

# **RESONANCE HEALTH LIMITED**

(ABN 96 006 762 492)

## **ANNUAL FINANCIAL REPORT**

For the year ended  
**30 JUNE 2006**

## Corporate Directory

ABN 96 006 762 492

### Directors

Dr Gary Pace  
Non executive Chairman

The Hon. Dr Michael Wooldridge  
Non executive Deputy Chairman

Mr Guy Aird  
Non executive Director

Mr Ian Anderson  
Non executive Director

Mr Michael Dalsin  
Non executive Director

Mr Edward Dooling  
Executive Director

Mr Roger Greene  
Non executive Director

Dr Timothy St. Pierre  
Executive Director

Dr Andrew Walker  
Non executive Director

### Company Secretary

Ms Eva Liu

### Registered Office and Principal Place of Business

1<sup>st</sup> Floor,  
216 Stirling Highway  
CLAREMONT WA 6010  
Telephone: 61 8 9286 5300  
Facsimile: 61 8 9286 5399

### Postal Address

PO Box 1135  
NEDLANDS WA 6909

### Auditors

HLB Mann Judd (WA Partnership)  
15 Rheola Street  
WEST PERTH WA 6005

### Share Registry

Advanced Share Registry Services  
110 Stirling Highway  
Nedlands WA 6009  
Tel: +61 8 9389 8033  
Fax: +61 8 9389 7871

### Bankers

National Australia Bank Limited

### Stock Exchange Listing

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

### Solicitors

Clayton Utz  
Level 28 Riparian Plaza  
71 Eagle Street  
Brisbane Qld 4000

### Website and e-mail address

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

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## OVERVIEW

Resonance Health (RHT) is an Australian Healthcare company specialising in the development and commercialisation of magnetic resonance imaging (MRI) related technology. The Resonance Health Group includes Resonance Health Limited (RHT) an Australian Stock Exchange (ASX) listed company and its wholly-owned operating subsidiary, Resonance Health Analysis Services Pty Ltd (RHAS).

### Present

Our lead product is FerriScan<sup>®</sup>, a world leading non-invasive tool for measuring liver iron levels. FerriScan<sup>®</sup> is the first non-invasive test for liver iron concentration to have achieved regulatory clearances in the US, Europe and Australia.

The FerriScan<sup>®</sup> service involves an MRI scan followed by off-site processing of the images by Resonance Health using its patented methodology to generate the liver iron concentration result. MRI data is transmitted electronically via a secure data process to the Resonance Health analysis centre from anywhere in the world. The test requires no new equipment purchase at the MRI centre level.

FerriScan<sup>®</sup> provides a significant improvement over current blood markers and invasive surgical procedures. This improvement leads to increased clinical efficiency and accuracy in diagnosis, in addition to allowing optimisation of treatment programs for iron-related disorders. FerriScan<sup>®</sup> is now positioned to become a routine part of the clinical diagnosis and management of iron loading disorders as well as playing a major role in the testing and monitoring of drugs used to treat these conditions.

### Future

Resonance Health is developing a new non-invasive test for the measurement of liver fibrosis, called FibroScreen<sup>™</sup>. With the World Health Organisation (WHO) estimating more than 170 million people worldwide are affected by Hepatitis C, a major cause of liver fibrosis, there is a massive unmet clinical need for a new non-invasive and accurate test that quantifies fibrosis.

Resonance Health is also proposing to acquire US-based anatomical pathology businesses. The proposed acquisition is part of an overall acquisition strategy which is intended to complement the Company's radiology based diagnostic tests, strengthen access to referral channels and provide access to US-based billing and operational infrastructure. The strategy will, if successfully implemented, also provide immediate revenue to the Company and will position it as an integrated diagnostic business.

We look forward to the future with you.

## Chairman's Report

Dear Shareholder,

It is with pleasure and an honour to present to you the 2005-2006 Annual Report for the first time as Chairman.

This year Resonance Health reports a 118% increase in revenues from ordinary activities to \$618,323 at 30 June. Whilst net loss for the period increased from \$2,764,433 to \$16,060,845, almost 80 percent of this loss is attributable to a write down of goodwill on consolidation following expert advice.

Despite the increase in revenues, cash flow remained negative throughout the year due to lower than projected sales. The previous Board, while impressed with the FerriScan® technology, came to the conclusion that based on recent performance the Company was unlikely to be viable on a stand alone basis with only FerriScan® technology without repeated capital raisings. After reviewing a number of alternatives it was decided that the Company should implement an acquisition - roll-up strategy of US based pathology laboratories. It was envisioned that this path would likely be complimentary to FerriScan® commercialisation efforts and provide a more certain path to profitability. Further it decided to carefully review the FerriScan® commercialisation plans and re-constitute the Board of directors. In January a decision was then taken to re-constitute the Board and target complementary acquisitions that generated sufficient revenue to build a viable future for Resonance Health and its existing technologies. Following its re-constitution, the Board decided it needed to either immediately increase sales, or reduce expenses to a level that was compatible with the FerriScan® likely sales performance, or both. Your Board also commenced renegotiation of the company's contract with its largest FerriScan® customer. Earlier this month the Company announced it had reached agreement to increase the price for FerriScan® services supplied over the next six months, with a new contract to be negotiated for future services. In the Board's view this addressed the major short-term issue with FerriScan®. Also the Board is currently conducting a thorough review of the FerriScan® commercialisation plan, the results of which will be reported within the next six months.

This financial year, however, is also marked with many achievements. Resonance Health achieved a number of milestones in its roll out of FerriScan® that began with an agreement with a major pharmaceutical Company Novartis Pharma AG to supply FerriScan diagnostic tests in connection with Novartis' clinical studies. The Company also signed an agreement with a major radiology chain in the US to provide FerriScan® analysis as part of a pilot study to help the commercial launch of the MRI-based liver-iron test. Resonance Health Analysis Services, a wholly-owned subsidiary was last October awarded a WA State Government contract to supply its FerriScan® technology to all public hospitals with capable Magnetic Resonance Imaging centres in the State. It is hoped that this will pave the way for the company to secure similar opportunities in other States.

In addition, Resonance Health received independent validation of its FerriScan® technology against the "gold standard" liver biopsy at the American Society of Haematology conference in December. This was quickly followed by TGA and CE marking full Quality Assurance System Approval Certificates and Quality Management System Certification, all of which provide an encouraging future for global expansion of FerriScan®. I would therefore like to thank the former board in their efforts of bringing the innovative FerriScan® technology to market.

The Company is also excited about the prospects of its latest research development on its novel non-invasive diagnostic test for liver fibrosis, FibroScreen™. This work was supported by an Australian Government Biotechnology Innovation Fund grant. A patent on the research has been applied for and the Company hopes to secure additional Government grants to support its work in this area.

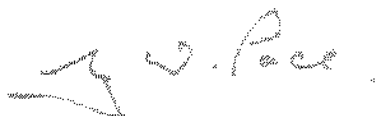
To further secure the financial position of the Company and support new initiatives on FibroScreen™ the Company recently successfully concluded an Entitlement Issue to shareholders raising \$3.08 million.

Looking into the year ahead, your Board, with the assistance of corporate advisors Montgomery Pacific Group/Stammore Partners LLC, has devised a strategy to ensure a continuing revenue stream well into the years beyond. With Shareholder approval, the Company plans to acquire specialty anatomical pathology businesses in the US that will complement the existing radiology-based diagnostic technology and position the Company as an integrated diagnostic business.

Our corporate advisors have assisted the Company in securing funding that will strengthen the Company's ability to negotiate better deals on acquisitions. Several target companies have already been identified and the Company expects to seek Shareholder approval soon.

Finally, I would like to thank Shareholders for your ongoing support to the Board's strategy as evidenced from the uptake in the Company's stock in the recent Entitlement Issue. Your Board foresees a positive and productive future in the year ahead and we look forward to reporting greater progress in the expansion on all fronts this time next year.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'G. W. Pace', with a stylized flourish at the end.

Dr. Gary W. Pace, FTS  
Chairman

Place: Melbourne, VIC

29<sup>th</sup> September 2006

## DIRECTORS' REPORT

THE Board of Directors of Resonance Health Limited has pleasure in presenting its report in respect of the financial year ended 30 June 2006.

### Directors

The names, qualifications and experience of directors in office during the financial year and until the date of this report are as follows:

**Dr Gary Pace**  
PhD FTS

**Position:** Chairman — Independent and Non-Executive (appointed 20 April 2006)

**Experience:** Dr Pace is currently Chairman and CEO of QRxPharma Pty Ltd and a director of a number of Australian and US companies. He is also a visiting scientist at the Massachusetts Institute of Technology (MIT), an adjunct professor at the University of Queensland and a member of the Queensland North America Biotechnology Advisory Council. Dr Pace holds a Bachelor of Science with honours from the University of New South Wales and a PhD from MIT. Dr Pace resides in Boston, Massachusetts.

**Other current directorships:**

Chairman and CEO of QRxPharma Pty Ltd (director since 2002)

Independent Non-Executive Director of ResMed Inc (director since 1995)

Independent Non-Executive Director of Peplin Ltd (director since 2004)

Independent Non-Executive Director of Transition Therapeutics Inc (director since 2002)

Independent Non-Executive Director of Celsion Corp (director since 2002)

**Former directorships in last 3 years:**

Protiveris Inc

**Special responsibilities:**

Chairman

**The Hon Dr Michael Wooldridge**  
B.Sc, M.B.B.S, MBA

**Position:** Deputy Chairman — Independent and Non-Executive (appointed 11 November 2003)

**Experience:** Trained as a medical practitioner, Dr Wooldridge was Minister for Health and Family Services in 1996 and his portfolio was extended to include Aged Care in 1998, during which period he was Chair of the World Health Organisation's East Asia and Western Pacific Region. Dr Wooldridge was also Global Chairman of UN AIDS, the peak UN body dealing with HIV. Dr Wooldridge's understanding of government policy in the health sector is highly valuable.

**Other current directorships:**

Independent Non-Executive Director of Cogstate Limited (director since 2004)

Independent Non-Executive Director of Dia-B Tech Limited (director since 2003)

**Former directorships in last 3 years:**

None

**Special responsibilities:**

Deputy Chairman

Chairman of the remuneration committee

## DIRECTORS' REPORT (Cont'd)

### Guy Aird

Dip.Valuations, Grad. Dip. Applied  
Corporate Finance

**Position:** Director — Independent and Non-Executive (appointed 20 April 2006)

**Experience:** Mr Aird is a partner in Melbourne boutique investment bank, Domain Capital. He has twenty years operational experience within the investment advisory sector including fifteen years experience in equities dealing / advising / research for a number of Melbourne based stock broking firms.

**Other current directorships:**

Independent Non-Executive Director of Avastra Limited (director since 2005)

**Former directorships in last 3 years:**

None

**Special responsibilities:**

Member of the Remuneration Committee

### Ian Anderson

B.Bus, MBA

**Position:** Director — Independent and Non-Executive (appointed 31 May 2005)

**Experience:** Mr Anderson is a consultant to North Metropolitan Area Health Service on capital management. He was previously CEO of SKG Radiology where he led the restructuring of the company and its merger with Sonic Healthcare Ltd, and General Manager, Health Fund at the Hospital Benefit Fund, WA. Mr Anderson is Director of Leadership WA, a Fellow of the Australian Institute of Management; and Fellow of the Australian Institute of Company Directors.

**Other current directorships:**

None

**Former directorships in last 3 years:**

None

**Special responsibilities:**

Chairman of the Audit Committee

### Michael Dalsin

B.Sc

**Position:** Director — Independent and Non-Executive (appointed 20 April 2006)

**Experience:** Mr Dalsin is currently a partner in the investment banking group Montgomery Pacific Group, LLC. And has worked in international investment banking and deal-making for investments by Morgan Stanley Managing Director's funds in London, Hong Kong and New York. He was a lead banker and negotiator for small and medium market (US\$15m to US\$50m) acquisitions for both American and English companies. He participated as a key sales person in institutional fundraising for a number of international (micro-capitalisation) companies with placement of US\$5m to US\$10m. He has experience in securing cash flow debt and term debt for small to medium companies and has practice in high yield and convertible debt for the purposes of acquisition.

