



ResonanceHealth

# ANNUAL REPORT 2010

Resonance Health Limited

# CORPORATE INFORMATION

ABN 96 006 762 492

## Directors

**Dr Stewart Washer**  
Non-executive Chairman

**Dr Martin Blake**  
Non-executive Director

**Ms Liza Dunne**  
Managing Director

**Mr Simon Panton**  
Non-executive Director

**Dr Timothy St Pierre**  
Executive Director

## Company secretary

Ms Eva O'Malley

## Stock exchange listing

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

## Registered office and Principal place of business

1st Floor,  
216 Stirling Highway  
Claremont WA 6010  
Australia  
Telephone: 61 8 9286 5300  
Facsimile: 61 8 9286 1179

## Postal address

PO Box 1135  
Nedlands WA 6909  
Australia

## Website and e-mail address

[www.resonancehealth.com](http://www.resonancehealth.com)  
Email: [info@ferriscan.com](mailto:info@ferriscan.com)

## Auditors

HLB Mann Judd  
Level 4,  
130 Stirling Street  
Perth WA 6000  
Australia

## Share registry

Advanced Share Registry Ltd  
150 Stirling Highway  
Nedlands WA 6009  
Australia  
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  
Australia



## Our Business

Resonance Health Ltd is a publicly listed Australian healthcare company providing medical image analysis services specialising in liver diagnostics with magnetic resonance imaging (MRI).

FerriScan® is a medical device with regulatory approval providing the most accurate assessment of iron overload on the market. FerriScan® is delivered through the Company's central image analysis facility which also provides a range of value added services for clinical trials using imaging end points.

New products are in development at Resonance Health for the quantitative imaging assessment of liver fat and liver fibrosis, which represent large addressable growth markets for routine clinical testing. These imaging tests will also be used by pharmaceutical companies wishing to assess the effectiveness of new therapies being developed for the treatment of liver disease.

## CONTENTS

Chairman and Managing Director's Report	2
Year In Review	3
Directors' Report	7
Corporate Governance Statement	14
Auditor's Independence Declaration	19
Statement of Comprehensive Income	20
Statement of Financial Position	21
Statement of Cash Flows	22
Statement of Changes in Equity	23
Notes to the Financial Statements	24
Directors' Declaration	46
Independent Auditor's Report	47
Additional ASX Information	49

# CHAIRMAN AND MANAGING DIRECTOR'S REPORT

The financial year ended 30 June 2010 was a year of continued growth in the number of FerriScans delivered and expansion in the research and development of imaging based diagnostic tests aimed at the liver disease market.

FerriScan® sales volumes increased 29% in the year due to reimbursement for FerriScan® in some markets and an investment in sales and marketing expenditure in the US and Europe. This investment is required to gain widespread knowledge and use of FerriScan® and to achieve reimbursement.

FerriScan® revenue for the year was \$1.9m which was underpinned by a revenue growth of 18% in the routine clinical use of FerriScan® for the management of patients with iron overload conditions, as the Company reduces its reliance on income gained from the use of FerriScan® in clinical trials. Resonance Health sees the future growth market for FerriScan® in the routine clinical use market.

A FerriScan® distributor was appointed in Turkey and the Company hopes to gain funding approval the service there in the near term, providing access to FerriScan® for the 5000+ patients with transfusional iron overload. Distributors are being sought in South East Asia where thalassaemia and the complications of iron overload are a significant health burden.

Improvements to the FerriScan® offering during the year have been well accepted. These include a 60% reduction in MRI scan time and an expanded new service that provides a FerriScan® and a cardiac iron assessment.

Whilst the FerriScan® business unit was profitable in the 2009/2010 financial year, the Company reported a net loss for the year of \$102,335. Research and Development expenditure of \$564,084 was focused on the development of imaging based diagnostics for the liver fibrosis and liver fat markets and further improvements to the FerriScan® product. Non-invasive imaging solutions that assist with the diagnosis and management of liver disease can provide a significant benefit to patients, the healthcare community and in the assessment of new therapies.

There is a substantial economic and human burden from liver disease in many countries.

- Liver disease is the only major cause of death still increasing year-on-year in the UK.
- Liver cirrhosis is the 7th most common cause of death in the world – caused primarily by viral hepatitis, non-alcoholic fatty liver disease (NAFLD) and alcohol use.
- NAFLD is the most common liver disease in the western world with 20-30% of the population affected.
- Liver fibrosis, primarily caused by fatty liver and viral hepatitis, is a significant predictor of liver cancer.
- Hepatocellular carcinoma is the 4th leading cause of cancer-related death in the world.

The early diagnosis and effective management of these patients can significantly improve patient outcomes. Resonance Health's strategic association with the medical industry focused on liver disease and its expertise in bringing imaging based diagnostic medical devices to the research and clinical communities provides a strong outlook for shareholders.

The results of a clinical study conducted during the year for the liver fibrosis and fat measurements are promising and discussions are in progress with potential partners for further development of these diagnostic tests. The Board and management of Resonance Health are confident that our significant focus and investment in these areas will deliver success to the Company.



Liza Dunne

Managing Director



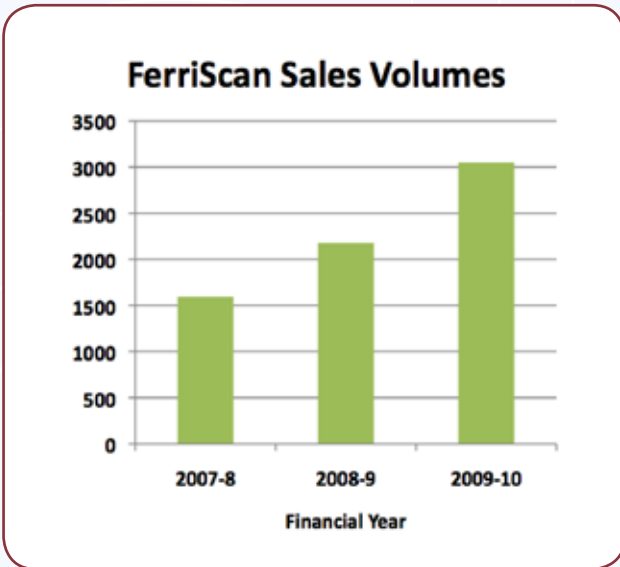
Stewart Washer

Chairman

# YEAR IN REVIEW

## FerriScan®

*FerriScan® uptake in key markets during the 2009/2010 financial year has positioned it as market leader in the field of non-invasive assessment of iron overload. Over 3,000 FerriScan® reports were delivered during the year, a growth of 29% on the previous year, and Resonance Health is poised to celebrate its 10,000th FerriScan® in late 2010.*



FerriScan® is now recognised in many international markets as the new 'gold standard' in liver iron quantification, largely replacing the need for a liver biopsy, which can be a painful procedure associated with risks and is subject to sampling inaccuracies. Worldwide, there are over 130 Magnetic Resonance Imaging (MRI) facilities providing the FerriScan® service, in over 20 countries.

FerriScan® is provided to the market as an image analysis service, ensuring the FerriScan® intellectual property is well protected and the accuracy of the results is maintained. Image analysis is performed at an ISO: 9001 certified facility by highly trained technicians. A secure web portal enables the electronic transmittal of image data and secure access to the results by MRI facilities around the world.

FerriScan® offers the international medical community

an accurate quantification of liver iron without the need to purchase additional hardware or software or to obtain training in its use. Fees are charged on each analysis performed. FerriScan® is now a short 10 minute imaging procedure, following the launch of FerriScan® Rapide during the year.

FerriScan® continues to have a significant competitive advantage, providing highly sensitive and specific measurements at both very high and very low liver iron concentrations, even in the presence of other complicating factors such as inflammation, infection or fibrosis. Blood markers can be unreliable and clinicians are turning to MRI-based methods to non-invasively quantify iron overload.

Resonance Health continues to work closely with the clinical community and government agencies to gain reimbursement for FerriScan®.

## Europe

The investment in locally based marketing resources in Europe demonstrated a strong return with volume growth in the UK of 136% on the prior year. The availability of funding by a number of National Health Service Trusts has been critical to the development of the UK business. Five additional hospitals commenced using FerriScan® in the UK during the year. Kings College Hospital was the first international hospital to use the FerriScan® and cardiac T2\* dual analysis service. The myelodysplastic syndrome (MDS) market in Ireland is a significant target for Resonance Health and the Company hopes to establish the first FerriScan® facility in Ireland in early 2011.

A submission for reimbursement has been made in Germany which represents a large opportunity for FerriScan® in haemochromatosis and transfusion-dependant iron overload.



Monitoring and Management of Iron Overload Conditions Regional Conference, London, June 2010.

