during the period. There has been no change in directors' and executives shareholdings to the date of this report.

	Number of fully paid ordinary shares
<i>Directors</i>	
Dr M Blake	6,224,677
Ms L Dunne	3,153,385
Mr S Panton	65,960,972
Dr T St Pierre	9,078,750
Total	<u>84,417,784</u>
<i>Executives</i>	
Mrs N Haydari	-
Total	<u>-</u>

Incentive Shares and Options

The Company does not have an option plan. Accordingly, no options were issued as part of remuneration to directors or specified executives during the current or previous financial year.

Dividends Paid or Recommended

No dividend was paid or declared for the financial year.

Principal Activities

The Company's business involves the development and commercialisation of technologies and services for the quantitative analysis of radiological images in a regulated and quality controlled environment.

The Company's core product is FerriScan, a non-invasive liver diagnostic technology used for the measurement of iron in the liver.

Review of Operations

Resonance Health Limited is an Australian healthcare listed Company located in Perth, Western Australia, specialising in the provision of image analysis services and the development of quantitative MRI diagnostic technology, with a sub-specialty in the liver. All services are provided under an ISO 13485:2003 certified quality management system.

Resonance Health's FerriScan technology for accurately measuring liver iron concentration has FDA, CE Mark and TGA certification and is being used in over 20 countries. FerriScan is provided to the market through the Company's central image analysis facility which also offers a range of services for clinical trials in the pharmaceutical and biotechnology industries.

The Company is also developing imaging tools for the non-invasive assessment of liver fat and liver fibrosis to address a large clinical need for patients with fatty liver disease and viral hepatitis.

Financial Summary:

Revenue for the year ended 30 June 2012 was \$1,562,242 representing a decrease of 11% from the previous year's result of \$1,745,864. Revenue was negatively impacted by the strengthening of the Australian dollar with approximately 80% of the Company's revenue received in US dollars. Revenue associated with the clinical use of FerriScan continues to increase and now represents over 40% of sales revenue, reducing the Company's reliance on sales contracts with pharmaceutical companies.

DIRECTORS' REPORT (Cont'd)

Total sales volumes for FerriScan and Cardiac T2* image analysis increased by 14% over the previous year. Volumes in the UK and USA grew by 36% and 28% respectively and in Canada by 6%. The Company's Cardiac T2* test to assess iron overload in the heart was launched in the US following marketing clearance from the US Food and Drug Administration (FDA). Growth in volumes and revenues were also attributable to contracts signed with fifteen new customers during the year.

A net loss was recorded for the year of \$268,601 compared to a net loss of \$316,829 in the previous financial year. Overall expenditure decreased 9% to \$2,222,314 from \$2,436,740 in the previous year.

Resonance Health has cash at bank of \$1,180,174 at the end of the financial year, compared to \$1,503,479 in the previous financial year and has no debt. Net cash provided by operating activities was \$83,211.

Research and development expenditure during the year totalled \$508,649. This comprised capitalised development costs of \$334,144 that are recognised as an intangible asset on the Statement of Financial Position and expenditure of \$80,408 recognised in Research and Development in the Statement of Comprehensive Income and \$94,097 recognised in Employee Benefits.

Research and development expenditure was primarily associated with the development of an MRI-based liver fibrosis test and an MRI-based liver fat test. The Company's HepaFat-Scan™ software product to measure liver fat has been submitted to the FDA for marketing clearance. This follows the successful completion of a clinical study to assess the performance of HepaFat-Scan™ compared to the results obtained from a liver biopsy and the development of a software tool to perform the quantification of liver fat from magnetic resonance images. A patent has been submitted for the HepaFat-Scan™ IP which has produced very positive results compared to other imaging techniques for assessing liver fat.

The development of a magnetic resonance imaging test to assess liver fibrosis is continuing and represents a significant commercial opportunity for the Company. Resonance Health has collaborated with Pfizer on a clinical trial to assess the Company's imaging technology for the staging of liver fibrosis. Patient recruitment has been completed for the study together with all MRI measurements. The project has experienced some delays in gaining the liver fibrosis measurements from liver biopsy. Once these have been received a determination of the success of the project can be made.

Operating Results

The net loss of the consolidated entity for the financial year after tax was \$268,601 (2011: \$316,829).

Significant Changes in State of Affairs

There were no significant changes in the state of affairs of the Company during the financial year.

Significant Events After Balance Date

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company and the consolidated entity, the results of those operations, or the state of affairs in future financial years.

Likely Developments and Expected Results of Operations

Comments on expected results of the operations of the consolidated entity are included in this report under the review of operations.

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Company. Accordingly, this information has not been disclosed in this report.

Environmental Legislation

The consolidated entity's operations are not subject to any significant environmental legislation.

Indemnification and Insurance of Directors and Officers

The Company has agreed to indemnify all the directors and secretaries of the Company for any liabilities to another person (other than the Company or related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

During the financial year the Company paid a premium of \$13,000 (2011: \$13,000) to insure the directors and secretaries of the Company and its controlled entities against any liability incurred in the course of their duties to the extent permitted by the Corporations Act 2001. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

DIRECTORS' REPORT (Cont'd)

REMUNERATION REPORT (audited)

This report outlines the remuneration arrangements in place for the key management personnel of Resonance Health Limited for the financial year ended 30 June 2012. The information provided in this remuneration report has been audited as required by Section 308 (3C) of the Corporations Act 2001.

The remuneration report details the remuneration arrangements for key management personnel who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent Company and the Company Secretary.

Key Management Personnel

(i) Directors

Dr Martin Blake – Chairman

Ms Liza Dunne – Managing Director

Mr Simon Panton

Dr Timothy St Pierre

(ii) Executives

Mrs Naomi Haydari - Company Secretary (appointed 19 March 2012)

Mr Colin McDonald – Company Secretary (resigned 19 March 2012)

Remuneration Policy

The Board's policy for determining the nature and amount of remuneration for Board members and senior executives of the consolidated entity is as follows:

- set competitive remuneration packages to attract the highest calibre of employees in the context of prevailing market conditions, particular experience of the individual concerned and the overall performance of the Company; and
- reward employees for performance that results in long-term growth in shareholder wealth, with the objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

The Board of Resonance Health Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the consolidated entity, as well as create goal congruence between directors, executives and shareholders.

Remuneration Committee

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for directors and the executive team.

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the remuneration committee and approved by the Board.

The remuneration committee reviews executive packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries. The assistance of an external consultant or remuneration surveys are used where necessary.

Remuneration Structure

In accordance with best practice Corporate Governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive Director Remuneration

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Non-executive directors' fees not exceeding an aggregate of \$250,000 per annum have been approved by the Company in a general meeting.

DIRECTORS' REPORT (Cont'd)

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each of the non-executive directors receives a fixed fee for their services as directors. There is no direct link between remuneration paid to any of the directors and corporate performance.

Executive Remuneration

Remuneration consists of fixed remuneration and variable remuneration.

(i) Fixed Remuneration

Fixed remuneration is reviewed annually. The process consists of a review of relevant comparative remuneration in the market and internally, and where appropriate, external advice on policies and practices. The Committee has access to external, independent advice where necessary.

All executives (except Dr St Pierre) receive a base salary (which is based on factors such as length of service and experience), superannuation and fringe benefits.

Executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits.

(ii) Variable Remuneration

All bonuses and incentives are linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives and bonuses, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria.