**Other current directorships:**

Independent Non-Executive Director of Avastra Limited (director since 2005)

**Former directorships in last 3 years:**

None

**Special responsibilities:**

Member of the Audit Committee



## DIRECTORS' REPORT (Cont'd)

**Edward Dooling**  
B.Sc

**Position:** Director —Executive (appointed 27 September 2006)

**Experience:** Mr Dooling was appointed President and CEO on 27 September 2006. He was V.P. and General Manager for Ameripath's anatomic pathology division and he spent ten years at DIANON Systems in numerous management positions, prior to joining Resonance Health. Mr Dooling possesses a rich history of driving sales, consolidating operations and introducing unique and innovative diagnostic tests. He also managed anatomical pathology operations for one of the largest public pathology companies in the US. Prior to joining DIANON, Mr Dooling was recognised as the top Junior Officer on the U.S.S Iowa. He completed his formal education at Villanova University with a Bachelor in Science.

**Other current directorships:**

None

**Former directorships in last 3 years:**

None

**Special responsibilities:**

None

**Roger Greene**  
AB Econs, LLB

**Position:** Director — Independent and Non-Executive (appointed 20 April 2006)

**Experience:** Mr Greene is currently a partner in the investment banking group Montgomery Pacific Group, LLC. And has worked with the various funds in the Robert M. Bass Group in Texas as a principal and general counsel. He has participated in a number of their opportunity funds, including Brazos Fund, which has purchased \$2 billion in assets in the US and Canada, and Lone Star Fund, which has acquired and managed several billions of dollars in assets in North America, Asia and Europe. Previously he was an attorney at Covington & Burling in Washington DC and Jackson, DeMarco & Peckenpaugh in Orange County, California. Mr Greene has also worked to start up and fund a services based technology company in Southern California.

**Other current directorships:**

Independent Non-Executive Director of Avastra Limited (director since 2005)

**Former directorships in last 3 years:**

None

**Special responsibilities:**

None

**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. Tim who is an Associate Professor led the team which developed the FerriScan technology at The University of Western Australia.

**Other current directorships:**

None

**Former directorships in last 3 years:**

None

**Special responsibilities:**

None

## DIRECTORS' REPORT (Cont'd)

### Dr Andrew Walker

B.Med, B.Med.Sci (Hons), FICS,  
MBA

**Position:** Director — Independent and Non-Executive (appointed 11 November 2003)

**Experience:** Dr Walker is the Chairman and CEO of Aspen Medical. Over the last 12 years, the team that he leads has developed and commercialised a range of successful medical and health-related businesses, including the Australian Skin Cancer Clinics and Combined Pathology.

**Other current directorships:**

Independent Non-Executive Director of RiTract Limited (director since 2003)

**Former directorships in last 3 years:**

None

**Special responsibilities:**

Member of the Audit Committee

### Company Secretary

#### Ms Eva Liu

B.Bus

**Position:** Company Secretary (appointed 9 May 2006)

**Experience:** Ms Liu has a strong background in Banking & Finance, and has worked as a Commercial Officer for the British Trade and Cultural Office in Taipei. Ms Liu also has extensive journalism experience and is Company Secretary for Avastra Ltd.

On 20 April 2006 Dr Christine Bennett, Mr Anthony Fitzgerald and Dr Jay Ives resigned as directors. On 12 May 2006 Dr James Williams resigned as a director.

On 28 April 2006 Mr Stuart Usher and Mr Evan Cross resigned as Joint Chief Financial Officer and Company Secretary.

## Review of Operations

### FibroScreen™

The Company is developing a new non-invasive diagnostic test called FibroScreen™ for the progression of liver fibrosis (scarring) based on MRI technology that can be used to replace the need for using liver biopsy to assess fibrosis for most people with liver diseases.

The Company believes there is a significant market for such a test among sufferers of Hepatitis B and C, non-alcohol fatty liver disease and other causes of chronic liver disease.

The Company's FibroScreen™ project has currently completed "Proof of Concept" stage. Significant technical and clinical hurdles remain before a marketable product can be released.

**Status:** Resonance Health is now moving forward with the second stage of its R&D program for FibroScreen™.

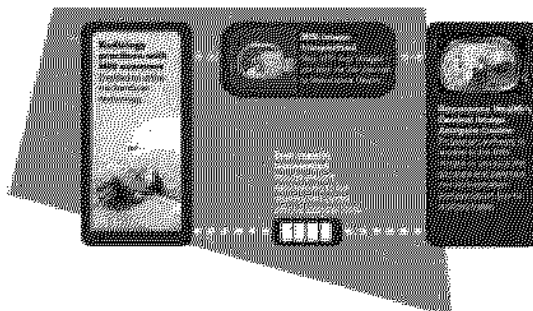
### FerriScan®

FerriScan® is a new technology for the non-invasive measurement of liver iron concentration (LIC). Advanced computer software, the result of extensive research and trials, is used to analyse data obtained through magnetic resonance imaging (MRI) of a patient's liver to determine an accurate measurement of liver iron concentration.

## DIRECTORS' REPORT (Cont'd)

The FerriScan® method for measuring liver iron concentration has three simple steps:

1. A set of images of the liver are produced by an MRI scanner.
2. Image data from the MRI scan is sent to the FerriScan® Service Centre via the internet where it is analysed using the FerriScan® technology.
3. A LIC report is produced and sent to the MRI Centre within 2 business days of receipt of data by the FerriScan® Service Centre.



*Status:* To date 64 centres around the globe offer the FerriScan® service with many thousands of patients receiving the benefits associated with a superior non-invasive measurement tool as FerriScan®.

### Pathology

Resonance Health is also proposing to acquire US-based anatomical pathology businesses. The proposed acquisition is part of an overall acquisition strategy which is intended to complement the Company's radiology based diagnostic tests, strengthen access to referral channels and provide access to US-based billing and operational infrastructure. The strategy will, if successfully implemented, also provide immediate revenue to the Company and will position it as an integrated diagnostic business.

*Status:* Initial target Company engaged.

### Operating Results

The net loss of the consolidated entity for the financial year after tax and outside equity interests was \$16,060,845 (2005: Loss \$1,654,818). The current year includes an impairment of goodwill on consolidation amounting to \$12,786,888.

### Dividends Paid or Recommended

No dividend was paid or declared for the financial year.

### Principal Activities

The company's business involves the development of the FibroScreen™ technology and commercialisation of the FerriScan® technology.

FibroScreen™ is a new non-invasive diagnostic test for the progression of liver fibrosis (scarring) based on MRI technology that can be used to replace the need for using liver biopsy to assess fibrosis for most people with liver diseases.

FerriScan® is a novel, non-invasive liver diagnosis technology, designed to replace liver biopsy for the measurement of iron overload in the liver, and with potentially broader applications in other areas of liver disease.

### Significant Changes in State of Affairs

The following significant changes in the state of affairs of the company occurred during the financial year:

- i. On 14 October 2005 the Company issued 8,695,652 ordinary shares under a share placement to provide additional working capital.
- ii. On 22 November 2005 the Company issued 6,921,635 ordinary shares under a shareholder share purchase plan to provide additional working capital.
- iii. On 22 November 2005 and 28 April 2006 the Company issued 833,334 ordinary shares as payment for corporate advisory services.

## **DIRECTORS' REPORT (Cont'd)**

### **After Balance Date Events**

On 7 July 2006 the Company issued a prospectus for a non-renounceable entitlements offer to existing shareholders of 3 new shares for every 4 shares held at an application price of \$0.02 per new share to raise up to \$3.06 million. At the date of this report, the Company successfully raised \$3.08 million from this entitlements issue including placements to institutional and professional investors.

On 31 July 2006 the Company received a request to hold a shareholders' meeting to consider resolutions to appoint selected new directors to the company and resolutions to remove a number of directors of the Company. The Extraordinary General Meeting of members will be held on 29 September 2006.

On 21 August 2006, Dr Timothy St. Pierre was appointed as a Director of the Company.

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.

### **Environmental Regulations**

The consolidated entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

### **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.

## **REMUNERATION REPORT**

This report details the nature and amount of remuneration for each director of Resonance Health Limited and for the executives receiving the highest remuneration.

### **Remuneration Policy**

The Board of Directors of Resonance Health Limited is responsible for determining and reviewing compensation arrangements for directors and the executive team. Remuneration levels for executives are competitively set to attract the most qualified and experienced directors and senior executive officers, in the context of prevailing market conditions, particular experience of the individual concerned and the overall performance of the company, with the objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. The assistance of an external consultant or remuneration surveys are used where necessary.

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.

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:

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 after seeking professional advice from independent external consultants. All executives receive a base salary (which is based on factors such as length of service and experience), superannuation and fringe benefits. 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 performance of executives is measured against criteria agreed biannually with each executive and is based predominantly on the forecast growth of the consolidated entity's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

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

## DIRECTORS' REPORT (Cont'd)

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.

Each of the non-executive directors, except for Messrs Dalsin and Greene, 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 directors and corporate performance such as bonus payments for achievements of certain key performance indicators other than the holders of Performance Shares which are not convertible to ordinary fully paid shares until various milestones are achieved.

Messrs Dalsin and Greene do not receive a fee for their services as directors. Entities associated with Messrs Dalsin and Greene receive a fee for corporate advisory, acquisition sourcing, and negotiation services.

### Details of Remuneration for Year Ended 30 June 2006 (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:

#### Remuneration of directors and executives

Directors' remuneration\*

	Primary Salary & Fees	Post employment Superannuation Contributions	Equity Options	Other Termination Benefits	Total
	\$	\$	\$	\$	\$
Dr G Pace	11,837	-	-	-	11,837
Dr M Wooldridge	47,516	4,276	-	-	51,792
Dr J Williams	215,189	18,089	-	60,000	293,278
Mr G Aird	7,239	651	-	-	7,890
Mr I Anderson	33,905	3,051	-	-	36,956
Dr C Bennett	25,000	2,250	-	-	27,250
Mr M Dalsin	-	-	-	-	-
Mr A Fitzgerald	78,609	7,075	-	-	85,684
Mr R Greene	-	-	-	-	-
Dr J Ives	27,500	2,475	-	-	29,975
Dr A Walker	31,405	2,826	-	-	34,231
Total Remuneration	478,200	40,693	-	60,000	578,893

\* Represents remuneration earned during the financial year, including amounts not yet paid at balance date.

The Company does not believe that any employees are classified as executives who are directly accountable and responsible for the strategic direction and operational management of the consolidated entity.

**DIRECTORS' REPORT (Cont'd)****Options**

Unissued ordinary shares of Resonance Health Limited under option at the date of this report and the terms and conditions of each grant of options affecting remuneration in this or future reporting periods are as follows:

Grant Date	Expiry date	Exercise price	Value per option at grant date	Number under option
13 May 2004	7 July 2009	\$0.40	\$0.016	800,000
13 May 2004	7 July 2009	\$0.30	\$0.004	1,600,000
31 May 2005	31 May 2007	\$0.25	\$0.0091	500,000
31 May 2005	31 May 2008	\$0.30	\$0.0075	1,000,000
31 May 2005	31 May 2008	\$0.40	\$0.0013	2,000,000
31 May 2005	31 May 2008	\$0.50	\$0.00024	2,000,000
3 May 2006	24 March 2008	\$0.30	\$0.00	100,000
3 May 2006	2 April 2007	\$0.40	\$0.00	400,000
				<u>8,400,000</u>

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

The fair value of the equity-settled share options granted as remuneration is estimated as at the date of grant using a Black & Scholes model. The model inputs for options granted during the year ended 30 June 2006 included:

- (a) Options are granted for no consideration and vest immediately.
- (b) Exercise price: Various refer above
- (c) Grant date: 3 May 2006
- (d) Expiry date: Various refer above
- (e) Share price at grant date: 6 cents
- (f) Expected price volatility of the Company's shares: 20.20%
- (g) Risk-free interest rate: 5.5%

## DIRECTORS' REPORT (Cont'd)

### Options Issued as Part of Remuneration for the Year Ended 30 June 2006

Options are issued to directors and specified executives as part of their remuneration. The options are not issued based on performance criteria. When exercisable, each option is convertible into one ordinary share. No options were issued to directors and specified executives during the financial year. Set out below are details of options granted to the date of this report.