## YEAR IN REVIEW

### North America

Resonance Health appointed a Vice President, US Business Development in 2010, to drive growth in the US market and manage a program for reimbursement of FerriScan® by US private and public payers.

FerriScan® achieved endorsement by key patient groups during the year and inclusion in patient management guidelines; important steps towards achieving greater use and funding for FerriScan®. Reimbursement is key to FerriScan® achieving significant growth in this market and we are optimistic of progress in this regard during the 2010 / 2011 financial year.

Reimbursement for FerriScan® from the Ontario Ministry of Health contributed to the volume growth of 77% in the Canadian market.

### Rest of the World

In Australia, FerriScan® volumes increased by 18%. FerriScan® became available in six new MRI facilities during the year providing greater access to the service in anticipation of a positive decision from the Medical Services Advisory Committee (MSAC) for public funding. A decision on the application, submitted in mid 2008, has encountered a series of unfortunate delays beyond the control of Resonance Health. Progress has, however, been made and it is likely that a final determination will be made by the Minister for Health in Q4 2010.

### Cooley's Anemia Foundation (US thalassaemia patient society)

#### Position statement on MRI-based Hepatic Iron Assessment Methods, including FerriScan®

*“There is significant clinical and scientific evidence available to support this technique as a means to monitor liver iron concentrations in patients with thalassemia. MRI-based iron assessment represents the type of medical breakthrough our members depend on. FerriScan® itself is a high quality (clinical grade, FDA approved) method of accomplishing this assessment. Based on our review of the peer-reviewed literature, Cooley's Anemia Foundation recommends that third party insurance companies develop positive coverage policies so that consumers can access this test, providing more accurate and cost-effective results than liver biopsy.”*

### FerriScan® locations worldwide.

Resonance Health appointed its first overseas distributor for FerriScan® in Turkey and an application for government funding for FerriScan® has been submitted in that country. A positive response is anticipated in the 2010/2011 financial year. Turkey has over 5,000 thalassaemia and sickle cell disease patients and a high prevalence of hereditary haemochromatosis.

Efforts are being made to identify suitable organisations in other markets where a distributor is a requirement for product registration and to provide a cost effective marketing channel.

## Cardiac T2\*

At the 3rd Pan European Conference on Haemoglobinopathies in Berlin Resonance Health launched a new service to assess the risk of cardiac iron overload. Cardiac T2\* is the most widely accepted MRI based method for assessing cardiac iron loading and when combined with a FerriScan® provides clinicians with a comprehensive assessment of a patient's iron overload status.

Thalassaemia patients with elevated liver iron concentration are at greatest risk of future cardiac complications and premature death. While liver iron concentration has been shown to be a good predictor of this risk, a cardiac T2\* analysis provides clinicians with information to assess the shorter term risk of cardiac failure or arrhythmia.

Resonance Health's cardiac T2\* image analysis service has approval by regulatory authorities in Australia and the European Union and is being delivered to these markets as a dual service, combining the FerriScan® test with a cardiac T2\* assessment.

The company plans to submit a 510K application to the FDA in Q4 2010 for regulatory approval of the cardiac T2\* service in the United States.

### FerriScan® & Cardiac T2\*



**Professor Swee Lay Thein,**  
FRCPPath, FRCP, DSc, FMedSci

Swee Lay Thein is Professor of Molecular Haematology and Consultant Haematologist at King's College Hospital and King's College London (KCL) School of Medicine, London, UK. She is head of the Division of Gene and Cell Based Therapy within KCL School of Medicine

*"FerriScan® is our preferred tool for determining Liver Iron Concentration as it has greater sensitivity and specificity to other MRI methods, providing a quantitative value which gives better guidance in monitoring"*

*FerriScan® has regulatory approval and offers a quality assured service. We use FerriScan® to screen patients for iron overload and to optimise any chelation treatment required through accurate monitoring*

*We are also now using the dual analysis service (FerriScan® + Cardiac T2\*) provided by Resonance Health which provides a complete picture of iron loading in the liver and heart where required. Demand for FerriScan® and the dual analysis service is increasing as this has a valuable role in both primary and secondary iron overload conditions."*

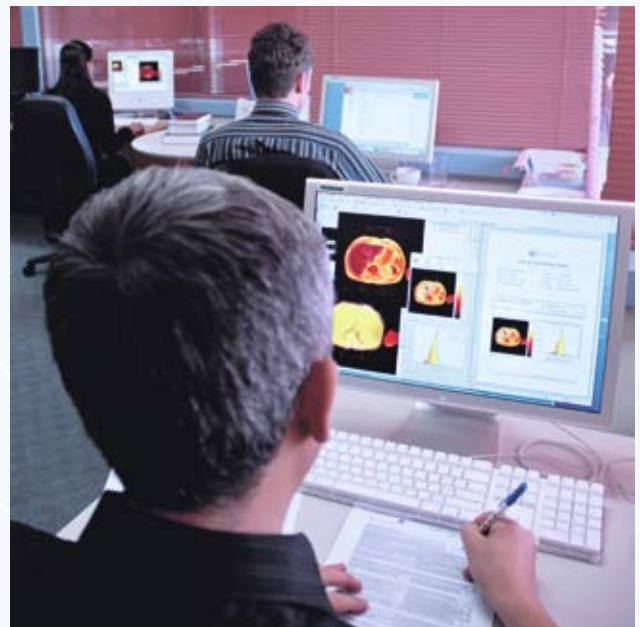
## Clinical Activities

FerriScan® continues to provide important liver iron concentration (LIC) information for patients involved in clinical trials of iron chelating agents. FerriScan® LIC results are being used as the primary endpoint in studies to evaluate the efficacy of chelators in patients with transfusion-dependent and transfusion-independent iron overload disorders. FerriScan® often replaces the need to perform a liver biopsy and reduces reliance on less accurate serum ferritin measurements.

A large study has been completed to independently validate the FerriScan® technology, involving 233 subjects and 5 MRI scanners. The same calibration curve was found to apply in the new validation study and confirmed that the FerriScan® technology was very robust for all subject types, regardless of age, disease, transfusion history and degree of liver fibrosis.

There is now peer-reviewed published FerriScan® data for over 2600 subjects, including patients with thalassaemia major, myelodysplastic syndrome, thalassaemia intermedia, sickle cell disease and hereditary haemochromatosis. This volume of published data enhances FerriScan®'s credibility in the clinical community and strengthens Resonance Health's argument for reimbursement of its service.

The Company also concluded a multi-centre study of 60 patients to validate a 60% reduction in scan time. FerriScan® Rapide is now on the market, significantly improving the cost effectiveness of the service.



*FerriScan® analysis in progress.*

## YEAR IN REVIEW

### Articles and Presentations

Resonance Health gained increased exposure through the publication of positive articles in the media, participation in exhibitions and invitations to present at a number of events. These included:

- 37th Annual Sickle Cell Disease Association America Conference, Florida 30 Sept - 3 Oct 2009. Participation in the associated trade exhibition marked FerriScan®'s launch into the sickle cell market in the US.
- American Association for the Study of Liver Disease (AASLD) 59th Meeting, Boston 30 Oct - 3 Nov 2009. Meeting attended by +9,000 delegates and Professor Tim St Pierre was invited to speak on non-invasive tissue iron measurement.
- 9th Cooley's Anemia Symposium, New York 21-24 Oct 2009. Professor Tim St Pierre was invited to speak on interpreting liver iron concentration measurements and imaging.
- 2nd Pan-European Conference on Thalassemia and other Haemoglobinopathies, Berlin 13-14 March 2010. A trade exhibition at this event provided a platform to launch the cardiac iron assessment service to an audience of key opinion leaders in Europe and patient advocacy groups.
- Global Iron Summit, Prague 10-11 April 2010. Professor Tim St Pierre was invited to speak on "MRI technique in clinical practice: when, why and how?"
- Monitoring and Management of Iron Overload Conditions Regional Conference, London 3 June 2010. This event provided medical education on various aspects of iron overload to attending clinicians from South East England.

### Research and Development

Resonance Health has completed a clinical study into the development of an MRI-based technology for the quantification of liver fibrosis and liver fat. This study tested 49 subjects with hepatitis and non-alcoholic fatty liver disease with a range of fibrosis severities.