All remuneration paid to directors and executives is valued at the cost to the Company and expensed or capitalised. Securities given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. There are currently no securities on issue.

Executive Officer's Employment Agreements

Ms Dunne was appointed to the role of Managing Director of Resonance Health Ltd on 23 October 2008. Her employment agreement provides for a salary of \$272,500 pa inclusive of superannuation and the provision of one months notice for termination or resignation without cause. The amount listed on Page 8 of \$234,770 is due to a reduction in working hours for a period throughout the current financial year.

Mrs Haydari was appointed to the role of Company Secretary of Resonance Health Ltd on 19 March 2012. Her employment agreement provides for an equivalent full time salary of \$136,250 pa inclusive of superannuation for 22.5 hours per week and the provision of one months notice for termination or resignation without cause.

Consultancy Services Agreement for Executive Director Dr Tim St Pierre

The Company has an agreement with The University of Western Australia (UWA) for consulting services provided by Dr St Pierre. Under this agreement consulting services provided for duties of Chief Scientific Officer totalling \$108,844 (2011: \$127,407) and a fixed fee for his services as a director of \$10,000 (2011: \$40,000) were incurred during the financial year. These amounts are included in Dr Tim St Pierre's remuneration disclosed in the following table.

DIRECTORS' REPORT (Cont'd)

Details of Remuneration for Year Ended 30 June 2012

The remuneration for each key management personnel of the consolidated entity during the year was as follows:

Remuneration of directors and executives

	Short-term employee benefits	Post employment benefits	Equity Shares	Total	
	Salary & Fees	Superannuation Contributions			Performance Related
	\$	\$	\$	\$	%
Non-Executive Directors' remuneration					
Dr M Blake	55,046	4,954	-	60,000	-
Mr S Panton	21,407	1,927	-	23,334	-
Total	76,453	6,881	-	83,334	-
Executive Directors' remuneration					
Ms L Dunne	215,385	19,385	-	234,770	-
Dr T St Pierre ¹	118,844	-	-	118,844	-
Total	334,229	19,385	-	353,614	-
Other Executives' remuneration					
Mrs N Haydari ²	20,962	1,887	-	22,849	-
Mr C McDonald ³	61,455	5,507	-	66,962	-
Total	82,417	7,394	-	89,811	-

¹ Dr St Pierre's remuneration represents directors' fees earned during the financial year and consulting fees for duties as Chief Scientific Officer paid to The University of Western Australia in full.

² Mrs Naomi Haydari was appointed Company Secretary on 19 March 2012.

³ Mr Colin McDonald resigned as Company Secretary on 19 March 2012.

DIRECTORS' REPORT (Cont'd)

Details of Remuneration for Year Ended 30 June 2011

The remuneration for each key management personnel of the consolidated entity during the year was as follows:

Remuneration of directors and executives

	Short-term	Post employment	Equity	Total	
	employee benefits	benefits	Shares		Performance Related
	Salary & Fees	Superannuation Contributions			
	\$	\$	\$	\$	%
Non-Executive Directors' remuneration					
Dr S Washer ¹	28,361	2,552	-	30,913	-
Dr M Blake	46,636	4,197	-	50,833	-
Mr S Panton	36,697	3,303	-	40,000	-
Total	111,694	10,052	-	121,746	-
Executive Directors' remuneration					
Ms L Dunne ²	217,396	19,566	10,000	246,962	4.0
Dr T St Pierre ³	167,407	-	-	167,407	-
Total	384,803	19,566	10,000	414,369	-
Other Executives' remuneration					
Ms E O'Malley ⁴	45,802	3,187	-	48,989	-
Mr C McDonald ⁵	50,667	4,560	-	55,227	-
Total	96,469	7,747	-	104,216	-

1 Dr Washer resigned on 16 December 2010.

2 Ms Dunne was given fully vested shares to the value of \$10,000 in recognition of her performance to the Company.

3 Dr St Pierre's remuneration represents directors' fees earned during the financial year and consulting fees for duties as Chief Scientific Officer.

4 Mr McDonald was appointed Company Secretary on 16 December 2010.

5 Ms O'Malley resigned as Company Secretary on 16 December 2010.

End of Remuneration Report

DIRECTORS' REPORT (Cont'd)

Meetings of Directors

The number of meetings of the Company's Board of directors and each Board committee held during the year ended 30 June 2012, and the numbers of meetings attended by each director were:

	Director Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	Number eligible To attend	Number attended	Number eligible To attend	Number attended	Number eligible To attend	Number attended
Dr M Blake	7	7	2	2	-	-
Ms L Dunne	7	7	-	2	-	-
Mr S Panton	7	7	2	2	-	-
Dr T St Pierre	7	6	-	1	-	-

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Resonance Health Limited support and adhere to the principles of corporate governance. The Company's corporate governance statement is contained in the following section of this annual report.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

Auditor Independence and Non-audit Services

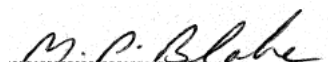
Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the Company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 17 and forms part of this directors' report for the year ended 30 June 2012.

Non-audit Services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 22 to the financial statements. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the integrity and objectivity of the auditor and none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board.

This report is made in accordance with a resolution of the Board of Directors.



Dr Martin Blake
Chairman
Perth, Western Australia

Dated this 28 September 2012

CORPORATE GOVERNANCE STATEMENT

Resonance Health Limited is committed to protecting and enhancing shareholder value and adopting best practice governance policies and practices. This Corporate Governance Statement outlines the main Corporate Governance practices that were in place throughout the financial year, which comply with the Australian Securities Exchange ('ASX') Corporate Governance Council published guidelines as well as its corporate governance principles and recommendations unless otherwise stated. Where a recommendation has not been followed, this is clearly stated along with an explanation for the departure.

Principle 1

Lay solid foundations for management and oversight

The Board is the governing body of the Company. The Board and the Company act within a statutory framework – principally the Corporations Act and also the Constitution of the Company. Subject to this statutory framework, the Board has the authority and the responsibility to perform the functions, determine the policies and control the affairs of Resonance Health Limited.

The Board must ensure that Resonance Health Limited acts in accordance with prudent commercial principles, and satisfies shareholders – consistent with maximising the Company's long term value.

The Company has established the functions reserved to the Board. The Board Charter summarises the role, responsibilities, policies and processes of the Board of Resonance Health Limited and comments on the Board's approach to corporate governance.

The primary responsibilities of the Board include:

- Charting the direction, strategies and financial objectives of the Company and ensuring appropriate resources are available
- Monitoring the implementation of those policies and strategies and the achievement of those financial objectives
- Monitoring compliance with control and accountability systems, regulatory requirements and ethical standards
- Ensuring the preparation of accurate financial reports and statements
- Reporting to shareholders and the investment community on the performance and state of the Company
- Appoint and monitor the performance of senior executives
- Establish proper succession plans for management of the Company

The Company has established the functions delegated to senior executives. The Board Charter summarises the role and responsibilities of the Managing Director and the Company Secretary.

The Board delegates responsibility for day to day management of the Company to the Managing Director. However, the Managing Director must consult the Board on matters that are sensitive, extraordinary or of a strategic nature. The Company Secretary supports the effectiveness of the Board.

Separate functions of the Board and management existed and were practised throughout the year.

ASX Corporate Governance Council Principle 1 recommendation 1.2 requires companies to disclose the process for evaluating the performance of senior executives.

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the achievement of agreed milestones.

Details of matters reserved to the Board and delegated to senior executives are outlined in the Board Charter. A copy of the Board Charter is publically available on the Company's website.