Specified Directors	Grant Date	Expiry Date	Value per option at grant date \$	Exercise Price \$	Balance at start of the year Number	Issued during the year Number	Balance at end of the year Number
Dr M Wooldridge Chairman	13 May 2004	7 July 2009	\$0.016	\$0.30	650,000	-	650,000
Mr T Fitzgerald Director	13 May 2004	7 July 2009	\$0.004	\$0.40	800,000	-	800,000
Dr C Bennett Director	13 May 2004	7 July 2009	\$0.016	\$0.30	650,000	-	650,000
Dr A Walker Director	13 May 2004	7 July 2009	\$0.016	\$0.30	300,000	-	300,000
Dr J Williams Managing Director	31 May 2005	31 May 2007	\$0.0091	\$0.25	500,000	-	500,000
	31 May 2005	31 May 2008	\$0.0075	\$0.30	1,000,000	-	1,000,000
	31 May 2005	31 May 2008	\$0.0013	\$0.40	2,000,000	-	2,000,000
	31 May 2005	31 May 2008	\$0.0002	\$0.50	2,000,000	-	2,000,000
Other	3 May 2006	24 March 2008	\$0.00	\$0.30	-	100,000	100,000
	3 May 2006	2 April 2007	\$0.00	\$0.40	-	400,000	400,000
	Total			-	7,900,000	500,000	8,400,000

### Executive Officer's Employment Agreement with Mr Tony Fitzgerald

Pursuant to an agreement dated 3 October 2003, the Company engaged Tony Fitzgerald to perform duties associated with the position of Chief Executive Officer. The position changed to Executive Director effective from the date of Dr James Williams appointment on 31 May 2005. Mr Fitzgerald became a non executive director effective 29 September 2005 and subsequently resigned on 20 April 2006. Mr Fitzgerald was paid a gross base salary of \$100,000 p.a plus 9% statutory superannuation as Executive Director and a gross base salary of \$50,000 p.a. plus 9% statutory superannuation as a non-executive director.

### Executive Officer's Employment Agreement with Dr James Williams

The Company and Dr James Williams entered into an executive services agreement on 18 May 2005 pursuant to which Dr Williams was appointed as Managing Director of the Company, commencing on 31 May 2005. Dr Williams subsequently resigned as Managing Director of the Company on 12 May 2006. Dr Williams was paid a gross base salary of \$240,000 p.a, including statutory superannuation, and three months salary in lieu of notice.

## DIRECTORS' REPORT (Cont'd)

### Meetings of Directors

The number of meetings of the company's board of directors and each board committee held during the year ended 30 June 2006, and the numbers of meetings attended by each director were:

	Director Meetings		Audit Committee Meetings		Remuneration Meetings	
	Number eligible To attend	Number attended	Number eligible To attend	Number attended	Number eligible To attend	Number attended
Dr M Wooldridge	13	13	-	-	1	1
Dr J Williams	10	10	-	-	-	-
Mr T Fitzgerald	8	6	-	-	-	-
Dr C Bennett	8	7	2	2	-	-
Dr A Walker	13	10	2	2	-	-
Mr I Anderson	13	13	2	2	-	-
Dr J Ives	8	6	-	-	-	-

### Directors' and Executives' Shareholdings

Disclosures relating to directors' and executives' shareholdings are noted below.

Specified Directors	Opening Balance	Received as Remuneration	Net Change	Other* Received during the year on exercise of options	Balance 30.6.06
Dr G Pace	-	-	-	-	-
Dr M Wooldridge	224,742	-	-	-	224,742
Dr J Williams	25,000	-	(25,000) <sup>#</sup>	-	-
Mr G Aird	-	-	-	-	-
Mr I Anderson	1,307,934	-	86,956	-	1,394,890
Dr C Bennett	-	-	-	-	-
Mr M Dalsin	-	-	125,000 <sup>^</sup>	-	125,000
Mr A Fitzgerald	431,571	-	(431,571) <sup>™</sup>	-	-
Mr R Greene	-	-	125,000 <sup>^</sup>	-	125,000
Dr J Ives	5,410,934	-	(5,410,934) <sup>™</sup>	-	-
Dr A Walker	-	-	-	-	-
Total	7,400,181	-	(5,530,549)	-	1,869,632

\* "Net Change Other" includes those shares that were issued during the year through on market purchase/sale.

™ Shares held as disclosed in the final directors interest notice on resignation as director on 20 April 2006.

<sup>^</sup> Shares held as disclosed in the initial directors interest notice on being appointed directors on 20 April 2006.

<sup>#</sup> Shares held as disclosed in the final directors interest notice on resignation as director on 12 May 2006.

Between 30 June 2006 and the date of this report Dr M Wooldridge acquired 168,557 shares and Mr I Anderson acquired 901,059 shares directly and 145,109 shares indirectly.



## DIRECTORS' REPORT (Cont'd)

### Directors' and Executives' Optionholdings

Disclosures relating to directors' and executives' optionholdings are noted below.

Specified Directors	Opening Balance	Options Exercised	Granted as Remuneration	Net Change Other*	Balance 30.6.06
Dr G Pace	-	-	-	-	-
Dr M Wooldridge	1,130,618	-	-	-	1,130,618
Dr J Williams	5,500,000	-	-	(5,500,000) #	-
Mr G Aird	-	-	-	-	-
Mr I Anderson	-	-	-	-	-
Dr C Bennett	650,000	-	-	(650,000) °	-
Mr M Dalsin	-	-	-	-	-
Mr A Fitzgerald	889,364	-	-	(889,364) °	-
Mr R Greene	-	-	-	-	-
Dr J Ives	40,334	-	-	(40,334) °	-
Dr A Walker	590,000	-	-	-	590,000
Total	8,800,316	-	-	(7,079,698)	1,720,618

\* "Net Change Other" includes those options that were issued during the year other than as remuneration through on market purchase/sale.

° Options held as disclosed in the final directors interest notice on resignation as director on 20 April 2006.

# Options held as disclosed in the final directors interest notice on resignation as director on 12 May 2006.

No movements in these optionholdings have occurred between 30 June 2006 and the date of this report.

### Indemnifying Directors and Officers

During the year, Resonance Health Limited paid a premium of \$18,304 (2005: 20,813) to insure the directors and secretaries of the company and its controlled entities.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated entity, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

### Options

Details of Options that were granted over unissued shares during the financial year by the company and which remain outstanding at balance date are disclosed at Note 16(b) to the financial statements.

### 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.

**DIRECTORS' REPORT (Cont'd)****Non-audit Services**

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditors' independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

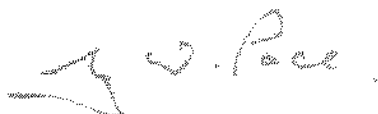
The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2006:

	\$
Taxation compliance services	<u>14,574</u>

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration for the year ended 30 June 2006, as required under section 307C of the *Corporations Act 2001*, has been received and can be found on page 17 of the directors' report.

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



Dr. Gary W. Pace, FTS  
Chairman

Place: Melbourne, VIC

Dated this 29<sup>th</sup> Day of September 2006.



## Auditor's Independence Declaration

As lead auditor for the audit of the financial report of Resonance Health Limited for the year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Resonance Health Limited.

A handwritten signature in black ink, appearing to read 'L Di Giallonardo'.

Perth, Western Australia  
29 September 2006

L Di Giallonardo  
Partner, HLB Mann Judd

## 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 Stock Exchange ('ASX') Corporate Governance Council recommendations. 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 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 the Chief Executive Officer and monitor performance of the Chief Executive Officer and senior executives
- Establish proper succession plans for management of the company

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

### 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, administrative 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 complies with the ASX Corporate Governance Council Principles 2.1 having six out of the seven directors including the Chairman who are independent.

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.

The roles of Chairman and Managing Director/CEO 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.

With the prior approval of the Chairman, each director has the right to seek independent legal and other professional advice at the company's expense concerning any aspect of the company's operations or undertakings in order to fulfil their duties and responsibilities as directors.

## **CORPORATE GOVERNANCE STATEMENT (Cont'd)**

### **Principle 2 (Cont'd)**

Directors are subject to re-election by rotation at annual general meetings as stipulated in the Corporations Act and the company's constitution. There are no maximum terms 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 remuneration committee. Further information and the components of remuneration for directors are set out in the Directors' Report.

The members of the remuneration and nomination committee are as follows:

-Dr M Wooldridge (Chairman)

-Dr G Aird

### **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.

#### **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.

### **Principle 4**

#### **Safeguard integrity in financial reporting**

The board has established an audit committee. 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.

The members of the audit committee are:

- Dr I Anderson (Chairman)

- Dr A Walker

The audit committee generally invites the Company Secretary and external auditors to attend meetings.

### **Principle 5**

#### **Make timely and balanced disclosure**

Although there were no written policies for most of the year, the Company complied 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.

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

### **Principle 6**

#### **Respect the rights of shareholders**

The Company has a positive 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 Stock Exchange.

## **CORPORATE GOVERNANCE STATEMENT (Cont'd)**

### **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 the establishment of a risk committee. During the year Resonance Health Limited 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 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.

Recommendation 7.1 also requires that the company has a formal risk management policy and internal compliance and control system. During the year, Resonance Health Limited, through its operating subsidiary Resonance Health Analysis Services Pty Ltd, established a Quality Management System (QMS) to international standards ISO9001:2000 and ISO13485:2003 which encompass formal risk analysis processes. 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.

### **Principle 8**

#### **Encourage enhanced performance**

During the year the company conducted a performance evaluation of its board and members in accordance with recommendation 8.1.

To enable the performance of their duties, all directors:

- have access to management
- are provided with appropriate management information in a timely manner
- are able to seek independent professional advice at the company's expense
- are entitled to request additional management information at any time

### **Principle 9**

#### **Remunerate fairly and responsibly**

The Board has established a remuneration committee, comprising two non-executive directors. Members of the remuneration committee throughout the year were:

- Dr M Wooldridge (Chairman)
- Dr G Aird

The remuneration policy, which sets the terms and conditions for the managing director and other senior executives, was developed by the remuneration committee after seeking professional advice from independent consultants and was approved by the board. All executives receive a base salary, superannuation, fringe benefits, performance incentives and retirement benefits. The remuneration committee will review executive packages annually by reference to company performance, executive performance, comparable information from industry sectors and other listed companies and independent advice. The performance of executives is measured against criteria agreed half-yearly which is based on the forecast growth of the company's profits and shareholders value. The policy is designed to attract the highest calibre executives and reward them for performance which results in long-term growth in shareholder value.

Director disclosure requirements are dealt with in the notes to the financial statements.

### **Principle 10**

#### **Recognise the legitimate interests of stakeholders**

The Board recognises that the interests of all stakeholders will be best served when the company, its directors and staff adhere to high standards of business ethics and comply with the law.

The Board expects a high standard of ethical corporate behaviour from all directors and staff. A code of Business Ethics has been developed outlining the policies and procedures which operate within the company to ensure its exemplary reputation is maintained.

**CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2006**

		Consolidated		Parent	
	Note	2006 \$	2005 \$	2006 \$	2005 \$
Revenue	2(a)	<b>618,323</b>	<b>283,179</b>	<b>56,697</b>	<b>30,024</b>
Employee benefits expense		(1,576,893)	(1,235,628)	(457,296)	(342,259)
Consulting and professional services		(983,917)	(414,095)	(435,938)	(239,305)
Research and development		(303,534)	(409,219)	-	(30,111)
Depreciation	2(b)	(50,334)	(56,793)	(15,586)	(5,160)
Marketing & Travel		(613,649)	(355,333)	(100,992)	(63,028)
Statutory and compliance		(237,548)	(334,688)	(130,845)	(191,918)
Impairment of goodwill on consolidation	2(b)	(12,786,888)	-	-	-
Impairment of loans to and investments in subsidiaries		-	-	(14,681,008)	(849,632)
Other expenses		(353,788)	(241,856)	(29,210)	(30,611)
<b>Loss before income tax</b>		<b>(16,288,228)</b>	<b>(2,764,433)</b>	<b>(15,794,178)</b>	<b>(1,722,000)</b>
Income tax	3	227,383	-	-	-
<b>Net loss for the period</b>		<b>(16,060,845)</b>	<b>(2,764,433)</b>	<b>(15,794,178)</b>	<b>(1,722,000)</b>
Loss attributable to minority interest		-	1,109,615	-	-
<b>Net loss attributable to members of parent</b>		<b>(16,060,845)</b>	<b>(1,654,818)</b>	<b>(15,794,178)</b>	<b>(1,722,000)</b>
Basic (loss) per share (cents per share)	5	(8.1)	(1.7)		

The above consolidated income statement should be read in conjunction with the accompanying notes.