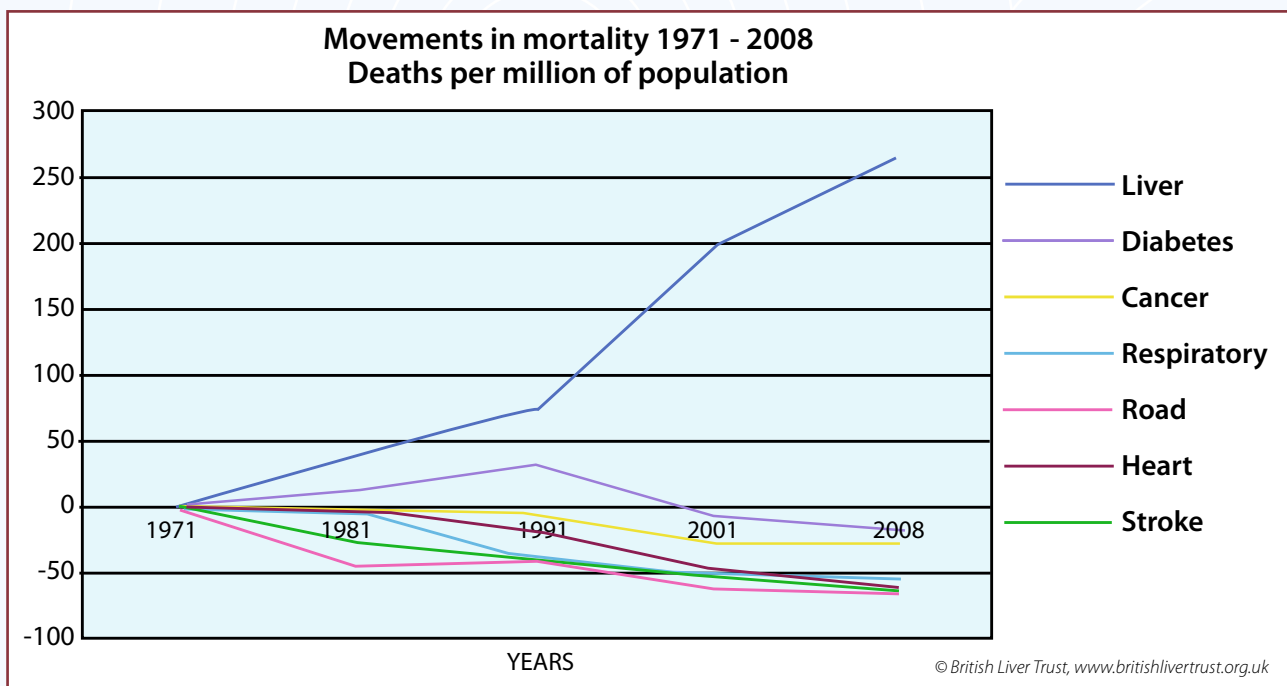
The study provided positive results and the Company is now planning the next phase of development. The clinical community is strongly in favour of a non-invasive imaging test that can reliably assess the presence of liver fibrosis and liver fat. Resonance Health is working to develop such a test, which would involve only a 15 minute MRI examination and would provide significant competitive advantage over other tests on the market.

Liver fibrosis and cirrhosis are major and growing health problems worldwide. Primary causes are viral hepatitis, non-alcoholic fatty liver disease (NAFLD), iron overload and excess alcohol consumption. Liver fibrosis is a significant predictor of hepatocellular carcinoma, the most common form of liver cancer. Liver fibrosis may also lead to cirrhosis and end-stage liver disease requiring liver transplant.

Pharmaceutical companies developing therapies for liver disease require accurate non-invasive diagnostic tools to quantify liver fibrosis and liver fat to assess the efficacy of new therapeutics under development. Resonance Health sees these needs as a significant opportunity for the company.

### Patented Technology

The patented technology upon which FerriScan® is based enables MRI scanners to be used to measure and map the concentration of magnetic material within tissues. The special features of the technology enable the measurements to be made over a very wide range of concentrations with a high degree of sensitivity. FerriScan® is used primarily in the diagnosis, management, and monitoring of patients with iron overload diseases because the iron deposits in the liver are in the form of weakly magnetic particles. The technology has also been used in the research setting to measure and map concentrations of synthetic magnetic materials introduced into tissues for the purpose of labeling or magnetically transduced therapies.



Relative Growth of Mortality from Liver Disease in the UK.



## DIRECTORS' REPORT

**The Board of Directors has pleasure in presenting the annual financial report of the consolidated entity consisting of Resonance Health Limited and the entities it controlled during the period for the financial year ended 30 June 2010. 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 Stewart Washer

*B.Sc(Hons), PhD*

**Position:** Chairman — Independent and Non-Executive (appointed 16 February 2009)

**Experience:** Dr Washer has over 20 years of senior executive and Board experience in commercial technology companies in the medical, food, agricultural and industrial sectors. He was a founder

of Biopacific Ventures, a \$120m New Zealand based fund. He is currently a Venture Partner with the Swiss Inventages Fund, a €1.5 billion life science fund, funded by Nestle.

Dr Washer was the founding CEO of Phylogica Ltd (ASX: PYC) a company with a peptide drug discovery technology. Before this, he was CEO of Celentis and managed the commercialisation of intellectual property from AgResearch in New Zealand with 650 Scientists and \$130m revenues.

Dr Washer is an Investment Director with IB Managers who have Australian and European life-science funds. He is a Director of Healthlinx (ASX:HTX) who have developed the first successful diagnostic for Ovarian Cancer and Genesis R&D (ASX:GEN) who have developed new ways to deliver siRNA drugs. Dr Washer sits on the Senate at Murdoch University, and the Board of AusBiotech Ltd, the industry body for biotechnology.

#### Other current directorships:

Ausbiotech Ltd  
Genesis Research and Development Ltd  
HealthLinx Ltd

#### Former directorships in last 3 years:

Biosignal Ltd  
Phylogica Ltd  
Xceed Capital Ltd

#### Special responsibilities:

Chairman of the Remuneration Committee  
Member of the Audit Committee



#### 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 and commercialisation of FerriScan<sup>®</sup>,

developing alliances with pharmaceutical industry partners and obtaining regulatory approval in various countries.

Ms Dunne has extensive 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

#### Special responsibilities:

Member of the Remuneration Committee (resigned 24 March 2010)

## DIRECTORS' REPORT



### Dr Martin Blake

MBBS, FRANZCR, MBA, GAICD

**Position:** Director — Independent and Non-Executive (appointed 4 October 2007)

**Experience:** Dr Blake is a Radiologist and Nuclear Physician and brings a wealth of technical and industry experience to Resonance Health. He has been a Partner of Perth Radiological Clinic

since 1997 and is currently the Chairman of the Company.

Dr Blake additionally held the position of Head of Department of Nuclear Medicine at Royal Perth Hospital for a number of years. He has published more than a dozen peer reviewed research papers and has been a contributing author to the Royal Australian and New Zealand College of Radiologists (RANZCR) Imaging Guidelines. Dr Blake has additionally held positions as Secretary and Treasurer of the WA Branch of the RANZCR.

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

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 recently 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



### 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 (appointed 5 October 2009)

Member of the Remuneration Committee (appointed 5 October 2009)

## Company Secretary



### Ms Eva O'Malley

B.Com, CA

**Position:** Company Secretary (appointed 31 August 2007)

**Experience:** Ms O'Malley has over ten years experience in managing the financial obligations of ASX listed corporations across a diverse range of industries.

## Interests in the Shares of the Company

The following relevant interests in shares and options 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.

	Balance 1.7.09	Received as Remuneration	Net Change Other	Balance 30.6.10
<i>Directors</i>				
Dr M Blake	6,224,677	-	-	6,224,677
Ms L Dunne	2,227,025	366,770	-	2,593,795
Mr S Panton <sup>1</sup>	-	-	65,960,972	65,960,972
Dr T St Pierre	9,078,750	-	-	9,078,750
Dr S Washer	451,422	-	-	451,422
<b>Total</b>	<b>17,981,874</b>	<b>366,770</b>	<b>65,960,972</b>	<b>84,309,616</b>
<i>Executives</i>				
Ms E O'Malley	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

<sup>1</sup> Mr Panton was appointed as director on 5 October 2009. Net change other represents his shareholding on appointment as disclosed in his initial director's interest notice.

## Incentive Shares and Options

The Class G incentive shares expired on 31 May 2010. There were no incentive shares or unissued ordinary shares of Resonance Health Limited under option at the date of this report.

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 a ISO:9001 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 Imaging CRO 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:

The Company delivered a financial result reflecting increased marketing activities for the FerriScan® product and investment into the development of pipeline products to provide further opportunities for growth.

