ResonanceHealth

10 August 2006

The Manager
Company Announcements
Australian Stock Exchange
4th Floor, 20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam,

RHT: Supplementary Prospectus and amended Timetable

Enclosed is a copy of a Supplementary Prospectus dated 10 August 2006 which relates to the Company's Prospectus for the Entitlements Offer dated 7 July 2006. The Supplementary Prospectus addresses concerns raised by ASIC in its interim stop order dated 26 July 2006 regarding disclosures about the Company's cash position and the carrying value of certain intangible assets.

The Company addresses these issues in the Supplementary Prospectus. Importantly, the Company has confirmed its statements in the Prospectus regarding its current and future expected cash position.

The directors have decided to write down the carrying value of an intangible asset, goodwill on consolidation, after obtaining advice from the auditor about the application of the relevant accounting standard.

The timetable for the Offer has been adjusted. Details are in the Supplementary Prospectus. The new closing date is 1 September 2006.

Even though the share price of the Company does not appear to reflect any attribution by the market of significant value to the goodwill on consolidation which has been written down, the directors have determined that, because of the significant effect on net assets, this information may be materially adverse from the point of view of an investor and that shareholders who have already applied for shares should have an opportunity for one month to withdraw their applications for New Shares. Details are in the Supplementary Prospectus.

The Company recommends that you to consider the Prospectus as supplemented by the additional information in the Supplementary Prospectus carefully before deciding to participate in the Entitlements Offer.

Yours faithfully

The Board of Resonance Health

10 AUGUST 2006

Supplementary Prospectus

Issuer

Resonance Health Limited ABN 96 006 762 492

Supplementary prospectus

This supplementary prospectus relates to the prospectus ("Prospectus") lodged by Resonance with ASIC on 7 July 2006 in connection with the offer of Shares in Resonance. This supplementary prospectus provides further information for the Prospectus as set out below.

This supplementary prospectus is supplementary to, and should be read together with, the Prospectus. Words and expressions used in this supplementary prospectus have the meanings given to them in the Prospectus.

This supplementary prospectus is dated 10 August 2006. A copy of this supplementary prospectus was lodged with ASIC on that date. Neither ASIC nor ASX take any responsibility for the contents of this supplementary prospectus.

Effect of the Entitlements Issue on the Company's financial position

Section 2.6 of the Prospectus contains a pro forma balance sheet as at 31 December 2005. In response to a number of enquiries, the Directors provide the following further information.

1. Cash position

The pro forma balance sheet cash position ($5,009,746) shows the cash balance as at 31 December 2005 with the addition of the maximum net proceeds of the Offer. This does not take account of the negative cash flows for the period from 1 January 2006, which, until the current board cut costs, had been running at a high burn rate with lower than projected sales. As disclosed in Section 2.2 of the Prospectus, the cash balance of the Company after the Offer is expected to be approximately $3.4 million.

Key assumptions underlying expected cash position

Section 2.2 sets out a number of expectations regarding the Company's cash position including:

- available funds as at 7 July 2006 of approximately $500,000 are expected to be sufficient to fund Company operations for 5 to 8 months, assuming sales revenue of FerriScan® consistent with that of recent months;
- the Directors expect that the maximum net proceeds of the Offer together with current cash resources should be sufficient to fund the Company's operations for the next 18 to 24 months;
- it is reasonable to assume that a level of FerriScan® sales of $50,000 per month will continue for the next 18 to 24 months.

These cash figures represent a significant decrease in the rate of cash use than that previously reported by the Company for the following reasons:

- When the Board was reconstituted in April, it reviewed the Company's sales forecasts and cash burn rates. The Board was of the view that the sales forecasts prepared by the previous management were not achievable and that there was a need to cut expenses in the face of substantially lower sales than projected For example, May 2006 sales were 33% of the previous management's internal forecast.

- At the end of calendar 2005, the previous management assumed the cash balance of the Company, at the time, would last a full 12 months. This calculation was based on a projection of significantly increasing monthly sales against a steady, high cash burn rate. Under this scenario, the projected loss per month was to decrease as sales increased to cover expenses. The projected increases in sales did not materialise, leading to a recalculation of how long the Company could cover expenses with current cash.
- The Board, with the assistance of its advisors, took action to cut expenditure, including cutting marketing expenses where there were no clearly identified new prospects and, following an efficiency analysis, cuts in employees and other personnel.
- This action was taken at the end of May 2006 and the restructure announced to ASX on 6 June 2006. Unfortunately, a majority of the cash on hand had already been spent before the restructuring took place. Therefore the effects on the rate of cash use are not fully reflected in the quarterly report lodged on 21 July 2006 for the quarter ending 30 June 2006.