**CONSOLIDATED BALANCE SHEET**  
**AS AT 30 JUNE 2006**

		Consolidated		Parent	
	Note	2006 \$	2005 \$	2006 \$	2005 \$
<b>Current Assets</b>					
Cash and cash equivalents	7	570,951	1,509,192	345,882	786,374
Trade and other receivables	8	134,106	227,802	55,128	82,167
Available for sale investments	9	3,888	14,337	-	-
Other	10	110,950	84,221	35,107	11,092
<b>Total Current Assets</b>		<b>819,895</b>	<b>1,835,552</b>	<b>436,117</b>	<b>879,633</b>
<b>Non-Current Assets</b>					
Property, plant and equipment	11	118,608	156,780	-	16,360
Receivables	8	-	-	-	2,410,617
Other financial assets	9	-	-	371,280	10,939,666
Intangible assets	12	-	12,786,888	-	-
<b>Total Non-Current Assets</b>		<b>118,608</b>	<b>12,943,668</b>	<b>371,280</b>	<b>13,366,643</b>
<b>Total Assets</b>		<b>938,503</b>	<b>14,779,220</b>	<b>807,397</b>	<b>14,246,276</b>
<b>Current Liabilities</b>					
Trade and other payables	13	372,980	321,303	285,300	108,956
Interest-bearing loans	14	15,935	-	11,741	-
Provisions	15	39,232	84,451	-	30,521
<b>Total Current Liabilities</b>		<b>428,147</b>	<b>405,754</b>	<b>297,041</b>	<b>139,477</b>
<b>Total Liabilities</b>		<b>428,147</b>	<b>405,754</b>	<b>297,041</b>	<b>139,477</b>
<b>Net Assets</b>		<b>510,356</b>	<b>14,373,466</b>	<b>510,356</b>	<b>14,106,799</b>
<b>Equity</b>					
Issued capital	16(a)	64,589,600	62,391,865	64,589,600	62,391,865
Reserves		66,284	66,284	66,284	66,284
Accumulated losses	17	(64,145,528)	(48,084,683)	(64,145,528)	(48,351,350)
Parent entity interest		510,356	14,373,466	510,356	14,106,799
<b>Total Equity</b>		<b>510,356</b>	<b>14,373,466</b>	<b>510,356</b>	<b>14,106,799</b>

The above consolidated balance sheet should be read in conjunction with the accompanying notes.



**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2006**

	Note	Consolidated		Parent	
		2006	2005	2006	2005
		\$	\$	\$	\$
		Inflows/(Outflows)	Inflows/(Outflows)	Inflows/(Outflows)	Inflows/(Outflows)
<b>Cash flows from operating activities</b>					
Receipts from customers		510,733	166,488	-	-
Payments to suppliers and employees		(3,614,128)	(2,558,016)	(997,984)	(716,832)
Interest received		69,183	49,847	56,697	30,024
Income tax received		227,383	-	-	-
Net cash (used in) operating activities	7(i)	(2,806,829)	(2,341,681)	(941,287)	(686,808)
<b>Cash flows from investing activities</b>					
Payments for investments		-	(425,000)	-	(100,000)
Loans to subsidiaries		-	-	(1,702,006)	(2,085,596)
Payments for plant and equipment		(24,223)	(149,852)	(3,590)	(3,578)
Payments for research and development		(317,774)	(335,843)	-	-
Cash introduced on acquisition of subsidiary		-	146,058	-	-
Net cash (used in) investing activities		(341,997)	(764,637)	(1,705,596)	(2,189,174)
<b>Cash flows from financing activities</b>					
Proceeds from issue of shares and options		2,257,355	3,379,644	2,257,355	3,379,644
Payments for share issue costs		(62,705)	(36,814)	(62,705)	(36,814)
Proceeds from borrowings		62,006	-	19,569	-
Repayment of borrowings		(46,071)	-	(7,828)	-
Net cash provided by financing activities		2,210,585	3,342,830	2,206,391	3,342,830
Net increase / (decrease) in cash held		(938,241)	236,512	(440,492)	466,848
Cash at the beginning of the financial year		1,509,192	1,272,680	786,374	319,526
Cash at the end of the financial year	7	570,951	1,509,192	345,882	786,374

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2006**

	Ordinary Shares \$	Accumulated Losses \$	Consolidated Reserves \$	Total \$	Minority Interest \$	Total Equity \$
Balance at 1 July 2004	49,447,853	(46,429,865)	50,622	3,068,610	(199,485)	2,869,125
Shares issued during the year	11,575,619	-	-	11,575,619	-	11,575,619
Exercise of options	1,404,956	-	487	1,405,443	-	1,405,443
Cost of share issues	(36,563)	-	-	(36,563)	-	(36,563)
Loss attributable to members of the parent entity	-	(1,654,818)	15,175	(1,639,643)	-	(1,639,643)
Loss attributable to minority interest	-	-	-	-	(1,109,615)	(1,109,615)
Acquisition of minority shareholding	-	-	-	-	1,309,100	1,309,100
<b>Balance at 30 June 2005</b>	<b>62,391,865</b>	<b>(48,084,683)</b>	<b>66,284</b>	<b>14,373,466</b>	<b>-</b>	<b>14,373,466</b>
Shares issued during the year	1,873,084	-	-	1,873,084	-	1,873,084
Exercise of options	399,356	-	-	399,356	-	399,356
Cost of share issues	(74,705)	-	-	(74,705)	-	(74,705)
Loss attributable to members of the parent entity	-	(16,060,845)	-	(16,060,845)	-	(16,060,845)
<b>Balance at 30 June 2006</b>	<b>64,589,600</b>	<b>(64,145,528)</b>	<b>66,284</b>	<b>510,356</b>	<b>-</b>	<b>510,356</b>

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2006**

	Ordinary Shares \$	Accumulated Losses \$	Option Premium \$	Parent Total \$	Minority Interest \$	Total Equity \$
Balance at 1 July 2004	49,447,853	(46,629,350)	50,622	2,869,125	-	2,869,125
Shares issued during the year	11,575,619	-	-	11,575,619	-	11,575,619
Exercise of options	1,404,956	-	487	1,405,443	-	1,405,443
Cost of share issues	(36,563)	-	-	(36,563)	-	(36,563)
Loss attributable to members of the parent entity	-	(1,722,000)	15,175	(1,706,825)	-	(1,706,825)
<b>Balance at 30 June 2005</b>	<b>62,391,865</b>	<b>(48,351,350)</b>	<b>66,284</b>	<b>14,106,799</b>	<b>-</b>	<b>14,106,799</b>
Shares issued during the year	1,873,084	-	-	1,873,084	-	1,873,084
Exercise of options	399,356	-	-	399,356	-	399,356
Cost of share issues	(74,705)	-	-	(74,705)	-	(74,705)
Loss attributable to members of the parent entity	-	(15,794,178)	-	(15,794,178)	-	(15,794,178)
<b>Balance at 30 June 2006</b>	<b>64,589,600</b>	<b>(64,145,528)</b>	<b>66,284</b>	<b>510,356</b>	<b>-</b>	<b>510,356</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Statement 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 and Australian Accounting Standards.

The financial report has been prepared on a historical cost basis, except where stated. Cost is based on the fair values of the consideration given in exchange for assets. The financial report is presented in Australian dollars.

#### GOING CONCERN

The consolidated entity suffered a loss for the financial year ended 30 June 2006. The consolidated entity has forecast that it will be able to generate cash flows in the 12 months from the signing of this report which, together with current working capital and the results of the initiatives mentioned below, will be sufficient to fund the company's operations for that period.

The company issued a prospectus on 7 July 2006 for a non-renounceable entitlements offer to raise up to \$3.06 million. At the date of this report, the Company successfully raised \$3.08 million from this entitlements issue from shareholders, institutional and professional investors.

The financial statements have therefore been prepared on a going concern basis which assumes that the consolidated entity can continue to meet its commitments and can therefore continue normal business activities and achieve the realisation of assets and settlement of liabilities in the ordinary course of business.

#### (b) Statement of compliance

The financial report was authorised for issue on 29 September 2006.

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

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly. Reconciliations of AIFRS equity and profit and loss for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in Note 25.

The following amendments to Australian Accounting Standards that have recently been issued or amended are not applicable to the Company and therefore have no impact.

Amendment/New Standard	Affected Standards
2005-2	AASB 1023: General Insurance Contracts
2005-4	AASB 139: Financial Instruments: Recognition and Measurement, AASB 132: Financial Instruments: Disclosure and Presentation, AASB 1: First-time adoption of AIFRS, AASB 1023: General Insurance Contracts and AASB 1028: Life Insurance Contracts
2005-9	AASB 4: Insurance Contracts, AASB 1023: General Insurance Contracts, AASB 139: Financial Instruments: Recognition and Measurement and AASB 132: Financial Instruments: Disclosure and Presentation
2005-12	AASB 1038: Life Insurance Contracts and AASB 1023: General Insurance Contracts
UIG 6	UIG 6 Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
UIG 7	UIG 7 Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies
2005-2	AASB 1023: General Insurance Contracts

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Australian Accounting Standards and Urgent Issues Group Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2006:

Amendment / New Standard	Affected Standards	Nature of Change to Accounting Policy	Application Date of Standard*	Application Date for Company
2004-3	AASB 1 First time adoption of AIFRS AASB 101 Presentation of Financial Statements AASB 124 Related Party Disclosures	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-1	AASB 139: Financial Instruments: Recognition and Measurement	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-5	AASB 1: First time adoption of AIFRS, AASB 139: Financial Instruments: Recognition and Measurement	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-6	AASB 3: Business Combinations	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-10	AASB 132: Financial Instruments: Disclosure and Presentation, AASB 101: Presentation of Financial Statements, AASB 114: Segment Reporting, AASB 117: Leases, AASB 133: Earnings per Share, AASB 139: Financial Instruments: Recognition and Measurement, AASB 1: First time adoption AIFRS, AASB 4: Insurance Contracts, AASB 1023: General Insurance Contracts and AASB 1038: Life Insurance Contracts	No change to accounting policy required. Therefore no impact	1 January 2007	1 July 2007
2006-1	AASB 121 The Effects of Change in Foreign Currency Rates	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
AASB 7	AASB 7 Financial Instruments: Disclosures	No change to accounting policy required. Therefore no impact	1 January 2007	1 July 2007
AASB 119	AASB 119 Employee Benefits	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
UIG 4	UIG 4 Determining whether an Arrangement contains a Lease	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
UIG 5	UIG 5 Rights to Interests in Decommissioning, Restoration and Environmental Rehabilitation Funds	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

UIG 8	UIG 8 Scope of AASB 2	No change to accounting policy required. Therefore no impact	1 May 2006	1 July 2006
UIG 9	UIG 9 Reassessment of Embedded Derivatives	No change to accounting policy required. Therefore no impact	1 June 2006	1 July 2006

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

**(c) Basis of consolidation**

The consolidated financial statements comprise the financial statements of Resonance Health Limited ("company" or "parent entity") and its subsidiaries as at 30 June each year ("the Group").

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.

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition. Accordingly, the consolidated financial statements include the results of subsidiaries for the period from their acquisition.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet.

**(d) Significant accounting judgements, estimates and assumptions**

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

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of recoverable amount of the cash generating units to which the goodwill are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in Note 12.

**(e) Revenue recognition**

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

*(i) Sale of Goods*

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

*(ii) Rendering of services*

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

*(iii) Interest income*

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

All revenue is stated net of the amount of goods and services tax (GST).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### (f) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

#### (g) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

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.

#### (h) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

#### (i) Trade and other receivables

Trade debtors which generally have 30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

#### (j) Foreign Currency Transactions and Balances

Foreign currency transactions during the year are initially converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

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

#### (k) Income tax

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

Deferred income tax is provided on all temporary differences at the balance sheet 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 account 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available or allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet 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 sheet 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 GST except:

- where the amount of 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 balance sheet.

Cash flows are included in the Cash Flow Statement 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) Plant and Equipment**

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

**Depreciation**

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

Plant and equipment      3 – 10 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 amount of plant and equipment is reviewed for impairment at each reporting 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.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)***(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.

**(n) Investments and other financial assets**

Investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. 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.

*(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.