- FerriScan® revenue from routine clinical use of the FerriScan® service continued to increase during the year while revenues from clinical trials decreased due to a number of clinical trials involving FerriScan® coming to a conclusion. Overall, FerriScan® business segment revenue decreased 15% to \$1,914,227 from \$2,259,191 in the previous financial year. Revenue associated with the routine clinical use of FerriScan® for the management of patients with iron overload grew 18% in the year. The Company sees this as the primary growth area for the FerriScan® business.
  - The FerriScan® business segment delivered a profitable result in the financial year.
  - Research and development expenditure during the year totalled \$564,084, an increase of 64% on the prior year. Included in this is an amount of \$452,724 which has been capitalised as an intangible asset. This comprised clinical trials for the development of the liver fibrosis and liver fat test and improvements to the FerriScan® technology to gain greater efficiencies in delivery of the FerriScan® service.
  - Overall expenditure increased 22% to \$2,222,081 from \$1,822,828 in the previous financial year primarily due to expansion into international markets and activities to secure reimbursement for FerriScan®.
  - Net loss for the year was \$102,335 compared to a net profit of \$617,051 in the previous financial year due to the above activities.
  - Resonance Health continues to have no debt and has cash at bank of \$2,133,884 at the end of the financial year, compared to \$2,644,938 in the previous financial year.
- ## Major milestones during the year:
- Activities during the year were focused on marketing of the FerriScan® service and research and development activities to provide pipeline products for future revenue growth.
- The FerriScan® business achieved a number of milestones during the year:
- FerriScan® 'Rapide' was launched providing a 60% reduction in the FerriScan® MRI scan time, improving the competitiveness of the FerriScan® test.
  - 136% increase in sales volume in the UK market as a result of strong key opinion leader support and funding from some of the National Health Service Trusts.
  - 77% increase in sales volume in Canada compared to the prior year as a result of gaining funding approval from the Canadian Ministry of Health.
  - Launch of a cardiac iron assessment test called Cardiac T2\* in the UK and Australia to complement the FerriScan® service and provide additional revenue opportunities in established markets.
  - Engagement of the first FerriScan® distributor in Turkey, providing cost effective access to a large number of

## DIRECTORS' REPORT

patients with iron overload in Turkey and a model for FerriScan® sales growth throughout the Middle East and Asia.

- Over 9,000 FerriScan®s have been performed to date.
- Senior US based VP, Business Development appointed in January 2010 to drive growth in the large US market and gain reimbursement for FerriScan® in the US.
- Submission for reimbursement in Germany lodged to drive growth in a market with large numbers of patients with iron overload conditions.
- 27 peer reviewed publications report the use of FerriScan® to diagnose, monitor or measure iron overload. 7 treatment guidelines support the use of FerriScan® including:
  - Guidelines for the Clinical Management of Thalassaemia (updated 2nd edition)
  - The Italian Society of Haematology Practice Guidelines (Thal)
  - Standards for the clinical care of children and adults with Thalassaemia in the UK
  - Standards for the clinical care of adults with sickle cell disease in the UK
- Increased presence at international conferences in the Company's target markets including:
  - 37th Annual Sickle Cell Disease Conference, USA
  - American Association for the Study of Liver Disease (AASLD), USA
  - 2nd Pan-European Conference on Thalassaemia and other Haemoglobinopathies, Germany
  - Monitoring and Management of Iron Conditions Conference, UK
- The Australian Medical Services Advisory Committee (MSAC) met to review Resonance Health's submission for funding for FerriScan®. The Company is awaiting the outcome of their assessment.

### Research and Development Activities:

- The Company completed a 59 subject clinical study to develop an MRI test for the assessment of liver fat and liver fibrosis, two areas of significant unmet clinical need. Non-alcoholic fatty liver disease (NAFLD) is considered the most common liver disease in the western world affecting 20-30% of the population. Liver fibrosis, primarily caused by fatty liver and viral hepatitis, is a significant predictor of liver cancer. Results from this study are positive and discussions have commenced to scope the next phase of development with interested parties. The gold standard for assessing liver fibrosis and liver fat is a liver biopsy. An accurate non-invasive imaging procedure would provide an attractive alternative to patients and pharmaceutical companies developing therapies to address these conditions.

### Operating Results

The net loss of the consolidated entity for the financial year after tax was \$102,335 (2009: profit of \$617,051).

### 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 \$14,443 (2009: \$14,469) 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.

## REMUNERATION REPORT

This report outlines the remuneration arrangements in place for the key management personnel of Resonance Health Limited for the financial year ended 30 June 2010. 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 Stewart Washer – Chairman

Ms Liza Dunne – Managing Director

Dr Martin Blake

Mr Simon Panton (appointed 5 October 2009)

Dr Timothy St Pierre

#### (ii) Executives

Ms Eva O'Malley – Company Secretary

### 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;
- 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.

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. The performance of executives is measured against criteria agreed annually with each executive.

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.

During the year, the Directors used their discretion to approve a bonus to Ms Dunne for her services to the company.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. 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.

#### **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 \$220,000 pa inclusive of superannuation and the provision of one months notice for termination or resignation without cause.

Ms O'Malley was appointed to the role of Company Secretary of Resonance Health Ltd on 31 August 2007. Her employment agreement provides for a salary of \$75,210 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 \$112,767 (2009: \$114,872) and a fixed fee for his services as a director of \$40,000 (2009: \$40,000) were incurred during the financial year. These amounts are included in Dr Tim St Pierre's remuneration disclosed in the following table.

#### **Details of Remuneration for Year Ended 30 June 2010 (This information has been audited)**

The remuneration for each director and for the executive officers of the consolidated entity receiving the highest remuneration during the year was as follows:

## DIRECTORS' REPORT

### Remuneration of directors and executives

		Short-term employee benefits		Post employment benefits		Equity	Total	
		Salary & Fees	Bonus	Superannuation Contributions	Termination Benefits	Shares		Performance Related
		\$	\$	\$	\$	\$	\$	%
Non-Executive Directors' remuneration								
Dr S Washer	2010	64,220	-	5,780	-	-	70,000	-
	2009	24,082	-	2,167	-	-	26,249	-
Mr I Anderson <sup>1</sup>	2010	-	-	-	-	-	-	-
	2009	25,000	-	-	-	-	25,000	-
Dr M Blake	2010	36,697	-	3,303	-	-	40,000	-
	2009	40,520	-	3,647	-	-	44,167	-
Dr A Walker <sup>1</sup>	2010	-	-	-	-	-	-	-
	2009	16,667	-	-	-	-	16,667	-
Mr S Panton <sup>2</sup>	2010	27,029	-	2,432	-	-	29,461	-
	2009	-	-	-	-	-	-	-
<b>Total</b>	<b>2010</b>	<b>127,946</b>	<b>-</b>	<b>11,515</b>	<b>-</b>	<b>-</b>	<b>139,461</b>	<b>N/A</b>
<b>Total</b>	<b>2009</b>	<b>106,269</b>	<b>-</b>	<b>5,814</b>	<b>-</b>	<b>-</b>	<b>112,083</b>	<b>N/A</b>

<sup>1</sup> Mr Anderson and Dr Walker resigned as Directors on 26 November 2008. Dr Walker had 300,000 options that were granted on 13 May 2004. These options had a value per option at grant date of \$0.016 and an exercise price of \$0.30. These options expired upon Dr Walker's resignation.

<sup>2</sup> Mr Panton was appointed as a Director on 5 October 2009.

		Short-term employee benefits		Post employment benefits		Equity	Total	
		Salary & Fees	Bonus	Superannuation Contributions	Termination Benefits	Shares		Performance Related
		\$	\$	\$	\$	\$	\$	%
Executive Directors' remuneration								
Ms L Dunne <sup>3</sup>	2010	201,834	-	18,165	-	10,000	229,999	4.3
	2009	193,005	10,000	18,270	-	10,000	231,275	8.6
Dr T St Pierre <sup>4</sup>	2010	152,767	-	-	-	-	152,767	-
	2009	154,872	-	-	-	-	154,872	-
Other Executives' remuneration								
Ms E O'Malley	2010	76,458	-	6,881	-	-	83,339	-
	2009	59,400	-	5,346	-	-	64,746	-
<b>Total</b>	<b>2010</b>	<b>431,059</b>	<b>-</b>	<b>25,046</b>	<b>-</b>	<b>10,000</b>	<b>466,105</b>	<b>N/A</b>
<b>Total</b>	<b>2009</b>	<b>407,277</b>	<b>10,000</b>	<b>23,616</b>	<b>-</b>	<b>10,000</b>	<b>450,893</b>	<b>N/A</b>

<sup>3</sup> Ms Dunne was given fully vested shares to the value of \$10,000 in recognition of her performance to the Company.

<sup>4</sup> Dr St Pierre's remuneration represents directors' fees earned during the financial year and consulting fees for duties as Chief Scientific Officer.

## 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 2010, 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	8	8	4	4	3	3
Ms L Dunne	8	8	-	-	2	2
Mr S Panton	7	7	2	2	3	3
Dr T St Pierre	8	8	-	-	-	-
Dr S Washer	8	8	4	4	3	3

## 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 19 and forms part of this directors' report for the year ended 30 June 2010.

### 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 Stewart Washer

Chairman

Perth, Western Australia

Dated this 29 September 2010

# 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. Performance evaluations were not completed for senior executives prior to the end of the financial year and the Company has implemented procedures to rectify this for future periods.