The Board complied with the ASX Corporate Governance Council Principle 1 at all times during the year except as noted above.

CORPORATE GOVERNANCE STATEMENT (Cont'd)

Principle 2

Structure the Board to add value

The composition of the Board has been determined on the basis of providing the Company with the benefit of a broad range of technical, commercial and financial skills, combined with an appropriate level of experience at a senior corporate level. Details of each Director's skills and experience are set out in the Directors' report.

The ASX guidelines recommend that a listed Company should have a majority of Directors who are independent. The Board did not comply with the ASX Corporate Governance Council Principle 2 Recommendation 2.1 throughout the year. The Board did not have a majority of independent Directors at all times during the financial year.

A Director is considered independent when the Director does not have any relationship with the Company that would be considered to affect the independent status as outlined in the ASX Corporate Governance Council Principle 2 Recommendation 2.1.

In the context of director independence, 'materiality' is considered from both the Company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5% of the appropriate base amount. It is presumed to be material (unless there is evidence to the contrary) if it is equal or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point at the actual ability in question to shape the direction of the Company's loyalty.

Directors during the financial year were:

- Dr Martin Blake – Independent – Chairman
- Ms Liza Dunne – Executive – Not independent – Managing Director
- Mr Simon Panton – Not independent – substantial shareholder
- Dr Tim St Pierre – Executive – Not independent – Chief Scientific Officer

A description of the skills and experience of each director and their period of office is disclosed in the Directors' Report. The ASX Corporate Governance Council Principle 2 Recommendation 2.2 recommends that the Chairman should be an independent director. The role of Chairman was performed by an independent director at all times during the financial year. The ASX Corporate Governance Council Principle 2 Recommendation 2.3 recommends that the roles of Chairman and Managing Director be exercised by different individuals. The Company complied with this recommendation at all times during the financial year.

The roles of Chairman and Managing Director are exercised by different individuals, providing for clear division of responsibility at the head of the Company. Their roles and responsibilities, and the division of responsibilities between them, are clearly understood and there is regular communication between them.

Directors are subject to re-election by rotation at annual general meetings as stipulated in the Corporations Act and the Company's Constitution. There is no maximum term for non-executive director appointments. Newly elected Directors must seek re-election at the first general meeting of shareholders following their appointment.

The remuneration of the Directors is determined by the Nomination and Remuneration Committee. Further information and the components of remuneration for Directors are set out in the Directors' Report.

ASX Corporate Governance Council Principle 2.4 recommends that the Nomination Committee should consist of a majority of independent Directors, be chaired by an independent Director and have at least three members.

The members of the Nomination and Remuneration Committee during the financial year were:

- Dr Martin Blake – (Chairman) – Independent
- Mr Simon Panton – Not Independent

Due to having only two Non-executive Directors, the two are members of the Nomination and Remuneration Committee.

The number of meetings attended by each member of the Nomination and Remuneration Committee are detailed in the Directors' Report.

CORPORATE GOVERNANCE STATEMENT (Cont'd)

ASX Corporate Governance Council Principle 2.5 recommends that the performance of the Board should be reviewed regularly against appropriate measures. The Company does not have a formal process for evaluating the performance of the Board, its Committees or individual Directors. Accordingly, there was no formal evaluation of the Board, its Committees or individual Directors during the reporting period.

The Company has a procedure in place for Directors to take independent professional advice at the expense of the Company.

Prior to the appointment of a new director, the Nomination and Remuneration Committee assesses the skills represented on the Board by the non-executive Directors and determines whether those skills meet the skills identified as required. The Committee will then implement a process to identify suitable candidates for appointment. The Committee makes recommendations to the Board on candidates it considers appropriate for appointment. Induction procedures are in place to ensure new Directors are able to participate fully and actively in Board decision-making at the earliest opportunity. Directors are encouraged to engage in continuing education and are encouraged to update and enhance their skills and knowledge. Directors meet regularly to discuss the performance of the Company and to attend to regulatory requirements. The Company Secretary distributes information before each Board meeting to enable Directors to discharge their duties effectively.

The Company's Constitution requires a director of the Company to not hold office without re-election past the third annual general meeting following the director's appointment or three years, whichever is longer.

The Company discloses its Nomination and Remuneration Committee Charter on the Company's website.

The Board complied with the ASX Corporate Governance Council Principle 2 at all times during the year except as noted above.

Principle 3

Promote ethical and responsible decision-making

The Board places great emphasis on ethics and integrity in all its business dealings.

In regards to Principle 3.1 the Board considers the business practices and ethics exercised by individual Board members and key executives to be of the highest standards.

The Company has a code of conduct as to the:

- practices necessary to maintain confidence in the Company's integrity;
- practices necessary to take into account their legal obligations and the expectations of shareholders; and
- responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

These practices are outlined in the Company's Board Charter, Communication Policy, Continuous Disclosure Charter, Share Trading Policy, Audit and Risk Charter and Nomination and Remuneration Charter. These documents are disclosed on the Company's website.

CORPORATE GOVERNANCE STATEMENT (Cont'd)

Trading in the Company's shares

The Company's policy restricts Directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the securities' prices. Statutory provisions of the Corporations Act dealing with insider trading have been strictly complied with.

The Company's Share Trading Policy is disclosed on the Company's website.

Diversity Policy

The Board currently does not have a Diversity Policy. Gender Diversity is demonstrated within the Company as follows:

Resonance Health currently has one female member of a four member board. The Managing Director, CFO/Company Secretary and three Managers of the Company are women.

Currently, Resonance Health has women hold 25% of total Board membership. Additionally 38.5% of the all current employees are women and 38.5% of all Management/Executive roles are filled by women.

The Board currently has no measurable objectives on achieving greater gender diversity within the Company.

The Board complied with the ASX Corporate Governance Council Principle 3 Recommendations at all times during the year.

Principle 4

Safeguard integrity in financial reporting

The Board has established an Audit and Risk Committee that operates in accordance with the Company's Audit and Risk Charter. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, including the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information. The Board has delegated responsibility for the establishment and framework of internal controls and ethical standards for the management of the consolidated entity to the Audit Committee.

The Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the Audit Committee are non-executive Directors.

ASX Corporate Governance Council Principle 4.2 recommends that the Audit Committee should consist only of non-executive with a majority of independent Directors, be chaired by an independent director who is not chair of the Board and have at least three members.

The members of the Audit and Risk Committee during the financial year were:

- Dr Martin Blake (Chairman) - Independent
- Mr Simon Panton – Not independent

The qualifications of each member of the Audit and Risk Committee and the number of meetings attended are detailed in the Directors' Report.

The Audit and Risk Committee generally invites the Managing Director, Company Secretary, and external auditors to attend meetings.

The Company discloses its Audit and Risk Committee Charter on the Company's website.

The Company's external auditors have a policy for the rotation of audit engagement partners. A new Audit Partner was assigned to the Company with effect for the 2009 financial year in line with this policy.

The Board has not complied with the ASX Corporate Governance Council Principle 4 Recommendations at all times during the year. Due to there being only two non-executive directors on the Board from 16 December 2010, it was not possible to have three members on the committees at all times. The Chairman of the Board is also Chairman of the committee which is not in accordance with Principle 4.2, and this is also a result of having only two non-executive directors.