**(o) Goodwill**

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

**(p) Research and development costs**

Research costs are expensed as incurred.

**(q) Impairment of assets**

The Group assesses at each reporting 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 flows 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).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an 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 can not 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 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.

**(r) 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.

**(s) Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

**(t) Employee Benefits***(i) Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employee's services up to the reporting 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.

**(u) Share-based payment transactions***(i) Equity-settled transactions*

The Group has a number of 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.

**(v) Contributed equity**

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.

**(w) Earnings per share ("EPS")**

Basic EPS is calculated as net profit/loss attributable to members, adjusted to exclude 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, 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;

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated		Parent	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>NOTE 2: Revenues and expenses</b>				
<b>(a) Revenue</b>				
Liver Scan income	313,532	121,568	-	-
Grants received	233,070	111,766	-	-
Interest received	69,183	49,845	56,697	30,024
Other	2,538	-	-	-
	<u>618,323</u>	<u>283,179</u>	<u>56,697</u>	<u>30,024</u>
<b>(b) Expenses</b>				
Depreciation of non-current assets	50,334	56,793	15,586	5,160
Rental expense on operating leases	100,566	33,287	100,566	23,230
Share based payments expense	77,084	15,175	77,084	15,175
Impairment of goodwill on consolidation	12,786,888	-	-	-
Impairment of loans to and investment in subsidiaries	-	-	14,681,008	849,632

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

The major components of tax benefit are:

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

227,383	-	-	-
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The prima facie income tax benefit on pre-tax accounting loss from operations reconciles to the income tax benefit in the financial statements as follows:

Accounting loss before income tax	(16,288,228)	(2,764,433)	(15,794,178)	(1,722,000)
Income tax calculated at 30%	(4,886,468)	(829,330)	(4,738,253)	(516,600)
Non-deductible expenses	3,836,066	-	4,404,302	254,890
Benefit of income tax losses not brought to account	1,050,402	829,330	333,951	261,710
Tax refund received (R&D tax offset)	227,383	-	-	-
Income tax benefit attributable to loss from ordinary activities	<u>227,383</u>	<u>-</u>	<u>-</u>	<u>-</u>

**Benefit of Tax losses not recognised**

Benefit of losses available for offset against future taxable income

2,581,393	1,530,991	1,400,219	1,066,268
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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

**NOTE 4: Segment reporting**

## Business and Geographical Segments

The primary activity of the consolidated entity is that of commercialisation of the FerriScan® technology – a novel, non-invasive technology for the diagnosis and monitoring of iron overload diseases, and as such, represents only one reportable business and geographical segment.

	Consolidated	
	2006 \$	2005 \$
<b>NOTE 5: Earnings per share</b>		
Basic and diluted earnings per share	(8.1)	(1.7)
(a) Earnings used in the calculation of total basic earnings per share reconciles to net loss in the income statement as follows:		
Net loss	(16,060,845)	(2,764,433)
Net loss attributable to outside equity interest	-	1,109,615
Earnings used in the calculation of basic and dilutive earnings per share	(16,060,845)	(1,654,818)
	Number	
(b) Weighted average number of ordinary shares for the purposes of basic earnings per share	198,057,790	94,686,030
(c) Classification of securities		
Options outstanding have been classified as potential ordinary shares, however they are not considered to be dilutive in nature as their conversion will not result in an increase in the basic loss per share.		

**NOTE 6: Dividends**

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

**NOTE 7: Cash and cash equivalents**

	Consolidated		Parent	
	2006 \$	2005 \$	2006 \$	2005 \$
Deposits at call	570,951	1,509,192	345,882	786,374

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated		Parent	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>NOTE 7: Cash and cash equivalents (Cont'd)</b>				
<b>(i) Reconciliation of loss for the year to net cash flows from operating activities</b>				
Loss for the year	(16,060,845)	(2,764,433)	(15,794,178)	(1,722,000)
Non-cash flows in loss:				
Depreciation	50,334	56,793	15,586	5,160
Write down of property, plant and equipment	9,253	-	4,364	-
Impairment of investments	10,449	-	14,681,008	849,632
Impairment of goodwill on consolidation	12,786,888	-	-	-
Share payment expense	-	15,175	-	15,175
Consulting fee	77,083	-	77,083	-
Reclassification to investing activities:				
Research and development	317,774	332,066	-	-
Changes in net assets and liabilities:				
(Increase)/decrease in receivables	34,505	(53,312)	(34,958)	143,674
(Increase)/decrease in other assets	(26,729)	(84,225)	(24,015)	1,036
Increase/(decrease) in trade creditors and borrowings	39,677	126,919	164,344	2,268
Increase/(decrease) in provisions	(45,218)	29,336	(30,521)	18,247
Net cash used in operating activities	(2,806,829)	(2,341,681)	(941,287)	(686,808)

**(ii) Acquisition of subsidiary**

In the previous year, the company acquired 100% of the issued capital of WA Private Health Care Services Pty Ltd through the acquisition of minority shareholders in Resonance Health Analysis Services Pty Ltd on 31 May 2005.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

**NOTE 8: Trade and other receivables**

	Consolidated		Parent	
	2006 \$	2005 \$	2006 \$	2005 \$
Current				
Trade receivables	105,252	76,127	-	-
Amount owing to related entity	-	-	54,134	-
Other receivables	28,854	151,675	994	82,167
	<u>134,106</u>	<u>227,802</u>	<u>55,128</u>	<u>82,167</u>

Trade receivables are non-interest bearing and are generally on 30 day terms.

## Non Current

Loans to subsidiaries	-	-	5,487,601	3,785,596
Less: Impairment	-	-	(5,487,601)	(1,374,979)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,410,617</u>

## Movement in impairment:

- balance at the beginning of year	-	-	(1,374,979)	(525,347)
- increase during the year	-	-	(4,112,622)	(849,632)
- balance at end of year	<u>-</u>	<u>-</u>	<u>(5,487,601)</u>	<u>(1,374,979)</u>

An impairment loss has been recognised against the loans to subsidiaries on the basis that the subsidiaries have incurred losses during the year and it is considered prudent to provide for the possibility of non-recovery of the loans. The impairment loss is eliminated on consolidation.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated		Parent	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>Note 9: Financial assets</b>				
Current – Available for sale investments				
Shares in listed corporations	14,337	14,337	-	-
Less: Impairment	(10,449)	-	-	-
	<u>3,888</u>	<u>14,337</u>	<u>-</u>	<u>-</u>
Non-Current – Other financial assets				
Investment in subsidiaries (Note 20) (i)	-	-	10,939,666	10,939,666
Less: Impairment	-	-	(10,568,386)	-
	<u>-</u>	<u>-</u>	<u>371,280</u>	<u>10,939,666</u>

The carrying value of the investment in subsidiaries is dependent on the successful development and commercialisation of the FerriScan® technology or realisation by sale, by the company's subsidiaries.

(i) An impairment loss has been recognised against the investment in subsidiaries on the basis that the subsidiaries have incurred losses during the year and it is considered prudent to provide for the possibility of non-recovery. The impairment loss is eliminated on consolidation.

**NOTE 10: Other assets**

Current				
Prepayments	65,205	38,621	35,107	11,092
Security deposits	45,745	45,600	-	-
	<u>110,950</u>	<u>84,221</u>	<u>35,107</u>	<u>11,092</u>

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

Fixtures and equipment				
At cost	220,160	236,259	-	21,520
Less: Accumulated depreciation	(101,552)	(79,479)	-	(5,160)
Total property, plant and equipment	<u>118,608</u>	<u>156,780</u>	<u>-</u>	<u>16,360</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

**NOTE 11: Property, plant and equipment (Cont'd)****Reconciliation**

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

	Consolidated		Parent	
	2006 \$	2005 \$	2006 \$	2005 \$
Fixtures and Equipment				
Balance at the beginning of the year	156,780	79,115	16,360	17,942
Additions	24,223	134,458	3,590	3,578
Disposals	(12,061)	-	(4,364)	-
Depreciation expense	(50,334)	(56,793)	(15,586)	(5,160)
Carrying amount at the end of the year	118,608	156,780	-	16,360

**NOTE 12: Intangible assets**

Goodwill on consolidation	12,786,888	12,786,888	-	-
Less: Impairment	(12,786,888)	-	-	-
	-	-	-	-

Goodwill on consolidation represents the amount by which the purchase price of the ownership interest in the controlled entity exceeded the fair value attributed to the identifiable net assets of the controlled entity at the date of acquisition. Essentially, the technology embedded in this goodwill represents technology associated with FerriScan®.

The directors have tested this goodwill for impairment and have determined that given the rate of market and sales penetration of FerriScan® to date the FerriScan® service does not constitute an adequate standalone business.

In making an assessment of impairment the directors have had regard to the inherent value of the Ferriscan® technology including the value it brings in the development of the FibroScreen™ technology. If the estimated future cash flows from both the FerriScan® and FibroScreen™ technology are considered together as one cash generating unit the directors do not consider the goodwill on consolidation to be impaired.

However, due to the inherent uncertainty in valuing goodwill, the directors have resolved to adopt an interpretation of the relevant accounting standard which treats the FibroScreen™ technology as a separate cash generating unit, and as such, have resolved to record an impairment loss of \$12,786,888 against the goodwill on consolidation, reducing the carrying value of the goodwill on consolidation to nil.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated		Parent	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>NOTE 13: Trade and other payables</b>				
Current				
Trade payables	50,018	87,967	22,256	2,830
Related party payables	125,787	-	125,787	-
Sundry creditors and accruals	197,175	233,336	137,257	106,126
	<u>372,980</u>	<u>321,303</u>	<u>285,300</u>	<u>108,956</u>

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

**NOTE 14: Interest-bearing loans**

Current				
Unsecured loans	15,935	-	11,741	-

**NOTE 15: Provisions**

Current				
Employee entitlements	22,660	67,879	-	30,521
Income tax	16,572	16,572	-	-
	<u>39,232</u>	<u>84,451</u>	<u>-</u>	<u>30,521</u>

**Note 16: Contributed equity**

		2006		2005	
		Number	\$	Number	\$
(a) Issued and paid up capital					
204,607,159 ordinary shares	\$64,589,584				
16,000,000 incentive shares	\$16	220,607,159	64,589,600	201,494,023	62,391,865
<u>2005:</u>					
185,494,023 ordinary shares	\$62,391,849				
16,000,000 incentive shares	\$16				

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

## Note 16: Contributed equity (Cont'd)

## Movements during the period

Ordinary shares	Number of shares	Issue price	\$
Balance at the beginning of the financial year	185,494,023		62,391,849
Shares issued:			
- Exercise of options	2,662,515	\$0.15	399,356
- Shares issued pursuant to share placement in September 2005	8,695,652	\$0.115	1,000,000
- Shares issued pursuant to share purchase plan in November 2005	6,921,635	\$0.115	796,000
- Shares issued to corporate advisors in November 2005	416,667	\$0.105	43,750
- Shares issued to corporate advisors in April 2006	416,667	\$0.08	33,334
Share issue expenses			(74,705)
Balance at end of financial year	204,607,159		64,589,584
<b>Incentive shares</b>			
Balance at the beginning of the financial year	16,000,000	\$0.000001	16
<b>Total</b>	<b>220,607,159</b>		<b>64,589,600</b>

## (b) Share Options

Options over ordinary shares issued during the year and outstanding at balance date:

**47,798,794 Listed Options Expiring 15 January 2007 (ASX Code: RHTOA)**

The options are listed on the ASX and have an exercise price of \$0.15 to the expiry date of 15 January 2007.

On 16 June 2005, 6,000,000 options were issued free to participants in a share placement where they received one free attached option per share subscribed, where funds of \$960,000 were raised. Under the terms of the placement, each allottee was required to exercise 50% of their options before 30 September 2005. On 14 October 2005, 2,662,515 options were converted to ordinary shares raising \$395,356.

**20,604,594 Listed Options Expiring 15 January 2008 (ASX Code: RHTOB)**

The options are listed on the ASX and have an exercise price of \$0.40, exercisable any time prior to their expiry date of 15 January 2008.

**1,600,000 Unlisted Options Expiring 7 July 2009**

Issued to directors and have an exercise price of \$0.30 to the expiry date of 7 July 2009.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

**Note 16: Contributed equity (Cont'd)****(b) Share Options (Cont'd)****800,000 Unlisted Options Expiring 7 July 2009**

Issued to directors and have an exercise price of \$0.40 to the expiry date of 7 July 2009.