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.

## 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. As a result of director resignations 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 Stewart Washer – Independent – Chairman
- Dr Martin Blake – Independent
- Ms Liza Dunne – Executive – Not independent – Managing Director
- Mr Simon Panton – Not independent – substantial shareholder (appointed 5 October 2009)
- 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 Stewart Washer (Chairman) - Independent
- Dr Martin Blake - Independent
- Ms Liza Dunne – Not Independent (resigned 24 March 2010)
- Mr Simon Panton – Not Independent (appointed 5 October 2009)

Ms Dunne resigned from the Nomination and Remuneration Committee during the financial year as best practice recommends the Nomination and Remuneration Committee be comprised entirely of non-executive directors. The number of meetings attended by each member of the Nomination and Remuneration Committee are detailed in the Directors' Report.

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 have access to 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.

# CORPORATE GOVERNANCE STATEMENT

## 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.

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

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

## 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 independent 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 (appointed 5 October 2009)
- Dr Stewart Washer - 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 previous financial year in line with this policy.

The Board complied with the ASX Corporate Governance Council Principle 4 Recommendations at all times during the year.

**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. All market disclosures are approved by the Board. 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 ISO9001:2008 and ISO13485:2003 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 Board complied with the ASX Corporate Governance Council Principle 7 Recommendations at all times during the year.

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

## 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 complied with this recommendation.

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.

Each of the non-executive Directors receives a fixed fee for their services as Directors. Non-executive Directors' fees not exceeding an aggregate of \$250,000 per annum have been approved by the Company in a general meeting. There is no direct link between remuneration paid to any of the non-executive Directors and corporate performance. There are no schemes for retirement benefits other than superannuation for non-executive Directors.

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. This comprises a fixed fee for his services as a director and a daily fee for his services as Chief Scientific Officer.

All executive employees receive a base salary, superannuation and fringe benefits. 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.

# HLB Mann Judd

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 2010, 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.

Perth, Western Australia  
29 September 2010



N G NEILL  
Partner, HLB Mann Judd

HLB Mann Judd (WA Partnership) ABN 22 193 232 714  
Level 4, 130 Stirling Street Perth WA 6000. PO Box 8124 Perth BC 6849 Telephone +61 (08) 9227 7500. Fax +61 (08) 9227 7533.  
Email: [hlb@hlbwa.com.au](mailto:hlb@hlbwa.com.au). Website: <http://www.hlb.com.au>  
Liability limited by a scheme approved under Professional Standards Legislation

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 2010

	Notes	Consolidated	
		2010 \$	2009 \$
Revenue	2(a)	<b>2,006,272</b>	<b>2,384,451</b>
Other income	2(b)	-	6,510
Employee benefits expense		(1,265,675)	(979,928)
Consulting and professional services		(72,857)	(132,855)
Research and development		(111,360)	(152,894)
Depreciation	2(c)	(24,582)	(26,033)
Marketing and travel		(334,073)	(159,764)
Statutory and compliance		(130,572)	(129,340)
Foreign exchange loss		(16,380)	-
Other expenses		(282,962)	(242,014)
<b>(Loss) / profit before income tax benefit</b>		<b>(232,189)</b>	<b>568,133</b>
Income tax benefit	3	129,854	48,918
Net (loss) / profit for the year attributable to owners of the parent		<b>(102,335)</b>	<b>617,051</b>
<b>Other comprehensive income</b>			
Exchange differences on translation of foreign operations		(1,419)	79
<b>Other comprehensive (loss) / income for the year, net of tax</b>		<b>(1,419)</b>	<b>79</b>
<b>Total comprehensive (loss) / income for the year attributable to owners of the parent</b>		<b>(103,754)</b>	<b>617,130</b>
Basic earnings / (loss) per share (cents per share)	5	(0.0)	0.2

The accompanying notes form part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2010

		Consolidated	
	Notes	2010 \$	2009 \$
<b>Current Assets</b>			
Cash and cash equivalents	7	2,133,884	2,644,938
Trade and other receivables	8	789,947	712,317
Available for sale investments	9	3,004	2,651
Other	10	97,011	77,901
<b>Total Current Assets</b>		<b>3,023,846</b>	<b>3,437,807</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	11	62,387	61,103
Intangible assets	12	642,766	190,042
<b>Total Non-Current Assets</b>		<b>705,153</b>	<b>251,145</b>
<b>Total Assets</b>		<b>3,728,999</b>	<b>3,688,952</b>
<b>Current Liabilities</b>			
Trade and other payables	13	494,269	361,181
Other	14	26,225	25,512
<b>Total Current Liabilities</b>		<b>520,494</b>	<b>386,693</b>
<b>Total Liabilities</b>		<b>520,494</b>	<b>386,693</b>
<b>Net Assets</b>		<b>3,208,505</b>	<b>3,302,259</b>
<b>Equity</b>			
Issued capital	15(a)	67,524,039	67,514,039
Reserves		81,989	83,408
Accumulated losses	16	(64,397,523)	(64,295,188)
<b>Total Equity</b>		<b>3,208,505</b>	<b>3,302,259</b>

The accompanying notes form part of these financial statements.

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated	
		2010 \$	2009 \$
Inflows/(Outflows)			
<b>Cash flows from operating activities</b>			
Receipts from customers		1,887,772	2,027,127
Payments to suppliers and employees		(1,951,285)	(1,623,103)
Grants received		76,432	-
Interest received		66,888	130,710
Net cash provided by / (used in) operating activities	7(i)	79,807	534,734
<b>Cash flows from investing activities</b>			
Payments for plant and equipment		(46,478)	(32,290)
Payments for research and development		(544,383)	(239,376)
Net cash provided by / (used in) investing activities		(590,861)	(271,666)
Net increase / (decrease) in cash and cash equivalents		(511,054)	263,068
Cash and cash equivalents at the beginning of period		2,644,938	2,381,870
Cash and cash equivalents at the end of the period	7	2,133,884	2,644,938

The accompanying notes form part of these financial statements.



# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2010

Consolidated	Issued Capital \$	Accumulated Losses \$	Foreign Currency Translation Reserve \$	Option Reserve \$	Total Equity \$
Balance at 1 July 2008	67,504,039	(64,912,239)	17,045	66,284	2,675,129
Profit for the year	-	617,051	-	-	617,051
Exchange differences arising on translation of foreign operations	-	-	79	-	79
Total comprehensive income for the year	-	617,051	79	-	617,130
Shares issued during the year	10,000	-	-	-	10,000
<b>Balance at 30 June 2009</b>	<b>67,514,039</b>	<b>(64,295,188)</b>	<b>17,124</b>	<b>66,284</b>	<b>3,302,259</b>
(Loss) for the year	-	(102,335)	-	-	(102,335)
Exchange differences arising on translation of foreign operations	-	-	(1,419)	-	(1,419)
Total comprehensive (loss) for the year	-	(102,335)	(1,419)	-	(103,754)
Shares issued during the year	10,000	-	-	-	10,000
<b>Balance at 30 June 2010</b>	<b>67,524,039</b>	<b>(64,397,523)</b>	<b>15,705</b>	<b>66,284</b>	<b>3,208,505</b>

The accompanying notes form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

## 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 non-invasive imaging tests for use by health care professions.

The Group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

### (b) Adoption of new and revised standards

In the year ended 30 June 2010, 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. During the year, certain accounting policies have changed as a result of new or revised accounting standards which became operative for the annual reporting period commencing on 1 July 2009.

The affected policies and standards are:

- Segment reporting – new AASB 8 *Operating Segments*
- Business combinations – revised AASB 3 *Business Combinations*
- Financial instruments – revised AASB 7 *Financial Instruments: Disclosures*

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 2010. 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 is necessary to Group accounting policies.

### (c) Statement of compliance

The financial report was authorised for issue on 29 September 2010.

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)).

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.

**NOTE 1: Statement of significant accounting policies (cont.)****(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 12.

***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.

***Change in accounting policy***

The Group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 9 replaces AASB 114 *Segment Reporting*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in a change in the number of reportable segments presented by the Group as operating segments are reported in a manner that is consistent with internal reporting provided to the chief operating decision maker.

**(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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

## NOTE 1: Statement of significant accounting policies (cont.)

### (h) Revenue recognition (cont.)

#### *(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.

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 substantively 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 which the temporary difference can be utilised.

**NOTE 1: Statement of significant accounting policies (cont.)****(k) Income tax (cont.)**

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.

**(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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

## NOTE 1: Statement of significant accounting policies (cont.)

### (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.

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.

**NOTE 1: Statement of significant accounting policies (cont.)****(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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

## NOTE 1: Statement of significant accounting policies (cont.)

### (s) Property, 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

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.