CORPORATE GOVERNANCE STATEMENT (Cont'd)

Principle 5

Make timely and balanced disclosure

The Company complies with all disclosure requirements to ensure that Resonance Health manages the disclosure of price sensitive information effectively and in accordance with the requirements as set out by regulatory bodies. The Managing Director and Company Secretary are authorised to communicate with shareholders and the market in relation to Board approved disclosures.

The Company has a written policy designed to ensure compliance with ASX Listing Rule disclosures and accountability at a senior executive level for that compliance. The details of this policy are outlined in the Company's Continuous Disclosure Charter which is displayed on the Company's website.

All announcements made to the ASX are placed on the Company's web site immediately after public release.

The Board complied with the ASX Corporate Governance Council Principle 5 Recommendations at all times during the year.

Principle 6

Respect the rights of shareholders

The Company has a Communications Policy that details the Company's strategy to communicate with shareholders and actively promote shareholder involvement in the Company. It aims to continue to increase and improve the information available to shareholders on its website. All Company announcements, presentations to analysts and other significant briefings are posted on the Company's website after release to the Australian Securities Exchange.

The Board complied with the ASX Corporate Governance Council Principle 6 Recommendations at all times during the year.

Principle 7

Recognise and manage risk

The Board oversees the establishment, implementation and ongoing review of the Company's risk management and internal control system. Recommendation 7.1 requires that the Company has a formal risk management policy and internal compliance and control system. Resonance Health Limited, through its operating subsidiary Resonance Health Analysis Services Pty Ltd, maintained a Quality Management System (QMS) to international standards ISO13485:2003 for the whole financial year which encompass formal risk analysis processes.

Recommendation 7.2 requires implementation and review of the Company's risk management and internal control system. The Company did not have a separately established risk committee. However, the duties and responsibilities typically delegated to such a committee are expressly included in the role of the Audit and Risk Committee and the main Board. The Board does not believe that any marked efficiencies or enhancements would be achieved by the creation of a separate risk committee.

In addition, the QMS requires the appointment of a Management Representative that reports directly to the Board of Directors. The Company also has in place classes of insurance at levels which, in the reasonable opinion of the Directors, are appropriate for its size and operations. Management has reported the effectiveness of the Company's management of its material business risks to the Board during the reporting period.

In accordance with Recommendation 7.3 the Managing Director and the Chief Financial Officer provide written statements at each reporting period regarding the integrity of the financial statements and the Company's risk management and internal compliance and control systems.

The Company's Audit and Risk Charter is displayed on the Company's website.

The Company's external auditor is invited to attend the annual general meeting and questions from shareholders regarding the conduct of the audit and the preparation and content of the auditor's report are welcomed.

The Company's Communication Policy is displayed on the Company's website.

The Board complied with the ASX Corporate Governance Council Principle 7 Recommendations at all times during the year.

CORPORATE GOVERNANCE STATEMENT (Cont'd)

Principle 8

Remunerate fairly and responsibly

The Board has a Nomination and Remuneration Committee. Members of the Committee are outlined under Principle 2 above.

ASX Corporate Governance Council Principles recommend that the Remuneration Committee should consist of a majority of independent Directors, be chaired by an Independent Director and have at least three members. Ms Dunne, an Executive Director, resigned from the Nomination and Remuneration Committee on 24 March 2010. From this date the Company has not complied with this recommendation due to the small size of the Board.

The Nomination and Remuneration Committee regularly review the level and composition of remuneration of non-executive Directors, executive Directors and senior management with regards to industry best practice, Company and individual performance. During Financial year ended 30 June 2012 the Nomination and Remuneration Committee did not meet.

The Company pays fees to the University of Western Australia for services provided by Dr St Pierre who is an executive Director of the Company.

All executive employees receive a base salary and superannuation. The Company does not have a share or option incentive plan. Accordingly, executive employees do not receive any equity based remuneration unless specifically approved on a case by case basis at a general meeting.

The members of the Nomination and Remuneration Committee are outlined in Principle 2. Their attendance at Nomination and Remuneration Committee meetings is detailed in the Directors' Report. Director disclosure requirements are detailed in the notes to the financial statements.

The Nomination and Remuneration Committee Charter is displayed on the Company's website.

The Board complied with the ASX Corporate Governance Council Principle 8 Recommendations at all times during the year except as detailed above.



Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Resonance Health Limited for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Resonance Health Limited.

A handwritten signature in blue ink, appearing to read 'Norman Neill'.

This declaration is in respect of Resonance Health Limited. **Perth, Western Australia**
28 September 2012

N G NEILL
Partner, HLB Mann Judd

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HLB Mann Judd (WA Partnership) is a member of  International, a worldwide organisation of accounting firms and business advisers.

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012**

	Notes	Consolidated	
		2012 \$	2011 \$
Sales revenue	2(a)	1,562,242	1,745,864
Other income	2(b)	226,377	187,447
Revenue		1,788,619	1,933,311
Employee benefits expense		(1,444,930)	(1,329,333)
Consulting and professional services		(54,098)	(33,022)
Research and development		(80,408)	(140,632)
Depreciation		(20,298)	(21,169)
Marketing and travel		(198,952)	(349,380)
Statutory and compliance		(136,659)	(133,900)
Foreign exchange gain/(loss)		57,042	(146,160)
Other expenses		(344,011)	(283,144)
(Loss) before income tax benefit		(433,695)	(503,429)
Income tax benefit	3	165,094	186,600
Net (loss) for the year attributable to owners of the parent		(268,601)	(316,829)
Other comprehensive income			
Exchange differences arising on translation of foreign operations		(91,544)	146,934
Exchange differences arising on translation of foreign loan		30,599	(153,048)
Other comprehensive (loss) for the year, net of tax		(60,945)	(6,114)
Total comprehensive (loss) for the year attributable to owners of the parent		(329,546)	(322,943)
Basic (loss) per share (cents per share)	5	(0.1)	(0.1)

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 30 June 2012

		Consolidated	
	Note	2012 \$	2011 \$
Current Assets			
Cash and cash equivalents	7	1,180,174	1,503,479
Trade and other receivables	8	756,834	877,619
Other assets	9	26,970	29,498
Total Current Assets		<u>1,963,978</u>	<u>2,410,596</u>
Non-Current Assets			
Plant and equipment	10	37,152	46,023
Intangible assets	11	1,291,544	957,400
Other financial assets	12	3,004	3,004
Other assets	9	58,391	58,120
Total Non-Current Assets		<u>1,390,091</u>	<u>1,064,547</u>
Total Assets		<u>3,354,069</u>	<u>3,475,143</u>
Current Liabilities			
Trade and other payables	13	390,051	427,695
Other liabilities	14	329,514	151,886
Total Current Liabilities		<u>719,565</u>	<u>579,581</u>
Non-Current Liabilities			
Provisions	15	68,488	-
Total Non-Current Liabilities		<u>68,488</u>	<u>-</u>
Total Liabilities		<u>788,053</u>	<u>579,581</u>
Net Assets		<u>2,566,016</u>	<u>2,895,562</u>
Equity			
Issued capital	16(a)	67,534,039	67,534,039
Reserves		14,930	75,875
Accumulated losses		(64,982,953)	(64,714,352)
Total Equity		<u>2,566,016</u>	<u>2,895,562</u>

The accompanying notes form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 June 2012**