The key assumptions underlying the expected cash positions disclosed in the Prospectus include:

- continuing FerriScan® sales from a series of Novartis clinical trials that use the service as a method to test certain levels of iron in the liver, which are expected to continue for at least 24 months (there is a risk that sales will cease if the trial is cancelled for any reason) and sales to other smaller customers. Revenue may increase above the assumed levels if the Company is successful in negotiating re-pricing for the FerriScan® product with customers;
- because of the many steps in the process in delivering the FerriScan® service in a quality manner to customers, there is currently a fixed cost of approximately $90,000 per month to deliver the service. However, a portion of this cost of approximately $24,000 is general overhead which will be allocated to the R&D spend on FibroScreen™ bringing the cost allocated to the FerriScan® service down to approximately $66,000 per month;
- reduction of marketing costs related to FerriScan®;
- in relation to the 18-24 month period, the Offer being fully subscribed;
- in relation to the 18-24 month period, research and development costs, including a clinical trial, for FibroScreen™ estimated at between $2 million and $2.5 million over the next 24 months (assumption being a monthly average cost of approximately $83,000 to $104,000);
- the costs associated with progressing the strategic move into the pathology business in the United States, which would serve as a sales channel for both products, being a retainer for Stanmore Capital Partners, LLC of US$15,000 per month to work on closing this transaction, as well as generally advising the business on financial and business development issues. In addition, the advisors have been involved in negotiating re-pricing of FerriScan® and advising on cutting operational expenses.

Summary of assumptions:

Item	$	$
Expected cash after the Offer		3,400,000
Add: Estimated future cash flows (per month)		
Revenue expectations from FerriScan®	50,000	
Operating expenses for FerriScan® and overheads	(66,000)	
Advisory services, including Pathology acquisition effort	(20,000)	
R&D (including clinical trail) for fibrosis test (avge)	(104,000)	
Total expected monthly outflows at status quo	(140,000)	
24 month cash use ($140,000 x 24)		(3,360,000)
Net cash position after 24 months		$40,000

The Directors can give no guarantee that the above cash positions will be achieved. The assumptions are based on best estimates and are subject to matters outside the Company's control. Investors are directed to Section 5 of the Prospectus which sets out some of the key risks associated with an investment in the

Company. If the Offer does not proceed, current expected monthly losses, assuming no work on FibroScreen™, are approximately $70,000 per month.

2. Carrying value of Non Current Asset: "Other"

In its financial reports for the periods ending 30 June 2005 and 31 December 2005, the Company reported on its balance sheet goodwill on consolidation of $12,786,888, noting the uncertainty of future events related to FerriScan® sales and therefore the uncertainty of the recoverability of the carrying value. The goodwill on consolidation represented the amount by which the purchase price of the Company's ownership interest in its controlled entity exceeded the fair value attributed to the identifiable net assets of that controlled entity at the date of acquisition. Essentially, the technology embedded in this goodwill represented technology associated with FerriScan®.

As announced by the Company to ASX on 6 June 2006, the rate of market and sales penetration of FerriScan® has not met the Company's marketing goals and the Board does not believe that the marketing and sale of the FerriScan® service constitutes an adequate standalone business. The Board has therefore been required to review the carrying value of the goodwill on consolidation. In determining whether this goodwill has been impaired, the Directors have had regard to the following matters:

- a significant part of the value of the FerriScan® technology includes the value it brings in the development of the FibroScreen™ technology, which the Directors continue to believe is worthy of funding and has significant potential upside if successfully developed;
- if FibroScreen™ is developed and receives regulatory approvals, the ability to market the FibroScreen™ and FerriScan® products together may increase sales prospects; and
- the expected cash inflows from FerriScan® are affected by both revenues and operational expenses. The Company has recently taken steps to reduce operational costs associated with the FerriScan® service and has also initiated steps to re-price the product.