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 income statement.

#### (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.



**NOTE 1: Statement of significant accounting policies (cont.)****(t) Intangible assets (cont.)**

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.

**(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.

**(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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

## NOTE 1: Statement of significant accounting policies (cont.)

### (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.

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.

#### *Change in accounting policy*

A revised AASB 3 *Business Combinations* became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes.

All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are expensed as incurred. Previously, there were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets.

If the group recognised previously acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the group's net profit after tax.

**Note 2: Revenues and expenses****(a) Revenue**

Liver Scan income  
Grants received  
Interest received

Consolidated	
2010	2009
\$	\$
1,837,795	2,259,191
76,432	-
92,045	125,260
<u>2,006,272</u>	<u>2,384,451</u>

**(b) Other income**

Foreign exchange gain

- 6,510

**(c) Expenses**

Depreciation of non-current assets  
Impairment of trade receivables  
Impairment of property, plant and equipment  
Impairment of available-for-sale investments  
Rental expense on operating leases

24,582	26,033
33,556	-
328	351
(353)	(884)
<u>59,534</u>	<u>56,699</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

	Consolidated	
	2010	2009
	\$	\$
<b>Note 3: Income tax benefit</b>		
<b>Income tax recognised in profit or loss</b>		
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	129,854	48,918
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	(232,189)	568,133
Income tax calculated at 30%	(69,656)	170,440
Non deductible expenses	1,343	1,238
Unused tax losses not recognised as deferred tax assets	381,872	825,475
Benefit of tax losses recognised for the first time	-	(974,129)
Non assessable income	(11,178)	-
Benefit of temporary differences recognised for the first time	1,295	-
Other deferred tax assets and tax liabilities not recognised	(489,500)	261,174
R & D tax concessions	185,824	74,078
Over/(under) provision for income tax in prior year	-	(358,276)
Tax refund receivable (R&D tax offset)	129,854	48,918
Income tax benefit reported in the income statement	129,854	48,918
<b>Unrecognised deferred tax balances</b>		
The following deferred tax assets and liabilities have not been brought to account:		
Deferred tax assets:		
Losses available for offset against future taxable income - revenue	2,240,430	1,858,558
Temporary differences – impairment of investments in subsidiaries	1,624	1,518
Other temporary differences	339,694	733,381
	2,581,748	2,593,457
Deferred tax liabilities:		
Capitalised research and development costs	190,251	55,717
Temporary differences	9,437	1,890
	199,688	57,607
<b>Income tax expense not recognised directly in equity</b>		
Share issue costs	152,765	152,765

## 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 service provided. The financial results of the Group's operating segments are reviewed by the Board of Directors on a quarterly basis.

**Note 4: Segment reporting (cont.)****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 2010.

	FerriScan®	Research and Development	Corporate	Total
	\$	\$	\$	\$
Segment revenue				
Sales to external customers	1,837,795	-	-	1,837,795
Grant revenue	76,432	-	-	76,432
Interest revenue	-	-	92,045	92,045
Total segment revenue	1,914,227	-	92,045	2,006,272
Segment profit/(loss)	266,800	18,494	(387,629)	(102,335)
Other segment information included in profit/(loss)				
Depreciation	24,582	-	-	24,582
Income tax benefit	-	129,854	-	129,854
Segment assets	896,697	642,766	2,189,536	3,728,999
Segment liabilities	277,617	172,827	70,050	520,494
Other segment cash flow information:				
Net cash inflow / (outflow) from operating activities	495,849	-	(416,042)	79,807
Net cash (outflow) from investing activities	(46,478)	(544,383)	-	(590,861)

The following table presents revenue and profit/loss information and certain asset and liability information regarding business segments for the year ended 30 June 2009.

Segment revenue				
Sales to external customers	2,259,191	-	-	2,259,191
Interest revenue	-	-	125,260	125,260
Total segment revenue	2,259,191	-	125,260	2,384,451
Segment profit/(loss)	1,348,588	(103,976)	(627,561)	617,051
Other segment information included in profit/(loss)				
Depreciation	26,033	-	-	26,033
Income tax benefit	-	48,918	-	48,918
Segment assets	852,482	190,042	2,646,428	3,688,952
Segment liabilities	164,443	153,126	69,124	386,693
Other segment cash flow information:				
Net cash inflow / (outflow) from operating activities	1,045,894	-	(511,160)	534,734
Net cash (outflow) from investing activities	(32,290)	(239,376)	-	(271,666)

The consolidated entity derived 71% (2009: 78%) of its external customer sales revenue from one major customer.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

## Note 5: Earnings per share

	Consolidated	
	2010 \$	2009 \$
Basic profit / (loss) per share (cents)	(0.0)	0.2
(a) Earnings / (loss) used in the calculation of basic and dilutive earnings per share	(102,335)	617,051
	2010 Number	2009 Number
(b) Weighted average number of ordinary shares for the purposes of basic loss per share	360,246,883	359,575,239

There are no potential ordinary shares on issue.

## Note 6: Dividends

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

## Note 7: Cash and cash equivalents

	Consolidated	
	2010 \$	2009 \$
Deposits at call	633,884	494,938
Term deposits	1,500,000	2,150,000
	2,133,884	2,644,938

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.

**Note 7: Cash and cash equivalents (cont.)****(i) Reconciliation of profit / (loss) for the year to net cash flows from operating activities**

	Consolidated	
	2010 \$	2009 \$
Profit/(loss) for the year	(102,335)	617,051
Non-cash flows in profit / (loss):		
Depreciation	24,582	26,033
Share issue	10,000	10,000
Impairment of trade receivables	33,556	-
Impairment of property, plant and equipment	328	351
Impairment of investments	(353)	(884)
Reclassification to investing activities:		
Research and development	544,383	239,376
Changes in net assets and liabilities:		
(Increase)/decrease in receivables	(106,960)	(301,403)
(Increase)/decrease in other assets	(19,110)	18,820
(Increase)/decrease in capitalised development costs	(452,724)	(190,042)
Increase/(decrease) in trade creditors and borrowings	149,146	89,841
Increase/(decrease) in other liabilities	713	25,512
Increase/(decrease) in translation reserve	(1,419)	79
Net cash provided by operating activities	79,807	534,734

**(ii) Financing facilities**

Unsecured credit card:		
Amount used	(2,178)	(8,444)
Amount unused	-	-
	(2,178)	(8,444)

Secured credit card:		
Amount used	1,864	4,719
Amount unused	18,136	15,281
	20,000	20,000

**(iii) Cash balances not available for use**

Security deposits:		
Credit card	20,000	20,000
Lease premises	38,120	38,120
	58,120	58,120

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

	Consolidated	
	2010 \$	2009 \$
<b>Note 8: Trade and other receivables</b>		
Current		
Trade receivables	526,315	593,379
Allowance for impairment	(33,556)	-
	<hr/>	<hr/>
	492,759	593,379
Other receivables	297,188	118,938
	<hr/>	<hr/>
	789,947	712,317
	<hr/> <hr/>	<hr/> <hr/>

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	6,602	194,831
60-90 days	11,768	35,264
90-120 days	539	1,748
120+ days	8,096	14,565
	<hr/>	<hr/>
	27,005	246,408
	<hr/> <hr/>	<hr/> <hr/>
Movement in the allowance for impairment		
Balance at the beginning of the year	-	-
Impairment losses recognised on receivables	33,556	-
	<hr/>	<hr/>
Balance at the end of the year	33,556	-
	<hr/> <hr/>	<hr/> <hr/>

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 72% (2009: 81%) 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 credit provision is required in excess of the allowance for impairment.

## Note 9: Available for sale investments

Current – Carried at fair value		
Shares in listed corporations	14,337	14,337
Less: Impairment	(11,333)	(11,686)
	<hr/>	<hr/>
	3,004	2,651
	<hr/> <hr/>	<hr/> <hr/>

## Note 10: Other assets

Current		
Prepayments	38,891	19,781
Security deposits	58,120	58,120
	<hr/>	<hr/>
	97,011	77,901
	<hr/> <hr/>	<hr/> <hr/>



**Note 11: Property, plant and equipment**

Fixtures and equipment

At cost

Less: Accumulated depreciation

Total property, plant and equipment

Consolidated	
2010	2009
\$	\$
227,575	242,355
(165,188)	(181,252)
62,387	61,103

**Reconciliation**

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

Fixtures and equipment

Balance at the beginning of the year

Additions

Disposals

Depreciation expense

Carrying amount at the end of the year

61,103	40,108
26,194	47,379
(328)	(351)
(24,582)	(26,033)
62,387	61,103

**NOTE 12: Intangible assets**

Development expenditure

642,766	190,042
---------	---------

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 faster version of FerriScan®, a cardiac iron assessment MRI tool and the next stage of development of an MRI-based liver fibrosis 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

	Consolidated	
	2010 \$	2009 \$
<b>Note 13: Trade and other payables</b>		
Current		
Trade payables (i)	126,966	70,167
Related party payables (ii)	132,183	153,476
Sundry creditors and accruals	235,120	137,538
	<u>494,269</u>	<u>361,181</u>

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

(ii) For terms and conditions relating to related party payables refer to Note 19.