Consolidated

	Issued Capital \$	Foreign Currency Translation Reserve \$	Option Reserve \$	Accumulated Losses \$	Total Equity \$
Balance at 1 July 2010	67,524,039	15,705	66,284	(64,397,523)	3,208,505
Total comprehensive (loss) for the year	-	(6,114)	-	(316,829)	(322,943)
Shares issued during the year	10,000	-	-	-	10,000
Balance at 30 June 2011	67,534,039	9,591	66,284	(64,714,352)	2,895,562
Total comprehensive (loss) for the year	-	(60,945)	-	(268,601)	(329,546)
Shares issued during the year	-	-	-	-	-
Balance at 30 June 2012	67,534,039	(51,354)	66,284	(64,982,953)	2,566,016

The accompanying notes form part of these financial statements.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 June 2012**

	Note	Consolidated	
		2012 \$	2011 \$
		Inflows/(Outflows)	
Cash flows from operating activities			
Receipts from customers		1,393,151	1,795,564
Payments to suppliers and employees		(1,727,373)	(2,101,537)
Grants received		128,106	109,305
Interest received		124,233	80,120
Income tax received		165,094	-
Net cash provided by / (used in) operating activities	7(i)	83,211	(116,548)
Cash flows from investing activities			
Payments for plant and equipment		(11,427)	(4,805)
Payments for intangible assets		(414,073)	(472,880)
Net cash (used in) investing activities		(425,500)	(477,685)
Net (decrease) in cash and cash equivalents		(342,289)	(594,233)
Foreign exchange differences on cash balances		18,984	(36,172)
Cash and cash equivalents at the beginning of period		1,503,479	2,133,884
Cash and cash equivalents at the end of the period	7	1,180,174	1,503,479

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012**NOTE 1: Statement of significant accounting policies****(a) Basis of preparation**

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations and complies with other requirements of the law.

The financial report has been prepared on a historical cost basis, except for available-for-sale investments, which have been measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets.

The financial report is presented in Australian dollars. The Company is a listed public Company, incorporated and operating in Australia and the United States of America. The entity's principal activities are the development of magnetic resonance imaging related technology, specifically the provision of image analysis services for use by health care professions.

(b) Adoption of new and revised standards

In the year ended 30 June 2012, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period.

It has been determined by the Directors that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2012. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

(c) Statement of compliance

The financial report was authorised for issue on 27 September 2012.

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).

(d) Basis of consolidation

The consolidated financial statements comprise the separate financial statements of Resonance Health Limited ("Company" or "parent entity") and its subsidiaries as at 30 June each year ("the Group"). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies.

In preparing the consolidated financial statements, all interCompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full. Subsidiaries are fully 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. Control exists where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Business combinations have been accounted for using the acquisition method of accounting (refer Note 1(ab)).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

NOTE 1: Statement of significant accounting policies (Continued)**(d) Basis of consolidation (continued)**

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the statement of comprehensive income and within equity in the consolidated statement of financial position. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

(e) Critical accounting judgements and key sources of estimation uncertainty

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of intangibles with indefinite useful lives

The Group determines whether intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the 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 11.

Share-based payment transactions

The Group 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 Group measures the cost of cash-settled share-based payments at fair value at the grant date.

(f) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of Resonance Health Limited.

(g) Foreign currency translation

Both the functional and presentation currency of Resonance Health Limited and its Australian subsidiaries is Australian dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date.

All exchange differences in the consolidated financial report are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date the fair value was determined.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

NOTE 1: Statement of significant accounting policies (Continued)**(g) Foreign currency translation (continued)**

The functional currency of the foreign operation Resonance USA Inc. is United States dollars (US\$). As at the reporting date the assets and liabilities of this subsidiary are translated into the presentation currency of Resonance Health Limited at the rate of exchange ruling at the statement of financial position date and the statement of comprehensive income is translated at the average exchange rate for the year. The exchange differences arising on the translation are taken directly to a separate component recognised in the foreign currency translation reserve in equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

(h) Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of Goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

(ii) Rendering of services

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

(iii) Interest income

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(i) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(j) Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance lease are initially recognised at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and the reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the general policy on borrowing costs.

Finance lease assets are depreciated on a straight line basis over the estimated useful life of the asset.

Operating lease payments, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased items, are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

(k) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary difference and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

NOTE 1: Statement of significant accounting policies (Continued)**(k) Income tax (continued)**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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 credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit, nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against with the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance 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.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it is has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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 date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

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 taxation authority.

(l) Other taxes

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST) except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: Statement of significant accounting policies (Continued)**(m) Impairment of assets**

The Group assesses at each balance date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

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. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each balance date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(n) Cash and cash equivalents

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

(o) Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are generally due for settlement within periods ranging from 14 days to 90 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Group in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Group. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

(p) Financial assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. Where financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

NOTE 1: Statement of significant accounting policies (Continued)**(p) Financial assets (continued)**

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in profit or loss.

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets that are not quoted in an active market. Gains and losses are recognised in the profit or loss when the loans and receivables are derecognised or impaired.

(iv) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

(q) Derecognition of financial assets and liabilities*(i) Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either:
 - (a) has transferred substantially all the risks and rewards of the asset, or
 - (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

(ii) Financial liabilities

A financial liability is recognised when the obligation under the liability is discharged or cancelled or expires.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

NOTE 1: Statement of significant accounting policies (Continued)**(q) Derecognition of financial assets and liabilities (continued)**

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(r) Impairment of financial assets

The Group assess at each balance date whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial asset is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

(iii) Available-for-sale investments

If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses for debt instruments are reversed through profit or loss if the increase in an instrument's fair value can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

(s) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Plant and equipment	3 – 5 years
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The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each balance date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

NOTE 1: Statement of significant accounting policies (Continued)**(s) Plant and equipment (continued)**

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. 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.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. Impairment losses for plant and equipment are recognised in the statement of comprehensive income.

(ii) Derecognition and disposal

An item of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

(t) Intangible assets*Internally generated intangible assets – research and development expenditure*

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

An intangible asset arising from development expenditure on an internal project is recognised if, and only if, all of the following has been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. The amortisation period is the period of expected benefits from the related project. There is no amortisation if the useful life is indefinite.

(u) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and 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 amounts are unsecured and are usually paid within 30 days of recognition.

(v) Interest-bearing loans and borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

NOTE 1: Statement of significant accounting policies (Continued)**(w) 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. Provisions are not recognised for future operating losses.

Provisions are measured at the present value or management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

(x) Employee benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the balance date are recognised in sundry creditors in respect of employees' services up to the balance date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(y) Share-based payment transactions

Equity-settled transactions

The Group has previously had agreements where payment for services rendered are settled by the issuance of fully paid shares or options in the Company.

The cost of these equity-settled transactions is measured by reference to the fair value of the equity instruments at the date they are granted and is recognised, together with a corresponding increase in equity, over the period in which the service is provided.