As explained in prior reports by the Company, including the December 2005 Half Yearly Report issued on 16 March 2006, there is inherent uncertainty in valuing goodwill, in part because the cash inflows and outflows associated with FerriScan® and follow on technologies such as FibroScreen™, are based on various economic, regulatory, reimbursement, operating, developmental, and trading assumptions about future events and actions that have not occurred and may not occur. Whilst the Directors believe the assumptions are best estimate assumptions based upon information provided to the Company, the occurrence and timing of future events is uncertain.

Furthermore, the directors have needed to consider whether the FibroScreen™ follow on technology comprises a separate cash generating unit to that of FerriScan®. If the FibroScreen™ technology is considered to represent a separate cash generating unit, then its future cash flows cannot be taken into account in determining the recoverable amount of the goodwill on consolidation mentioned above.

The directors believe that it could reasonably be argued that the FibroScreen™ technology could be considered part of the FerriScan® cash generating unit. If the estimated future cash flows from the FibroScreen™ technology are included in the determination of the recoverable amount of the goodwill on consolidation mentioned above (having regard to the comments in the preceding paragraph), then the directors consider that the goodwill on consolidation is not impaired.

However, following discussions with the Company's auditors, 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, thus reducing the carrying value of the goodwill on consolidation to nil.

This will result in an equivalent reduction of $12,786,888 in net assets and increase of $12,786,888 in accumulated losses in the Company's balance sheet. Shareholders should bear this in mind when considering the pro forma balance sheet in the Prospectus.

3. Requisition from shareholders

On 1 August 2006 the Company received a request to hold a shareholders' meeting to consider:

- resolutions to appoint the following as directors of the Company:
  - Simon Timothy Panton; and
  - David Grant Sanders; and
- resolutions to remove the following as directors of the Company:
  - Guy Aird;
  - Michael Dalsin;

- Roger Greene;
- Andrew Walker; and
- Michael Wooldridge.

The request was made under section 249D of the Corporations Act by shareholders representing, at midnight the day before the date the notice was received, approximately 7% of the votes that may be cast at a general meeting of the Company. Those shareholders are Paul Roderick Clark as trustee for the Pakima Trust and the following companies associated with Mr Simon Timothy Panton: Mondo Electronics 2000 Pty Ltd, TV Games Pty Ltd, Mondo Electronics Pty Ltd, Trinity Investments International Pty Ltd and Southam Investments 2003 Pty Ltd.

Unless the notice is withdrawn, the Company intends to call the requested meeting in accordance with the Corporations Act.

4. Withdrawal rights

Even though the share price of the Company does not appear to reflect any attribution by the market of significant value to the goodwill on consolidation which has been written down, the Directors have determined that, because of the significant effect on net assets, this information may be materially adverse from the point of view of an investor and that shareholders should have an opportunity to withdraw their applications for New Shares.

The Company will send this supplementary prospectus to all Applicants who have submitted an Entitlement and Acceptance Form and Application Money to date and give them one month to withdraw their application. If you wish to withdraw, please instruct the Company's share registry by phone or in writing at the address set out at the end of this document.

No New Shares will be issued to those Applicants who are entitled to withdraw until the one month period has elapsed. If you are entitled to withdraw but you wish to continue with your application for New Shares then you do not need to take any action.

Shares relating to withdrawn applications will form part of the shortfall which may be placed in accordance with the terms of the Prospectus. No New Shares will be issued until the minimum aggregate subscription of $1.5 million is reached through acceptances and placement of the Shortfall Shares.

5. Amendment to timetable

The Company announced a revised timetable for the rights issue on 28 July 2006 in order to allow shareholders an opportunity to consider the content of this supplementary prospectus. The revised timetable is as follows.

Closing date of entitlement issue	Friday 1 September 2006
Last date for withdrawal of applications by Applicants entitled to withdraw	Monday 11 September 2006
Notification to ASX of under/over subscription	Tuesday 12 September 2006
Issue of New Shares and despatch of shareholding statements (subject to reaching minimum aggregate subscription)	Tuesday 12 September 2006
Normal trading of New Shares expected to commence on ASX	Thursday 14 September 2006

Consent to Lodgement

Each Director of the Company has given, and has not withdrawn, their consent to lodgement of this supplementary prospectus with ASIC.

Share Registry contact details

Advanced Share Registry Services
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Nedlands, WA 6009

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