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	26,225	25,512

## Note 15: Issued Capital

	2010		2009	
	Number	\$	Number	\$
(a) Issued and paid up capital	360,431,775	67,524,039	363,065,005	67,514,039

## Movements during the period

Ordinary shares	Number of shares	Issue Price	\$
Balance at the beginning of the financial year	360,065,005		67,514,023
Shares issued to Managing Director	366,770	\$0.02726	10,000
Balance at the end of the financial year	<u>360,431,775</u>		<u>67,524,023</u>
<b>Incentive shares</b>			
Balance at the beginning of the financial year	3,000,000	\$0.000001	16
Expiration of Class G incentive shares	(3,000,000)		-
Balance at the end of the financial year	<u>-</u>		<u>16</u>
<b>Total</b>	<b><u>360,431,775</u></b>		<b><u>67,524,039</u></b>

(b) Shares issued to Managing Director

The issue price of shares issued to the Managing Director was equal to the volume weighted average price of the Company's shares as traded on ASX over the 20 trading days prior to the date of issue of the shares.

(c) Terms and conditions of incentive shares

### 3,000,000 unquoted class G incentive shares - Expired 31 May 2010

Each Incentive Share entitles the Holder to convert the Incentive Share into an ordinary Share in accordance with the following Milestones.

Class G Incentive Shares: Convert to 3,000,000 Ordinary Shares upon the Company achieving a minimum volume weighted average share price for a period of 60 trading days of not less than \$0.60 per share; or in the event that the Company's shares are listed on a recognised international stock exchange other than the ASX and where or when Resonance shareholders have received a minimum value of \$0.60 per share for their Resonance shareholding; or on receipt of an offer by a third party to acquire not less than 20% of the Company's issued shares at a placement or offer price of not less than \$0.60 per share. These Class G Incentive Shares expired on 31 May 2010. There are no incentive shares or unissued ordinary shares of Resonance Health Ltd under option remaining at 30 June 2010.

**Note 16: Accumulated losses**

Balance 1 July  
 Net profit/(loss) for year  
 Balance 30 June

Consolidated	
2010 \$	2009 \$
(64,295,188)	(64,912,239)
(102,335)	617,051
(64,397,523)	(64,295,188)

**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

**Financial assets**

Cash and cash equivalents  
 Loans and receivables  
 Available for sale financial assets

2,192,004	2,703,058
789,947	712,317
3,004	2,651
418,080	319,874

**Financial liabilities**

Payables

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.

## (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	
	2010 \$	2009 \$	2010 \$	2009 \$
United States Dollars	30,259	-	545,346	552,051
Great British Pounds	995	-	69,111	17,668
European Euros	23,410	-	11,799	15,161

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

## Note 17: Financial instruments (cont.)

### 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.

	2010	2009
Profit or loss impact:	\$	\$
- USD	(46,826)	(50,186)
- GBP	(6,192)	(1,606)
- EUR	1,056	(1,378)

### (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
2010	\$2,133,884	\$58,120	\$2,192,004
Weighted average effective interest rate	4.22%	3.65%	
2009	\$2,494,938	\$208,120	\$2,703,058
Weighted average effective interest rate	2.99%	3.78%	

### Interest rate sensitivity analysis

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

The following table illustrates the Group's sensitivity to a 10% increase and decrease in the interest rate. The sensitivity analysis includes only cash and cash equivalent financial assets as at 30 June and assumes a 10% change in interest rates. Where the interest rate decreases a reduction in profit would be experienced.

	2010	2009
Profit or loss impact:	\$	\$
	917	1,353

### (g) Credit risk management

Credit risk is the risk that a counterparty 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 2010, the Group had one customer that accounted for 72% of all trade receivables (2009: 81%).

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.

### Equity price risk sensitivity analysis

The following table illustrates the Group's sensitivity to a 10% increase and decrease in the equity price.

	2010	2009
Profit or loss impact:	\$	\$
	300	265

**Note 17: Financial instruments (cont.)**

## (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 \$
2010				
Non-interest bearing	358,580	45,000	14,500	418,080
2009				
Non-interest bearing	278,874	26,000	15,000	319,874

## (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 organised markets in standardised form.

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

**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

Later than 1 year but no later than 5 years

Total commitments not recognised in the financial statements

	Consolidated	
	2010 \$	2009 \$
Within one year	22,108	63,374
Later than 1 year but no later than 5 years	-	21,125
Total commitments not recognised in the financial statements	22,108	84,499

**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.

Name of entity	Country of incorporation	Class of shares	Equity holding	Investment (\$)	
				2010	2009
Resonance Health Analysis Services Pty Ltd (formerly Inner Vision Biometrics Pty Ltd)	Australia	Ordinary	100%	9,415,300	9,415,300
WA Private Health Care Services Pty Ltd	Australia	Ordinary	100%	224,366	224,366
IVB Holdings Pty Ltd	Australia	Ordinary	100%	1,300,000	1,300,000
ResonanceUSA Inc	USA	Ordinary	100%	-	-
Less: Impairment				(10,072,984)	(10,261,176)
				866,682	678,490

Resonance Health Limited is the ultimate Australian entity and 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 related parties in the wholly owned group**

During the year the company provided interest free loans to Resonance Health Analysis Services Pty Ltd totalling \$621,555 with no fixed repayment date. During the previous year the company received interest free loans from Resonance Health Analysis Services Pty Ltd totalling \$468,948.

During the year the company provided interest free loans to Resonance USA Inc totalling \$109,820 with no fixed repayment date (2009: \$nil).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

## Note 19: Related party disclosure (cont.)

A cumulative impairment of these loans amounting to \$4,401,373 was recorded up to balance date (2009: \$3,308,220).

During the year expenses were paid by Resonance Health Analysis Services Pty Ltd totalling \$140,800 (2009: \$64,555) on behalf of the company.

During the year expenses were paid by ResonanceUSA Inc totalling \$111,846 (2009: \$nil) on behalf of the company.

During the year expenses were paid by the company on behalf of Resonance Health Analysis Services Pty Ltd totalling \$41,930 (2009: \$10,377).

## Note 20: Parent entity disclosures

### Financial Position

#### Assets

	2010 \$	2009 \$
Current assets	1,741,324	2,643,776
Non-current assets	856,682	678,490
Total assets	2,598,006	3,322,266

#### Liabilities

Current liabilities	70,050	69,124
Total liabilities	70,050	69,124

#### Equity

Issued capital	67,524,039	67,514,039
Option reserve	66,284	66,284
Accumulated losses	(65,062,367)	(64,327,181)
Total equity	2,527,956	3,253,142

### Financial Performance

	Year ended 30 June 2010 \$	Year ended 30 June 2009 \$
Profit / (loss) for the year	(735,186)	568,013
Total comprehensive income / (loss)	(735,186)	568,013

## 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.

## 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 or reviewing the financial report
- taxation compliance services

	2010 \$	2009 \$
	37,450	30,000
	28,698	39,354
	66,148	69,354

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

## (i) Directors

Dr Stewart Washer	Chairman (non-executive)	
Ms Liza Dunne	Managing Director (executive)	
Dr Martin Blake	Director (non-executive)	
Mr Simon Panton	Director (non-executive)	Appointed 5 October 2009
Dr Tim St Pierre	Director (executive)	

## (ii) Executives

Ms Eva O'Malley	Chief Financial Officer and Company Secretary
-----------------	---

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 1.7.09	Received as Remuneration	Net Change Other*	Received during the year on exercise of options	Balance 30.6.10
<b>Directors</b>					
Dr S Washer	451,422	-	-	-	451,422
Dr M Blake	6,224,677	-	-	-	6,224,677
Ms L Dunne	2,227,025	366,770	-	-	2,593,795
Dr T St Pierre	9,078,750	-	-	-	9,078,750
Mr S Panton	-	-	65,960,972	-	65,960,972
<b>Total</b>	<b>17,981,874</b>	<b>366,770</b>	<b>65,960,972</b>	<b>-</b>	<b>84,309,616</b>
<b>Executives</b>					
Ms E O'Malley	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

\* Includes shares held as disclosed in the initial directors interest notice on being appointed director on 5 October 2009.

**(c) Transactions and balances with directors and other key management personnel****Non-Executive Director – Dr Martin Blake**

Dr Blake is a Director of Perth Radiological Clinic.