(z) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(aa) Earnings per share ("EPS")

Basic EPS is calculated as net profit/loss attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit/loss attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(ab) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or business under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any contingent consideration arrangements and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expenses as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

NOTE 1: Statement of significant accounting policies (Continued)

(ab) Business combinations (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified as either equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(ac) Parent entity financial information

The financial information for the parent entity, Resonance Health Limited, disclosed in Note 20 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the parent entity's financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

	Consolidated	
	2012 \$	2011 \$
NOTE 2: Revenues and expenses		
(a) Sales revenue		
Sales to external customers	1,562,242	1,745,864
(b) Other income		
Grants received	128,106	109,305
Interest received	98,271	78,142
	<u>226,377</u>	<u>187,447</u>
(c) Expenses		
Rental expense on operating leases	94,571	60,494

NOTE 3: Income tax benefit**Income tax recognised in profit or loss**

The major components of tax benefit are:

Adjustments recognised in the current year in relation to the current tax of prior years – R&D tax offset

165,094	186,600
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The prima facie income tax benefit on pre-tax accounting profit/(loss) from operations reconciles to the income tax benefit in the financial statements as follows:

Accounting profit/(loss) before income tax	(433,695)	(503,429)
Income tax calculated at 30%	(130,108)	(151,028)
Effect of income that is not deductible in determining taxable profit	164,386	83,647
Effect of unused tax losses not recognised as deferred tax assets	271,112	(340,882)
Effect of prior year adjustments	(161,915)	511,703
Effect of temporary differences recognised as deferred tax assets and liabilities	(170,059)	(224,769)
Effect of concessions (research and development)	26,584	121,329
Over/(under) provision for income tax in prior year	-	-
Tax refund receivable (research and development tax offset)	165,094	186,600
Income tax benefit reported in the income statement	<u>165,094</u>	<u>186,600</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

	Consolidated	
	2012	2011
	\$	\$
NOTE 3: Income tax (Continued)		
Unrecognised deferred tax balances		
The following deferred tax assets and liabilities have not been brought to account:		
<i>Deferred tax assets:</i>		
Losses available for offset against future taxable income - revenue	2,170,661	1,899,549
Temporary differences – impairment of investments in subsidiaries	-	-
Depreciation timing differences	56,060	46,045
Business related costs	11,115	135,002
Unrealised foreign exchange losses	112,931	61,996
Other temporary differences	-	-
Accrued expenses and liabilities	64,687	70,916
	<u>2,415,454</u>	<u>2,259,422</u>
<i>Deferred tax liabilities:</i>		
Capitalised research and development costs	387,463	287,220
Accrued income	1,055	54,410
Prepayments	8,091	-
	<u>396,609</u>	<u>341,630</u>
<i>Income tax expense not recognised directly in equity</i>		
Share issue costs	<u>152,765</u>	<u>152,765</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

NOTE 4: Segment reporting**Segment Information**

The chief operating decision maker is considered to be the Company's Board of Directors. The Group's operating segments are determined by differences in the type of activities performed. The financial results of the Group's operating segments are reviewed by the Board of Directors on a quarterly basis.

Business Segments

The following table presents revenue and profit/loss information and certain asset and liability information regarding business segments for the year ended 30 June 2012.

	Services	Research and Development	Corporate	Total
	\$	\$	\$	\$
Segment revenue				
Sales to external customers	1,562,242	-	-	1,562,242
Grant revenue	-	-	128,106	128,106
Interest revenue	-	-	98,271	98,271
Total segment revenue	<u>1,562,242</u>	<u>-</u>	<u>226,377</u>	<u>1,788,619</u>
Segment profit/(loss)	<u>(226,517)</u>	<u>85,074</u>	<u>(127,158)</u>	<u>(268,601)</u>
Other segment information included in (loss)				
Income tax benefit	<u>-</u>	<u>165,094</u>	<u>-</u>	<u>165,094</u>
Segment assets	756,834	1,291,544	1,305,691	3,354,069
Segment liabilities	<u>616,759</u>	<u>-</u>	<u>171,294</u>	<u>788,053</u>

The consolidated entity derived 51% of its external customer sales revenue from one major customer.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

NOTE 4: Segment reporting (Continued)

The following table presents revenue and profit/loss information and certain asset and liability information regarding business segments for the year ended 30 June 2011.

	FerriScan	Research and Development	Corporate	Total
	\$	\$	\$	\$
Segment revenue				
Sales to external customers	1,745,864	-	-	1,745,864
Grant revenue	109,305	-	-	109,305
Interest revenue	-	-	78,142	78,142
Total segment revenue	<u>1,855,169</u>	<u>-</u>	<u>78,142</u>	<u>1,933,311</u>
Segment profit/(loss)	<u>43,866</u>	<u>45,968</u>	<u>(406,663)</u>	<u>(316,829)</u>
Other segment information included in (loss)				
Income tax benefit	<u>-</u>	<u>186,600</u>	<u>-</u>	<u>186,600</u>
Segment assets	978,159	957,400	1,539,584	3,475,143
Segment liabilities	<u>366,307</u>	<u>142,465</u>	<u>70,809</u>	<u>579,581</u>

The consolidated entity derived 50% of its external customer sales revenue from one major customer.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

	Consolidated	
	2012 \$	2011 \$
NOTE 5: Earnings per share		
Basic (loss) per share (cents per share)	(0.1)	(0.1)
(a) Loss used in the calculation of basic earnings per share	(268,601)	(316,829)
	2012 Number	2011 Number
(b) Weighted average number of ordinary shares for the purposes of basic loss per share	360,991,365	360,769,062

The calculation does not include shares under option that could potentially dilute basic earnings per share in the future as the options on issue are out of the money and the Company has incurred a loss.

NOTE 6: Dividends

No dividend was paid or declared for the current or previous financial year.

	Consolidated	
	2012 \$	2011 \$
NOTE 7: Cash and cash equivalents		
Deposits at call	380,174	503,479
Term deposits	800,000	1,000,000
	1,180,174	1,503,479

Deposits at call earn interest at floating rates based on daily bank deposit rates.

Term deposits are made for varying periods depending on the immediate cash requirements of the Group and earn interest at the respective term deposit rates.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

	Consolidated	
	2012 \$	2011 \$
NOTE 7: Cash and cash equivalents (Continued)		
(i) Reconciliation of profit / (loss) for the year to net cash flows from operating activities		
Profit/(loss) for the year	(268,601)	(316,829)
Non-cash flows in profit / (loss):		
Depreciation	20,298	21,169
Share issue	-	10,000
Accrued consulting fees	-	47,672
Reclassification to investing activities:		
Research and development	-	140,632
Changes in net assets and liabilities:		
Decrease/(increase) in receivables	120,785	(87,672)
Decrease/(increase) in other assets (current)	2,528	9,393
(Increase)/decrease in assets (non-current)	(271)	-
Decrease/(increase) in trade creditors and other payables	30,844	(66,574)
Decrease/(increase) in other liabilities	177,628	125,661
Net cash provided by/(used in) operating activities	<u>83,211</u>	<u>(116,548)</u>
(ii) Financing facilities		
Unsecured credit card:		
Amount used	4,362	(2,216)
Amount unused	15,638	-
	<u>20,000</u>	<u>(2,216)</u>
Secured credit card:		
Amount used	290	4,582
Amount unused	19,710	15,418
	<u>20,000</u>	<u>20,000</u>
(iii) Cash balances not available for use		
Security deposits:		
Credit card	20,000	20,000
Lease premises	38,391	38,120
	<u>58,391</u>	<u>58,120</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

	Consolidated	
	2012	2011
	\$	\$
NOTE 8: Trade and other receivables		
Current		
Trade receivables	537,179	346,232
Allowance for impairment	-	(26,632)
	<u>537,179</u>	<u>319,600</u>
Other receivables	219,655	558,019
	<u>756,834</u>	<u>877,619</u>
The average credit period on sales of goods and rendering of services is 14 to 90 days.		
Aging of past due but not impaired		
Up to 30 days	75,915	94,548
60-90 days	24,511	30,027
90-120 days	9,830	39,709
120+ days	-	-
	<u>110,256</u>	<u>164,284</u>
Movement in the allowance for impairment		
Balance at the beginning of the year	26,632	33,556
Impairment losses recognised on receivables	(26,632)	(6,924)
Balance at the end of the year	<u>-</u>	<u>26,632</u>

In determining the recoverability of a trade receivable, the Group considers any changes in the credit quality of the trade receivable from the date credit was granted up to the reporting date. An allowance has been made for estimated irrecoverable trade receivable amounts arising from the past rendering of services in relation to a specific debtor amount. The concentration of credit risk is significant with 51% (2011: 50%) of trade receivables relating to one major customer. The remaining trade receivables relate to a large and unrelated customer base. The directors believe no further increase is required in excess of the allowance for impairment.