**4,000,000 Unlisted Options Expiring 12 November 2007**

Issued on the conversion of the Class A incentive share options on 12 November 2004 and have an exercise price of 20 cents to the expiry date of 12 November 2007.

**3,333,341 Unlisted Options Expiring 6 December 2007**

Issued on the conversion of the Class D incentive share options on 3 December 2004 and have an exercise price of 20 cents to the expiry date of 6 December 2007.

**3,333,325 Unlisted Options Expiring 6 December 2007**

Issued on the conversion of the Class D incentive share options on 3 December 2004 and have an exercise price of 30 cents to the expiry date of 6 December 2007.

**3,333,342 Unlisted Options Expiring 1 February 2008**

Issued on the conversion of the Class E incentive share options on 1 February 2005 and have an exercise price of 20 cents to the expiry date of 1 February 2005.

**3,333,325 Unlisted Options Expiring 1 February 2008**

Issued on the conversion of the Class E incentive share options on 1 February 2005 and have an exercise price of 30 cents to the expiry date of 1 February 2005.

**500,000 Unlisted Options Expiring 31 May 2007**

Issued to the Managing Director and have an exercise price of \$0.25 to the expiry date of 31 May 2007.

**1,000,000 Unlisted Options Expiring 31 May 2008**

Issued to the Managing Director and have an exercise price of \$0.30 to the expiry date of 31 May 2008.

**2,000,000 Unlisted Options Expiring 31 May 2008**

Issued to the Managing Director and have an exercise price of \$0.40 to the expiry date of 31 May 2008. These options will vest upon the earlier to occur of Medicare reimbursement being granted for the FerriScan<sup>®</sup> test on a stand alone basis or in combination with MRI scan of the liver or the Company achieving \$10,000,000 in annualised FerriScan<sup>®</sup> sales (excluding one off or upfront licence income) based on the trailing half year.

**2,000,000 Unlisted Options Expiring 31 May 2008**

Issued to the Managing Director and have an exercise price of \$0.50 to the expiry date of 31 May 2008. These options will vest upon the achievement of Medicare reimbursement being granted for FerriScan<sup>®</sup> test on a stand alone basis or in combination with MRI scan of the liver (if not achieved above) or the Company achieving \$10,000,000 in annualised FerriScan<sup>®</sup> sales (excluding one off or upfront licence income) based on the trailing half year (if not achieved above). In the event the performance milestone referred to above has been achieved, the milestone shall be substituted and the Options shall vest upon the achievement of annualised EBIT results of \$10,000,000, based on the trailing 4 months EBIT results exceeding \$833,000 per month.

**100,000 Unlisted Options Expiring 24 March 2008**

Issued to an employee on 3 May 2006 and have an exercise price of 30 cents to the expiry date of 24 March 2008.

**400,000 Unlisted Options Expiring 2 April 2007**

Issued to an employee on 3 May 2006 and have an exercise price of 40 cents to the expiry date of 2 April 2007.

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

### Note 16: Contributed equity (Cont'd)

#### (c) Terms and conditions of ordinary shares

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

#### (d) Terms and conditions of incentive shares and options

##### **13,000,000 unquoted class F incentive shares and 6,666,667 unquoted incentive options**

Each Incentive Share entitles the Holder to convert the Incentive Share into an ordinary Share and an Incentive Share Option into a share option in accordance with the following Milestones.

Class F Incentive Shares and Class F Incentive Share Options 8,000,000 Resonance Shares, 3,333,334 free unlisted Resonance options with an exercise price of 20 cents per Resonance option and an expiry date 3 years from the date of issue and 3,333,333 unlisted Resonance options with an exercise price of 30 cents per Resonance option and an expiry date 3 years from the date of issue upon achievement of Medicare Services Advisory Committee (MSAC) assessment completed and reimbursement number received for at least one clinical application of the IVB Technology and the expiration of 12 months from Settlement.

##### **3,000,000 unquoted class G incentive shares**

Each Incentive Share entitles the Holder to convert the Incentive Share into an ordinary Share and an Incentive Share Option into a share option 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.

#### (e) Employee Option Scheme

The Company has an Incentive Option Scheme which is designed to provide a long term incentive for employees of the Company (or its subsidiaries) by providing them with an opportunity to participate in the future growth of the Company.

Subject to the Corporations Act and the Listing Rules, the Directors may issue invitations to eligible participants inviting them to apply for the issue of options under the Scheme on such terms as the Directors think fit. Invitations must not be issued under the Scheme if the number of Shares that would be issued pursuant to the exercise of all options the subject of the proposed invitation (when aggregated with the number of Shares that have been issued pursuant to all employee share schemes established by the Company during the previous 5 years) exceeds 5% of the total number of issued Shares as at the date its proposed invitation is considered. Options issued to directors through the scheme are exempt from this requirement as separate shareholder approval has been received.

The Directors also have the power to determine appropriate procedures for the administration of the Scheme, including the right to resolve questions of fact or interpretation arising in connection with the Scheme and the right to amend the Scheme from time to time.

Options are granted under the plan for no consideration. Options granted under the plan carry no dividend or voting rights. Options granted are conditional on future employment.

When exercisable, each option is convertible into one ordinary share at the following times in any given year:

- (1) between 17 June and 30 June;
- (2) between 17 September and 30 September;
- (3) between 18 September and 31 December; and
- (4) between 18 March and 31 March.

The exercise price of options shall be as the directors in their absolute discretion determine, provided the exercise price shall not be less than the greater of 20 cents or the weighted average price at which the company's shares are traded on the Australian Stock Exchange during the five business days immediately before the options are granted. Amounts receivable on the exercise of options are recognised as share capital.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

**Note 16: Contributed equity (Cont'd)**

Set out below are summaries of options granted to the date of this report.

Specified Directors	Grant Date	Expiry Date	Value per option at grant date \$	Exercise Price \$	Balance at start of the year Number	Issued during the year Number	Balance at end of the year Number
Dr M Wooldridge Chairman	13 May 2004	7 July 2009	\$0.016	\$0.30	650,000	-	650,000
Mr T Fitzgerald Director	13 May 2004	7 July 2009	\$0.004	\$0.40	800,000	-	800,000
Dr C Bennett Director	13 May 2004	7 July 2009	\$0.016	\$0.30	650,000	-	650,000
Dr A Walker Director	13 May 2004	7 July 2009	\$0.016	\$0.30	300,000	-	300,000
Dr J Williams Managing Director	31 May 2005	31 May 2007	\$0.0091	\$0.25	500,000	-	500,000
	31 May 2005	31 May 2008	\$0.0075	\$0.30	1,000,000	-	1,000,000
	31 May 2005	31 May 2008	\$0.0013	\$0.40	2,000,000	-	2,000,000
	31 May 2005	31 May 2008	\$0.0002	\$0.50	2,000,000	-	2,000,000
Other	3 May 2006	24 March 2008	\$0.00	\$0.30	-	100,000	100,000
	3 May 2006	2 April 2007	\$0.00	\$0.40	-	400,000	400,000
	Total			-	7,900,000	500,000	8,400,000

Options have been valued using the Black and Scholes method of valuation.

No options have been exercised during the financial year and to the date of this report.

**NOTE 17: Accumulated losses**

	Consolidated		Parent	
	2006 \$	2005 \$	2006 \$	2005 \$
Balance 1 July	(48,084,683)	(46,429,865)	(48,351,350)	(46,629,353)
Net loss for year	(16,060,845)	(1,654,818)	(15,794,178)	(1,722,000)
Balance 30 June	(64,145,528)	(48,084,683)	(64,145,528)	(48,336,175)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

**NOTE 18: Financial instruments****(a) Weighted average effective interest rate**

	Floating Interest Rate		Non-interest Bearing		Total		Weighted Average Effective Interest Rate	
	2006	2005	2006	2005	2006	2005	2006	2005
<b>Financial Assets:</b>								
Cash	570,951	1,509,192	-	-	570,951	1,509,192	4.26%	5.23%
Receivables	-	-	134,106	227,802	134,106	227,802		
Listed shares	-	-	3,888	14,337	3,888	14,337		
Other	43,345	45,600	67,605	38,621	110,950	84,221	5.80%	5.20%
<b>Total Financial Assets</b>	<b>614,296</b>	<b>1,554,792</b>	<b>185,206</b>	<b>280,760</b>	<b>819,895</b>	<b>1,835,552</b>		
<b>Financial Liabilities:</b>								
Payables	-	-	372,980	321,303	372,980	321,303		
Borrowings	15,935	-	-	-	15,935	-	6.49%	-
<b>Total Financial Liabilities</b>	<b>15,935</b>	<b>-</b>	<b>372,980</b>	<b>321,303</b>	<b>388,915</b>	<b>321,303</b>		

**(b) Interest Rate Risk**

All financial assets and financial liabilities are non-interest bearing except for cash balances which are deposited at variable interest rates.

**(c) Credit Risk**

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 doubtful debts, as disclosed in the Balance Sheet and Notes to the Financial Statements.

The company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the company.

**(d) Net Fair Values**

The net fair values of all monetary 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 financial assets and liabilities are disclosed in the Balance Sheet and Notes to the Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>NOTE 19: Commitments for expenditure</b>				
<b>Operating lease commitments</b>				
Commitments for minimum lease payments in relation to non-cancellable operating leases for office premises are payable as follows:				
Within one year	59,499	50,193	59,499	50,193
Later than 1 year but no later than 5 years	20,126	87,838	20,126	87,838
Total commitments not recognised in the financial statements	79,625	138,031	79,625	138,031

**Remuneration commitments**

Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:

Within 1 year	-	114,500	-	114,500
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Amounts disclosed as remuneration commitments include commitments arising from the service contract of the managing director and executive director that is not recognised as a liability and not included in the directors' remuneration disclosure in the directors' report.

**NOTE 20: Related party disclosure**

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

<u>Name of entity</u>	<u>Country of incorporation</u>	<u>Class of shares</u>	<u>Equity holding</u>	<u>Investment</u>
				<u>£</u>
Resonance Health Analysis Services Pty Ltd (formerly Inner Vision Biometrics Pty Ltd)	Australia	Ordinary	100%	9,415,300
WA Private Health Care Services Pty Ltd	Australia	Ordinary	100%	224,366
IVB Holdings Pty Ltd	Australia	Ordinary	100%	1,300,000
Less: Impairment				(10,568,386)
				371,280

**Acquisition of controlled entities**

The Company acquired 100% of the issued capital of Resonance Health Analysis Services Pty Ltd on 31 May 2005 in addition to 100% of the issued share capital of WA Private Health Care Services Pty Ltd pursuant to a share sale agreement. Further details of these acquisitions are set out in Note 7(ii) and (iii).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

### NOTE 20: Related party disclosure (Cont'd)

#### 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 and Balances with Directors and Other Key Management Personnel

Details of directors' and other key management personnel remuneration are disclosed in Note 23 to the financial statements.

The company has agreements with two entities that are affiliated with directors Mr Dalsin and Mr Greene.

The first agreement is with Montgomery Pacific Group, LLC (MPG) for corporate advisory services. Mr Dalsin and Mr Greene each own 31.5% of MPG. Under this agreement the Company has agreed to pay MPG a fee of 1% of the value of all equity funds MPG is responsible for raising for the Company. The Company has also agreed, subject to shareholder approval, to issue 1,000,000 fully paid ordinary shares in the Company to MPG when the volume weighted average trading price of the shares in the Company over a 40 trading day period equals or exceeds \$0.40.

Before Mr Dalsin and Mr Greene were appointed directors, fees for corporate advisory services totalling \$50,001 were paid and 833,334 fully paid ordinary shares in the Company were issued to MPG during the financial year. Of these shares Mr Dalsin and Mr Greene each have a relevant interest in 250,000 shares.

The second agreement is with Stanmore Capital Partners, LLC (Stanmore) for corporate advisory and acquisition sourcing and negotiation services. Mr Dalsin and Mr Greene each own 50% of Stanmore. Under this agreement the company pays a monthly retainer of US\$15,000 to Stanmore. In addition, Stanmore is entitled to receive a success fee on the closing of any relevant acquisition sourced by it of 3% of the total consideration payable, with a minimum fee of US\$75,000 in respect of any relevant acquisition. Upon the Company executing any letter of intent involving an acquisition sourced by Stanmore, Stanmore is entitled to receive a milestone fee of US\$75,000, which is credited against the 3% fee referred to above payable on successful closing of the acquisition.