During the previous financial year the Group provided FerriScan® services totalling \$1,617 to Perth Radiological Clinic. Amounts receivable at 30 June 2009 totalled \$269.

During the previous financial year the Group purchased MRI patient scans for a clinical trial study totalling \$1,980 from Perth Radiological Clinic. Amounts payable at 30 June 2009 totalled \$660.

**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 \$39,859 (2009: \$31,489). The amount payable at 30 June 2010 totalled \$71,348 (2009: \$31,489).

During the year the Group provided FerriScan® services totalling \$10,311 (2009: nil) to the University of Western Australia. Amounts receivable at 30 June 2010 totalled \$1,817 (2009: \$nil).

**Non-Executive Director – Dr Stewart Washer**

Dr Washer is a Director of Ausbiotech Limited.

During the year the Group purchased an Ausbiotech subscription totalling \$1,809. Amounts payable at 30 June 2010 were 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 2010 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 2010.

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



Dr Stewart Washer  
Chairman

Place: Perth, Western Australia

Dated: 29 September 2010



## 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 statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 20 to 46.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1(c), the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements that the consolidated financial statements comply 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. These Auditing 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 company'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 company'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 opinions.

#### *Independence*

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

## *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 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1(c).

## *Report on the Remuneration Report*

We have audited the Remuneration Report included in pages 10 to 12 of the directors' report for the year ended 30 June 2010. 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 2010 complies with section 300A of the Corporations Act 2001.

Perth, Western Australia  
29 September 2010

*HLB Mann Judd*

HLB MANN JUDD  
Chartered Accountants

*Norman Judd*

N G NEILL  
Partner

# Additional Information For Listed Public Companies

The following additional information is disclosed in accordance with Section 4.10 of the Australian Securities Exchange Ltd Listing rules in respect of listed public companies only.

The following information is supplied as at 30 September 2010.

## 1. Analysis of Shareholdings

### Distribution of Shareholders (ASX Code: RHT)

Number of Ordinary Shares Held	Ordinary Shares	
	Number of holders	Number of shares
1 – 1,000	534	121,559
1,001 – 5,000	191	596,599
5,001 – 10,000	249	1,863,003
10,001 – 100,000	765	29,310,220
100,001 – and over	322	328,540,394
	<hr/> 2,061	<hr/> 360,431,775

The number of shareholdings holding less than a marketable parcel of shares are 1,393.

## 2. Voting Rights

Ordinary shares

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

## 3. Twenty Largest Shareholders of quoted Ordinary Shares

Name	Number of Ordinary Shares	Percentage of Total
1. Southam Investments 2003 Pty Ltd <Warwickshire Investment A/C>	65,414,622	18.15
2. BNM Holdings Pty Ltd <BJD Beresford Family A/C>	10,500,000	2.91
3. The University Of Western Australia	9,078,750	2.52
4. Timothy Guy St Pierre <The St Pierre A/C>	9,078,750	2.52
5. Wanida Chau-Anusorn <The Medta A/C>	8,070,000	2.24
6. Mr Robert Francis Panton	7,840,824	2.17
7. Paul Roderick Clark <The Pankima A/C>	6,817,388	1.89
8. Dr Franklyn Jay Ives	6,272,934	1.74
9. Sean Watkins-Saxon <Saxon Family Superfund A/C>	6,250,000	1.73
10. Mr Helmut Rocker	6,000,000	1.66
11. Dr Simon Bell	5,087,483	1.41
12. Mr William Grove	4,838,401	1.34
13. Five Tigers Investment Corporation Ltd	4,494,844	1.25
14. Untold Pty Ltd <Faithfull Superfund A/C>	4,166,667	1.16
15. Mr Kevin Edward Deeves & Mrs Pauline Mary Deeves <Deeves Family Super Fund A/C>	4,000,000	1.11
16. Dr Martin Peter Blake	3,798,590	1.05
17. Bellamena Pty Ltd <O'Dea Family Superfund A/C>	3,333,333	0.93
18. Mr Ian Bruce Anderson	2,522,138	0.70
19. Mr Harry Basle	2,418,735	0.67
20. Anahein Pty Ltd	2,408,478	0.67
	<hr/> 172,391,937	<hr/> 47.82

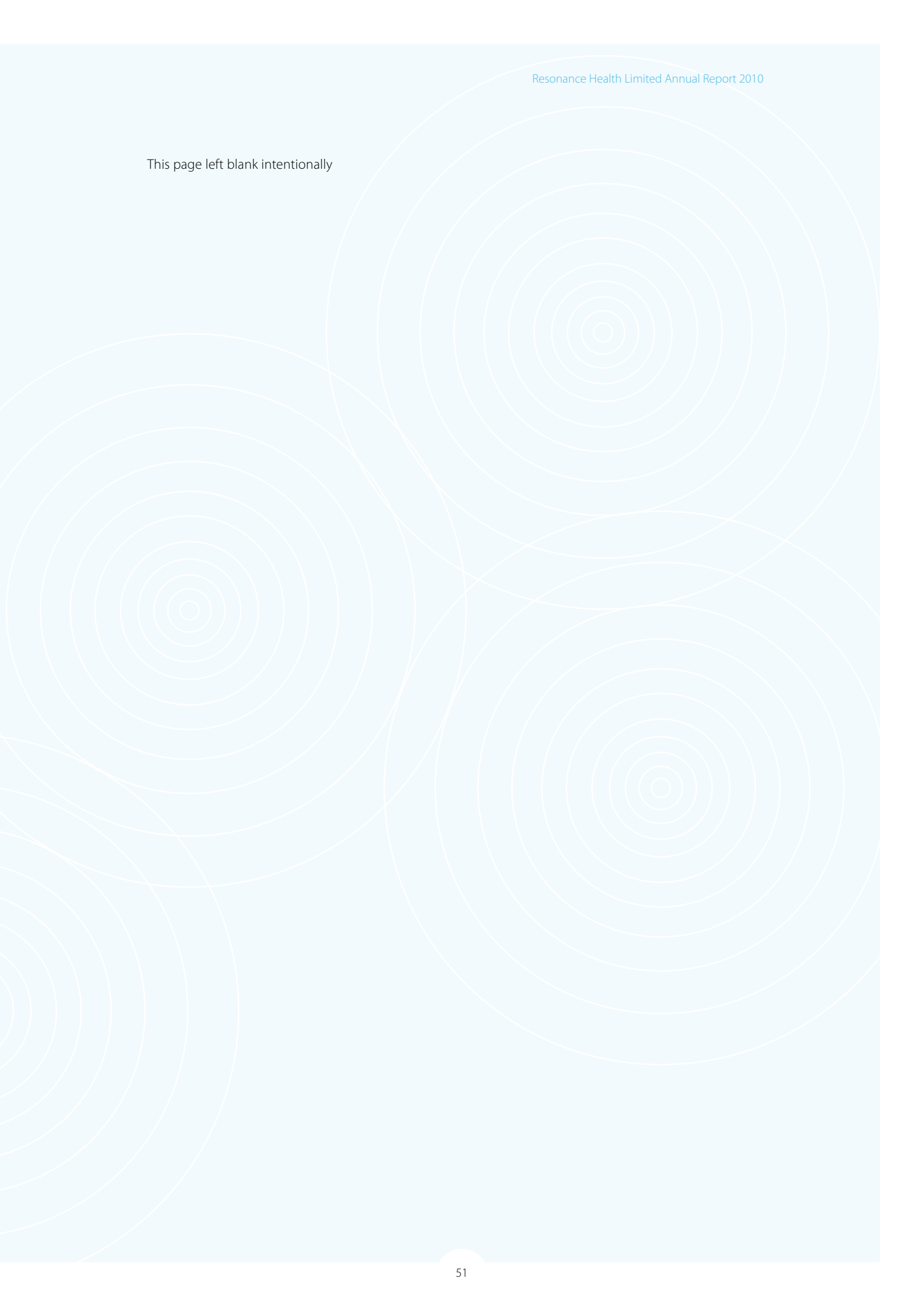
## Additional Information For Listed Public Companies

### 4. Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with sections 709 and 710 of the Corporations Act 2001 are:

Southam Investments 2003 Pty Ltd <Warwickshire Investment A/C>	65,414,622 ordinary shares
--	----------------------------

This page left blank intentionally



This page left blank intentionally





# ResonanceHealth

1st Floor,  
216 Stirling Highway  
CLAREMONT WA 6010  
Telephone: 61 8 9286 5300  
Facsimile: 61 8 9286 1179

**Postal address**

PO Box 1135  
NEDLANDS WA 6909  
Australia

**Website and e-mail address**

[www.resonancehealth.com](http://www.resonancehealth.com)  
Email: [info@ferriscan.com](mailto:info@ferriscan.com)