Note 9: Other assets

Current		
Prepayments	26,970	29,498
	<u>26,970</u>	<u>29,498</u>
Non-Current		
Deposits	58,391	58,120
	<u>58,391</u>	<u>58,120</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

	Consolidated	
	2012	2011
	\$	\$
NOTE 10: Plant and equipment		
Fixtures and equipment		
At cost	243,807	232,381
Less: Accumulated depreciation	(206,655)	(186,358)
Total property, plant and equipment	<u>37,152</u>	<u>46,023</u>

Reconciliation

Reconciliation of the carrying amount of each class of property, plant and equipment is set out below:

Fixtures and equipment		
Carrying Amount at the beginning of the year	46,023	62,387
Additions	11,427	4,805
Depreciation expense	(20,298)	(21,169)
Carrying amount at the end of the year	<u>37,152</u>	<u>46,023</u>

NOTE 11: Intangible assets

Development expenditure	<u>1,291,544</u>	<u>957,400</u>
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Development expenditure relates to costs incurred in developing MRI image analysis tools for the diagnosis and clinical management of human disease.

During the current financial year this development has related to a new version of FerriScan, a cardiac iron assessment MRI tool and the next stage of development of a MRI based liver fibrosis tool and liver fat assessment tool.

The recoupment of development expenditure is dependent on the successful development and commercialisation or sale of the technology developed. The directors are required to assess at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists an estimate is made of the asset's recoverable amount. Where the asset's carrying value exceeds the estimated recoverable amount a provision for impairment is recognised.

In making this assessment the directors had regard to the size of the liver fibrosis and liver fat markets, competing products, experience gained with the FerriScan technology, the likely period over which these revenues are expected to be generated and the likelihood of any technological obsolescence.

Note 12: Other financial assets

Available for sale – Carried at fair value

Shares in listed corporations	14,337	14,337
Less: Impairment	(11,333)	(11,333)
	<u>3,004</u>	<u>3,004</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

	Consolidated	
	2012 \$	2011 \$
NOTE 13: Trade and other payables		
Current		
Trade payables (i)	102,040	140,680
Sundry creditors and accruals	288,011	287,105
	<u>390,051</u>	<u>427,695</u>

(i) Trade payables are non-interest bearing and are normally settled on 30 day terms.

Information regarding the effective interest rate and credit risk of current payables is set out in Note 17.

NOTE 14: Other liabilities

Current		
Unearned income	<u>329,514</u>	<u>151,886</u>

NOTE 15: Provisions

Non-current		
Long service leave provision	<u>68,488</u>	<u>-</u>
Reconciliation		
Balance at the beginning of the year	-	-
Arising during the year	<u>68,488</u>	<u>-</u>
Carrying amount at the end of the year	<u>68,488</u>	<u>-</u>

The provision for employee benefits represents vested long service leave entitlement accrued.

NOTE 16: Issued capital

	2012		2011	
	Number	\$	Number	\$
(a) Issued and paid up capital	<u>360,991,365</u>	<u>67,534,039</u>	<u>360,991,365</u>	<u>67,534,039</u>

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

Movements during the period

Ordinary shares	Number of shares	Issue Price \$
Balance at the beginning of the year	<u>360,991,365</u>	<u>67,534,039</u>
Balance at the end of the financial year	<u>360,991,365</u>	<u>67,534,039</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

NOTE 17: Financial instruments

(a) Capital risk management

The Group controls the capital of the Company in order to maintain an appropriate debt to equity ratio and to ensure that the Company can fund its operations and continue as a going concern. The Group's overall strategy remains unchanged from the previous financial year. The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings. None of the Group's entities are subject to externally imposed capital requirements. Operating cash flows are used to maintain and expand operations, as well as to make routine expenditures.

(b) Categories of financial instruments

	Consolidated	
	2012	2011
Financial assets	\$	\$
Cash and cash equivalents	1,180,174	1,503,479
Loans and receivables	756,834	877,619
Available for sale financial assets	3,004	3,004
Other financial assets	58,391	58,120
Payables	390,051	346,725

The net fair values of all financial assets and liabilities approximate their carrying value.

(c) Financial risk management objectives

The Group is exposed to market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group seeks to minimise the effects of these risks. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(d) Market risk

The Group's activities expose it primarily to the financial risk of changes in foreign currency exchange rates. There has been no change in the Group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

Note 17: Financial instruments (Continued)

(e) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters. The Group does not engage in forward exchange contracts.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Liabilities		Assets	
	2012 \$	2011 \$	2012 \$	2011 \$
United States Dollars	18,777	6,431	495,005	690,372
Great British Pounds	-	-	52,641	46,734
European Euros	-	7,022	8,186	20,662

Foreign currency sensitivity analysis

The Group is exposed to United States Dollar (USD), Great British Pound (GBP) and European Euro (EUR) currency fluctuations.

The following table illustrates the Group's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currency. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A negative number indicates a decrease in profit and other equity where the Australian dollar strengthens against the respective currency. For a weakening of the Australian dollar against the respective currency there would be an equal and opposite impact on the profit and other equity and the balances below would be positive.

	2012 \$	2011 \$
Profit or loss impact:		
- USD	(43,293)	(62,176)
- GBP	(4,786)	(4,249)
- EUR	(744)	(1,240)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

Note 17: Financial instruments (Continued)

(f) Interest rate risk management

All financial assets and financial liabilities are non-interest bearing except for cash and cash equivalent balances. The following table details the Group's expected maturities for cash and cash equivalent financial assets.

Cash and cash equivalent financial assets	Less than one month	One to three months	Total
2012	\$1,180,174	\$58,391	\$1,238,565
Weighted average effective interest rate	3.81%	5.76%	
2011	\$1,503,479	\$58,120	\$1,561,599
Weighted average effective interest rate	4.18%	6.14%	

The Group is exposed to fluctuations in interest rates as it has deposited monies at floating and fixed interest rates.

The impact of a 10% change in interest rates will not have a material impact on the result for the year.

(g) Credit risk management

Credit risk is the risk that a counter party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily from customer receivables) and from its financing activities, including deposits with banks, foreign exchange transactions and other financial instruments.

Outstanding customer receivables are regularly monitored and any credit concerns highlighted to senior management. At 30 June 2012, the Group had one customer that accounted for 68% of all trade receivables (2011: 50%).

The maximum exposure to credit risk, excluding the value of any collateral or other security at balance date in relation to each class of recognised financial assets is the carrying amount, net of any allowance for impairment recorded in the financial statements. The Group does not hold any collateral as security for any trade receivable.

(h) Equity price risk

The Group is exposed to equity price risks arising from available-for-sale financial assets. The Group's investments are publicly traded.

The impact of a 10% increase or decrease in the equity price will not have a material impact on the result for the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

Note 17: Financial instruments (Continued)

(i) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves by continually monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 7 is a listing of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

The following table details the Group's expected maturity for its financial liabilities.