With respect to the potential acquisition announced on 20 April 2006 and further detailed in the prospectus dated 7 July 2006, Stanmore is entitled, subject to shareholder approval, to receive 7,000,000 shares in the Company upon closing, if that occurs. Stanmore is also entitled to receive a fee of 6% of all equity funds raised by the Company from subscribers introduced by Stanmore. In addition, if any shortfall shares are placed with third parties as a result of introductions by MPG or Stanmore, they may be entitled to receive a procurement fee of 7% of the aggregate subscription amount of those placed shortfall shares split between them with 1% for MPG and 6% for Stanmore.

Since the appointment of Mr Dalsin and Mr Greene as directors Stanmore has received \$81,572 as a monthly retainer for corporate advisory services. At balance date an amount of \$101,971 was owing to Stanmore as a success fee.

Also owing at balance date to a company associated with Mr Dalsin and Mr Greene was \$23,816 for re-imbursement of travel expenses.

The company also has an agreement with Domain Capital Pty Ltd, an entity associated with Mr Aird, a director of the Company. Under this agreement, if any shortfall shares arising in relation to the prospectus dated 7 July 2006, are placed with third parties as a result of introductions by it, Domain Capital Pty Ltd will be entitled to receive a procurement fee of 7% of the aggregate subscription amount of those placed shortfall shares.

#### Transactions with Related Parties in the Wholly Owned Group

During the year the company has provided interest free loans to Resonance Health Analysis Services Pty Ltd totalling \$1,855,000 with no fixed repayment date. An impairment of these loans amounting to \$5,487,601 has been recorded at balance date.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

**NOTE 21: Events subsequent to reporting date**

No 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, other than as set out in Note 24.

<b>NOTE 22: Auditors' remuneration</b>	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
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	30,000	19,370	30,000	19,370
— Taxation compliance services	14,574	7,842	1,832	4,480
— other services	1,700	-	200	-
	<u>46,274</u>	<u>27,212</u>	<u>32,032</u>	<u>23,850</u>

**NOTE 23: Director and key management personnel disclosures****(a) Details of Directors and other key management personnel****(i) Directors**

Dr Gary Pace	Chairman (non-executive)	Appointed 20 April 2006
The Hon. Dr Michael Wooldridge	Deputy Chairman (non-executive)	
Dr James Williams	Managing Director	Resigned 12 May 2006
Mr Guy Aird	Director (non-executive)	Appointed 20 April 2006
Mr Ian Anderson	Director (non-executive)	
Dr Christine Bennett	Director (non-executive)	Resigned 20 April 2006
Mr Michael Dalsin	Director (non-executive)	Appointed 20 April 2006
Mr Anthony Fitzgerald	Director (non-executive)	Resigned 20 April 2006
Mr Roger Greene	Director (non-executive)	Appointed 20 April 2006
Dr Jay Ives	Director (non-executive)	Resigned 20 April 2006
Dr Andrew Walker	Director (non-executive)	

**(ii) Other key management personnel**

Key management personnel are those directly accountable and responsible for the operational management and strategic direction of the Company and the consolidated entity.

Accordingly, there was one employee, being the Managing Director Dr James Williams, in this category. Dr James Williams resigned during the year and his position was not replaced. Being a working Board, strategic direction and decision making is exercised through the Board.

**(b) Remuneration of Directors and other key management personnel**

The Company has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found in the Remuneration Report forming part of the Directors' Report.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 23: Director and key management personnel disclosures (Cont'd)

## (c) Shareholdings

## Number of Ordinary Shares held by Directors

The numbers of ordinary shares in the company held during the financial year by each director of Resonance Health Limited including their personally related entities are set out below.

Directors	Opening Balance	Received as Remuneration	Net Change Other*	Received during the year on exercise of options	Balance 30.6.06
Dr G Pace	-	-	-	-	-
Dr M Wooldridge	224,742	-	-	-	224,742
Dr J Williams	25,000	-	(25,000) <sup>#</sup>	-	-
Mr G Aird	-	-	-	-	-
Mr I Anderson	1,307,934	-	86,956	-	1,394,890
Dr C Bennett	-	-	-	-	-
Mr M Dalsin	-	-	125,000 <sup>^</sup>	-	125,000
Mr A Fitzgerald	431,571	-	(431,571) <sup>™</sup>	-	-
Mr R Greene	-	-	125,000 <sup>^</sup>	-	125,000
Dr J Ives	5,410,934	-	(5,410,934) <sup>™</sup>	-	-
Dr A Walker	-	-	-	-	-
Total	7,400,181	-	(5,530,549)	-	1,869,632

\* "Net Change Other" includes those shares that were issued during the year through on market purchase/sale.

™ Shares held as disclosed in the final directors interest notice on resignation as director on 20 April 2006.

<sup>^</sup> Shares held as disclosed in the initial directors interest notice on being appointed directors on 20 April 2006.

<sup>#</sup> Shares held as disclosed in the final directors interest notice on resignation as director on 12 May 2006.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 23: Director and key management personnel disclosures (Cont'd)

## (d) Option Holdings

## Number of Options held by Directors

The numbers of options over ordinary shares in the company held during the financial year by each director of Resonance Health Limited including their personally related entities are set out below.

	Opening Balance	Options Exercised	Granted as Remuneration	Net Change Other*	Balance 30.6.06
Dr G Pace	-	-	-	-	-
Dr M Wooldridge	1,130,618	-	-	-	1,130,618
Dr J Williams	5,500,000	-	-	(5,500,000) #	-
Mr G Aird	-	-	-	-	-
Mr I Anderson	-	-	-	-	-
Dr C Bennett	650,000	-	-	(650,000) °	-
Mr M Dalsin	-	-	-	-	-
Mr A Fitzgerald	889,364	-	-	(889,364) °	-
Mr R Greene	-	-	-	-	-
Dr J Ives	40,334	-	-	(40,334) °	-
Dr A Walker	590,000	-	-	-	590,000
Total	8,800,316	-	-	(7,079,698)	1,720,618

\* "Net Change Other" includes those options that were issued during the year other than as remuneration through on market purchase/sale.

° Options held as disclosed in the final directors interest notice on resignation as director on 20 April 2006.

# Options held as disclosed in the final directors interest notice on resignation as director on 12 May 2006.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 23: Director and key management personnel disclosures (Cont'd)

## (e) Incentive Shareholdings

## Number of Incentive Shares held by Directors

	Opening Balance	Received as Remuneration	Converted to Ordinary Shares	Net Change	Other	Balance 30.6.06
Dr G Pace	-	-	-	-	-	-
Dr M Wooldridge (1)	12,371	-	-	-	-	12,371
Dr J Williams	3,000,000	-	-	(3,000,000) <sup>#</sup>	-	-
Mr G Aird	-	-	-	-	-	-
Mr I Anderson (2)	83,334	-	-	-	-	83,334
Dr C Bennett	-	-	-	-	-	-
Mr M Dalsin	-	-	-	-	-	-
Mr A Fitzgerald	20,619	-	-	(20,619) <sup>∞</sup>	-	-
Mr R Greene	-	-	-	-	-	-
Dr J Ives (5)	383,334	-	-	(383,334) <sup>∞</sup>	-	-
Dr A Walker	-	-	-	-	-	-
Total	3,499,658	-	-	(3,403,953)	-	95,705

<sup>#</sup> Incentive Shares held as disclosed in the final directors interest notice on resignation as director on 12 May 2006.

<sup>∞</sup> Incentive Shares held as disclosed in the final directors interest notice on resignation as director on 20 April 2006.

## Notes

(1) Dr Wooldridge holds 12,371 Class F Incentive Shares.

(2) Mr Anderson holds 83,334 Class F Incentive Shares

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 23: Director and key management personnel disclosures (cont'd)

## (f) Incentive Option Holdings

## Number of Incentive Options held by Directors

	Opening Balance	Received as Remuneration	Converted to Unlisted Options	Net Change	Other	Balance 30.6.06
Dr G Pace	-	-	-	-	-	-
Dr M Wooldridge (1)	10,309	-	-	-	-	10,309
Dr J Williams	-	-	-	-	-	-
Mr G Aird	-	-	-	-	-	-
Mr I Anderson	-	-	-	-	-	-
Dr C Bennett	-	-	-	-	-	-
Mr M Dalsin	-	-	-	-	-	-
Mr A Fitzgerald	17,182	-	-	(17,182)	<sup>°</sup>	-
Mr R Greene	-	-	-	-	-	-
Dr J Ives	-	-	-	-	-	-
Dr A Walker	-	-	-	-	-	-
Total	27,491	-	-	(17,182)		10,309

<sup>°</sup> Incentive Options held as disclosed in the final directors interest notice on resignation as director on 20 April 2006.

## Notes

(1) Dr Wooldridge holds 10,309 Class F Incentive Options.

## NOTE 24: Funding Requirements

The company issued a prospectus on 7 July 2006 for a non-renounceable entitlements offer to raise up to \$3.06 million. The Company successfully completed the entitlement and placements to institutional and professional investors on 28 September raising a total of \$3.08 million.

The net proceeds of the entitlements issue will be used to initiate full development of the Company's liver fibrosis test, FibroScreen<sup>TM</sup>, fund marketing and sales plans for FerriScan<sup>®</sup> and cover corporate overheads and provide working capital, including meeting the costs associated with the entitlements issue.

## NOTE 25: Transition to AIFRS

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian generally accepted accounting practice ("AGAAP"). These financial statements for the year ended 30 June 2006 are the first the Group is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards ("AIFRS").

Accordingly, the Group has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in Note 1. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 July 2004, the Group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 First-time adoption of AIFRS.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

**NOTE 25: Transition to AIFRS (Cont'd)**

This note explains the principal adjustments made by the Group in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

**Exemptions applied**

AASB 1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively.

The Group has taken the following exemptions:

- Comparative information for financial instruments is prepared in accordance with AGAAP and the company and group have adopted AASB 132: *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005.
- AASB 3 *Business Combinations* has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before 1 July 2004.
- AASB 2 *Share-based Payment* has not been applied to any equity instruments that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 1 January 2005.

**Explanation of material adjustments to the cash flow statement**

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

**Income Statement reflecting reconciliation of adjustments to AIFRS for the year ended 30 June 2005**

	Consolidated			Parent		
	AGAAP \$	AIFRS Impact \$	AIFRS \$	AGAAP \$	AIFRS Impact \$	AIFRS \$
Revenue	283,179	-	283,179	30,024	-	30,024
Employee benefits expense	(1,220,453)	(15,175)	(1,235,628)	(327,084)	(15,175)	(342,259)
Consulting and professional services	(414,095)	-	(414,095)	(239,305)	-	(239,305)
Research and development	(409,219)	-	(409,219)	(30,111)	-	(30,111)
Depreciation and amortisation	(323,460)	266,667	(56,793)	(5,160)	-	(5,160)
Marketing	(75,146)	-	(75,146)	(18,625)	-	(18,625)
Statutory and compliance	(334,688)	-	(334,688)	(191,918)	-	(191,918)
Travel	(280,187)	-	(280,187)	(44,403)	-	(44,403)
Impairment of loans to subsidiaries	-	-	-	(849,632)	-	(849,632)
Other expenses	(241,856)	-	(241,856)	(30,611)	-	(30,611)
Loss before income tax	(3,015,925)	251,492	(2,764,433)	(1,706,825)	(15,175)	(1,722,000)
Income tax	-	-	-	-	-	-
Net loss for the period	(3,015,925)	251,492	(2,764,433)	(1,706,825)	(15,175)	(1,722,000)
Loss attributable to minority interest	1,109,615	-	1,109,615	-	-	-
Net loss attributable to members of parent	(1,906,310)	251,492	(1,654,818)	(1,706,825)	(15,175)	(1,722,000)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 25: Transition to AIFRS (Cont'd)

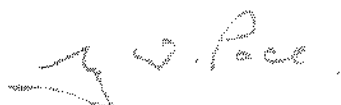
## Balance Sheet reflecting reconciliation of adjustments to AIFRS for the year ended 30 June 2005