	Less than one month	One month to three months	Three months to one year	Total
	\$	\$	\$	\$
2012	222,645	48,246	119,160	390,051
Non-interest bearing				
2011	258,162	73,697	14,866	346,725
Non-interest bearing				

(j) Fair value of financial instruments

The net fair value of all financial assets and liabilities approximate their carrying values. No financial assets or financial liabilities, except for listed shares are readily traded on organized markets in standardized form.

The aggregate net fair values and carrying amounts of all financial assets and liabilities are disclosed in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

	Consolidated	
	2012 \$	2011 \$
NOTE 18: Commitments for expenditure		
Operating lease commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases for office premises are payable as follows:		
Within one year	113,152	5,527
Later than 1 year but no later than 5 years	127,511	-
Total commitments not recognised in the financial statements	240,663	5,527

A lease over new premises was entered into effective 1 August 2011.

NOTE 19: Related party disclosure

The consolidated financial statements include the financial statements of Resonance Health Limited and the subsidiaries listed in the following table.

<u>Name of entity</u>	<u>Country of incorporation</u>	<u>Class of shares</u>	<u>Equity holding</u>
Resonance Health Analysis Services Pty Ltd (formerly Inner Vision Biometrics Pty Ltd)	Australia	Ordinary	100%
WA Private Health Care Services Pty Ltd	Australia	Ordinary	100%
IVB Holdings Pty Ltd	Australia	Ordinary	100%
ResonanceUSA Inc	USA	Ordinary	100%

Resonance Health Limited is the ultimate Australian entity and ultimate parent of the Group.

Transactions with related parties

Transactions with related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with key management personnel

Refer to Note 23 for details of transactions with key management personnel.

During the year Resonance Health Analysis Services Pty Ltd repaid interest free loans to the Company totalling \$229,942. During the previous year the Company provided interest free loans to Resonance Health Analysis Services Pty Ltd totalling \$388,163.

During the year ResonanceUSA Inc repaid interest free loans to the Company totalling \$205,005 (2011: \$223,285).

A cumulative impairment of these loans of \$4,545,135 was recorded up to balance date (2011: \$4,545,135).

During the year expenses were paid by Resonance Health Analysis Services Pty Ltd totalling \$118,318 (2011: \$112,725) on behalf of the Company. During the year expenses were paid by the Company on behalf of ResonanceUSA Inc totalling \$197,252 (2011: \$214,762).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

	2012 \$	2011 \$
NOTE 20: Parent entity disclosures		
Financial Position		
Assets		
Current assets	1,034,009	1,051,277
Non-current assets	856,682	856,682
Total assets	<u>1,890,691</u>	<u>1,907,959</u>
Liabilities		
Current liabilities	49,768	67,021
Total liabilities	<u>49,768</u>	<u>67,021</u>
Equity		
Issued capital	67,534,039	67,534,039
Option reserve	66,284	66,284
Accumulated losses	(65,449,616)	(65,296,505)
Total equity	<u>2,150,707</u>	<u>2,303,819</u>
	Year ended 30 June 2012 \$	Year ended 30 June 2011 \$
Financial Performance		
Profit / (loss) for the year	(153,111)	(234,138)
Other comprehensive income / (loss)	-	-
Total comprehensive income / (loss)	<u>(153,111)</u>	<u>(234,138)</u>

NOTE 21: Events subsequent to reporting date

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company and the consolidated entity, the results of those operations, or the state of affairs in future financial years.

	Consolidated	
	2012 \$	2011 \$
NOTE 22: Auditors' remuneration		
During the year the following fees were paid or payable to the auditor:		
Remuneration of the auditor of the Company for:		
Auditing/reviewing financial report	45,500	38,450
Taxation compliance services	45,250	47,113
	<u>90,750</u>	<u>85,563</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2012

NOTE 23: Directors and executive disclosures**(a) Details of key management personnel**

(i) Directors

Dr Martin Blake	Chairman (non-executive)
Ms Liza Dunne	Managing Director (executive)
Mr Simon Panton	Director (non-executive)
Dr Tim St Pierre	Director (executive)

ii) Executives

Mrs Naomi Haydari	Chief Financial Officer and Company Secretary	Appointed 19 March 2012
Mr Colin McDonald	Chief Financial Officer and Company Secretary	Resigned 19 March 2012

Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report.

(b) Shareholdings of key management personnel

The numbers of ordinary shares in the Company held during the financial year by key management personnel of the consolidated Group including their personally related entities are set out below.

	Balance 1.7.11	Received as Remuneration	Net Change Other*	Received during the year on exercise of options	Balance 30.6.12
<i>Directors</i>					
Dr M Blake	6,224,677	-	-	-	6,224,677
Ms L Dunne	3,153,385	-	-	-	3,153,385
Dr T St Pierre	9,078,750	-	-	-	9,078,750
Mr S Panton	65,960,972	-	-	-	65,960,972
Total	84,417,784	-	-	-	84,417,784
<i>Executives</i>					
Mrs N Haydari	-	-	-	-	-
Mr C McDonald	-	-	-	-	-
Total	-	-	-	-	-

(c) Transactions and balances with directors and other key management personnel*Executive Director – Dr Tim St Pierre*

Dr St Pierre is an employee of The University of Western Australia. The Group has an agreement with the University of Western Australia for the provision of consulting services by Dr St Pierre and others.

Amounts relating to services provided by Dr St Pierre during the year can be found in the Remuneration Report forming part of the Directors' Report.

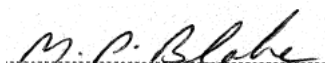
Amounts relating to consulting services provided by others under the agreement with the University of Western Australia during the financial year totalled \$11,583 (2011: \$14,945). The amount payable at 30 June 2012 totalled \$13,226 (2011: \$86,293).

During the year the Group provided FerriScan services totalling \$2,630 (2011: \$3,575) to the University of Western Australia. Amounts receivable at 30 June 2012 totalled \$2,630 (2011: \$Nil).

DIRECTORS' DECLARATION

1. In the opinion of the directors:
 - a. the accompanying financial statements, notes and the additional disclosures are in accordance with the Corporations Act 2001 including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year then ended; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the 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; and
 - c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.
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 2012.

This declaration is signed in accordance with a resolution of the Board of Directors.



Dr Martin Blake
Chairman

Place: Perth, Western Australia

Dated: 28 September 2012



Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of Resonance Health Limited

Report on the Financial Report

We have audited the accompanying financial report of Resonance Health Limited ("the company"), which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In Note 1(c), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial report complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

HLB Mann Judd (WA Partnership) ABN 22 193 232 714

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Matters relating to the electronic presentation of the audited financial report and remuneration report

This auditor's report relates to the financial report and remuneration report of Resonance Health Limited for the financial year ended 30 June 2012 published in the annual report and included on the company's website. The company's directors are responsible for the integrity of the company's website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report and remuneration report. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report and remuneration report. If users of the financial report and remuneration report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information contained in this website version of the financial report and remuneration report.

Auditor's opinion

In our opinion:

- (a) the financial report of Resonance Health Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(c).

Report on the Remuneration Report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion the remuneration report of Resonance Health Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*

A handwritten signature in blue ink that reads 'HLB Mann Judd'.

HLB MANN JUDD
Chartered Accountants

A handwritten signature in blue ink that reads 'Norman Neill'.

Perth, Western Australia
28 September 2012

N G NEILL
Partner