	Consolidated			Parent		
	AGAAP \$	AIFRS Impact \$	AIFRS \$	AGAAP \$	AIFRS Impact \$	AIFRS \$
<b>Current Assets</b>						
Cash and cash equivalents	1,509,192	-	1,509,192	786,374	-	786,374
Trade and other receivables	227,802	-	227,802	82,167	-	82,167
Other financial assets	14,337	-	14,337	-	-	-
Other	84,221	-	84,221	11,092	-	11,092
<b>Total Current Assets</b>	<b>1,835,552</b>	<b>-</b>	<b>1,835,552</b>	<b>879,633</b>	<b>-</b>	<b>879,633</b>
<b>Non-Current Assets</b>						
Property, plant and equipment	156,780	-	156,780	16,360	-	16,360
Receivables	-	-	-	2,410,617	-	2,410,617
Other financial assets	-	-	-	10,939,666	-	10,939,666
Intangible assets	12,520,221	266,667	12,786,888	-	-	-
<b>Total Non-Current Assets</b>	<b>12,943,668</b>	<b>266,667</b>	<b>12,943,668</b>	<b>13,366,643</b>	<b>-</b>	<b>13,366,643</b>
<b>Total Assets</b>	<b>14,512,553</b>	<b>266,667</b>	<b>14,779,220</b>	<b>14,246,276</b>	<b>-</b>	<b>14,246,276</b>
<b>Current Liabilities</b>						
Trade and other payables	321,303	-	321,303	108,956	-	108,956
Interest-bearing loans	-	-	-	-	-	-
Provisions	84,451	-	84,451	30,521	-	30,521
<b>Total Current Liabilities</b>	<b>405,754</b>	<b>-</b>	<b>405,754</b>	<b>139,477</b>	<b>-</b>	<b>139,477</b>
<b>Total Liabilities</b>	<b>405,754</b>	<b>-</b>	<b>405,754</b>	<b>139,477</b>	<b>-</b>	<b>139,477</b>
<b>Net Assets</b>	<b>14,106,799</b>	<b>266,667</b>	<b>14,373,466</b>	<b>14,106,799</b>	<b>-</b>	<b>14,106,799</b>
<b>Equity</b>						
Issued capital	62,391,865	-	62,391,865	62,391,865	-	62,391,865
Reserves	51,109	15,175	66,284	51,109	15,175	66,284
Retained earnings	(48,336,175)	251,492	(48,084,683)	(48,336,175)	(15,175)	(48,351,350)
Parent entity interest	14,106,799	266,667	14,373,466	14,106,799	-	14,106,799
<b>Total Equity</b>	<b>14,106,799</b>	<b>266,667</b>	<b>14,373,466</b>	<b>14,106,799</b>	<b>-</b>	<b>14,106,799</b>

**DIRECTORS' DECLARATION**

1. In the opinion of the directors:
  - a. the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001 including:
    - i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year then ended; and
    - ii. complying with Accounting Standards and Corporations Regulations 2001; and
  - b. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2006.

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



Dr. Gary W. Pace, FTS  
Chairman

Place: Melbourne, VIC

Dated: 29<sup>th</sup> day of September 2006





## **INDEPENDENT AUDIT REPORT**

To the members of  
**Resonance Health Limited**

### **Scope**

#### *The Financial Report and Directors' Responsibility*

The financial report comprises the balance sheet as at 30 June 2006, and the income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements and the directors' declaration for the year then ended for both Resonance Health Limited ('the company') and the consolidated entity. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls designed to prevent and detect fraud and error, for the accounting policies and for the accounting estimates within the financial report.

### **Audit Approach**

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance that the financial report is free of material misstatement. The nature of an audit is influenced by several factors including the use of professional judgement, selective testing, the inherent limitations of internal control and the availability of audit evidence which may be persuasive rather than conclusive. Accordingly, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether, in all material respects, the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

When determining the nature and extent of our procedures we considered the effectiveness of management's internal controls over financial reporting. Our audit was not designed to provide assurance in relation to internal controls.

## Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

The Directors' Report attached to the financial statements includes a copy of the Independence Declaration given to the Directors by the lead auditor for the audit. That Declaration would be on the same terms if it had been given to the Directors at the time this audit report was made.

## Audit Opinion

In our opinion, the financial report of Resonance Health Limited is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position at 30 June 2006 and of their performance for the year then ended; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

*HLB Mann Judd*

HLB MANN JUDD  
Chartered Accountants

*L Di Giallonardo*

Perth, Western Australia  
29 September 2006

L DI GIALLONARDO  
Partner

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

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

The following information is supplied as at 22 September 2006

### 1. Analysis of Shareholdings

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

##### Ordinary Shares

Number of Ordinary Shares Held	Number of holders	Number of shares
1 – 1,000	558	131,676
1,001 – 5,000	233	757,067
5,001 – 10,000	336	2,571,097
10,001 – 100,000	1,128	42,943,931
100,001 – and over	343	300,103,456
	2,598	346,507,227

The number of shareholdings holding less than a marketable parcel of shares are 1,531.

#### b. Distribution of Optionholders (ASX Code: RHTOA)

##### Options

	Number of holders	Number of options
1 – 1,000	248	46,315
1,001 – 5,000	151	425,639
5,001 – 10,000	75	550,221
10,001 – 100,000	183	6,948,204
100,001 – and over	80	39,828,415
	737	47,798,794

#### c. Distribution of Optionholders (ASX Code: RHTOB)

##### Options

	Number of holders	Number of options
1 – 1,000	92	22,041
1,001 – 5,000	108	329,225
5,001 – 10,000	45	327,934
10,001 – 100,000	57	2,412,758
100,001 – and over	34	17,512,636
	336	20,604,594

### 2. Voting Rights

The voting rights attached to each class of equity security are as follows:

#### 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.

#### Options

- No voting rights.

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES (Continued)

## 3. Twenty Largest Shareholders of quoted Ordinary Shares

	Name	Number of Ordinary Shares	Percentage of Total
1.	Queensland Investment Corporation	68,000,000	19.62
2.	Paul Roderick Clark <The Pankima A/C>	17,550,000	5.06
3.	ANZ Nominees Limited <Cash income A/C>	10,565,000	3.04
4.	Timothy Guy St Pierre <The St Pierre A/C>	9,078,750	2.62
5.	The University Of Western Australia	9,078,750	2.62
6.	Wanida Chau-Anusorn <The Medta A/C>	8,070,000	2.32
7.	Dr Franklyn Jay Ives	7,222,934	2.08
8.	TV Games Pty Ltd	4,540,000	1.31
9.	Five Tigers Investment Corporation Ltd	4,494,844	1.30
10.	National Nominees Limited	3,240,182	0.93
11.	Nora Goodridge Investments Pty Ltd	2,568,089	0.74
12.	Mrs Carol Elaine Moulden	2,500,000	0.72
13.	Anahein Pty Ltd	2,408,478	0.69
14.	Mr Robert Francis Panton	2,300,000	0.66
15.	Mr Ian Bruce Anderson	2,102,471	0.61
16.	Dr Clement Charles McCormick	2,026,387	0.58
17.	Dr Dirk Jonathon Sweeney	2,026,387	0.58
18.	Millwest Investments Pty Ltd	2,000,000	0.58
19.	Serjeant Nominees Pty Ltd	2,000,000	0.58
20.	Mr Robert Joseph Scolaro	2,000,000	0.58
		163,772,272	47.22

## 4. Twenty Largest Optionholders (ASX Code: RHTOA)

		Number of Options	Percentage of Total
1.	ANZ Nominees Limited <Cash income A/C>	8,289,228	17.34
2.	Five Tigers Investment Corporation Ltd	4,000,000	8.37
3.	Mr Murray Ken Payne	2,216,164	4.64
4.	Anahein Pty Ltd	1,440,294	3.01
5.	Finian MacCana <Lambert Superannuation A/C>	1,020,550	2.13
6.	Integrated Healthcare Investments Pty Ltd	1,000,000	2.09
7.	Minton Pty Ltd	998,333	2.09
8.	Ms Sheenagh Joy Tsugawa	747,000	1.56
9.	Mr Ronald John Haack	720,000	1.50
10.	A Di Bella Pty Ltd	666,667	1.39
11.	Matthew Storey	666,667	1.39
12.	Tracy Ann Blake	600,000	1.26
13.	RJ Trading Pty Ltd	600,000	1.26
14.	Ross Vernon De Little	500,000	1.05
15.	Blake Nominees Pty Ltd <M and T Super Fund A/C>	500,000	1.05
16.	Marmar Super Pty Ltd	500,000	1.05
17.	Bunkers Pty Ltd	500,000	1.05
18.	Robyn Johnston <Patacait Family A/C>	494,000	1.03
19.	Dominion Investments Pty Ltd	484,667	1.01
20.	Gainor Pty Ltd	465,000	0.97
		26,408,570	55.24

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES (Continued)

5. Twenty Largest Optionholders (ASX Code: RHTOB)		Number of Options	Percentage of Total
1.	ANZ Nominees Limited <Cash income A/C>	2,989,834	14.51
2.	Mr Helmut Rocker	1,972,225	9.57
3.	Robert Francis Panton	1,375,500	6.67
4.	Marmar Super Pty Ltd <Marmar S/F A/C>	1,000,000	4.85
5.	Francis George Heppingstone & Danielle Georgette Heppingstone <FG Heppingstone P/L S/F A/C>	877,000	4.26
6.	Minton Pty Ltd	785,000	3.81
7.	Davies Nominees Pty Ltd <Snape A/C>	750,000	3.64
8.	Nora Goodridge Investments Pty Ltd	740,741	3.60
9.	Tracy Ann Blake	700,000	3.40
10.	Morgan & Banks Investments Pty Ltd	665,741	3.23
11.	TV Games Pty Ltd	591,667	2.87
12.	Stephen Newman	370,370	1.80
13.	Stephen & Robert Pearson <S W Pearson Super Account>	349,256	1.70
14.	Laslo & Linda Christine Sabo <Sabo Super Fund A/C>	300,000	1.46
15.	Mondo Electronics Pty Ltd <Mondo Electronics S/F A/C>	300,000	1.46
16.	Mrs Rosalie Heather Watson	296,667	1.44
17.	Laslo Sabo & Linda Christine Sabo <Sabo Family A/C>	285,000	1.38
18.	Mr Peter Arthur Kimberley	281,667	1.36
19.	Mondo Electronics Pty Ltd <The Simon Panton Family A/C>	270,835	1.31
20.	Tasman (VIC) Pty Ltd <Hooper Super A/C>	266,667	1.29
		15,168,170	73.61

## 6. Escrowed and Unquoted Securities

The number and class of securities subject to a voluntary escrow and date of escrow are:

	Number of holders	Number	Date escrow period ends
<b><u>Incentive Shares:</u></b>			
<b>Class F</b>	64	13,000,000	Subject to milestones
Total Class F	64	13,000,000	

Pacific Healthcare Ltd holds 3,908,659 of the unquoted Class F Incentive shares representing 30% of the total escrowed unquoted Class F Incentive shares on issue.

<b>Class G</b>	1	3,000,000	Subject to milestones
Total Class F	1	3,000,000	

Dr James Williams holds all of the unquoted Class G Incentive shares on issue.

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES (Continued)

### 6. Escrowed and Unquoted Securities (Cont'd)

#### Options

Exercise price	Expiry	Number	Date escrow period ends
\$0.40	31 May 2008	2,000,000	Subject to milestones
\$0.50	31 May 2008	2,000,000	Subject to milestones
Total		4,000,000	

Dr James Williams holds all of the unquoted options on issue which are exercisable on achievement of milestones.

#### Incentive Options:

Class F	36	6,666,668	Subject to milestones
Total Class F	36	6,666,668	

Pacific Healthcare Investments Ltd holds 3,216,667 of the unquoted Class F Incentive Options representing 48% of the total unquoted Class F Incentive options on issue.

Direct Capital Pty Ltd holds 1,400,000 of the unquoted Class F Incentive Options representing 21% of the total unquoted Class F Incentive options on issue.

### 7. 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:

Queensland Investment Corporation	68,000,000 ordinary shares
Paul Roderick Clark <The Pankima A/C>	17,550,000 ordinary shares
ANZ Nominees Limited <Cash income A/C>	10,565,000 ordinary shares

### 8. Statement in accordance with ASX Listing Rule 4.10.19

The Company believes that for the year ended 30 June 2006, it used its cash and assets in a form readily convertible to cash, that it held at the time of admission in a way consistent with its business objectives.