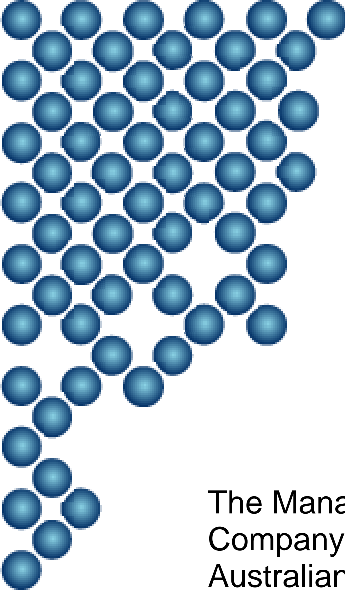

ResonanceHealth

3 August 2006

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

Dear Sir,

RHT: Response to Shareholders' Enquiries

Resonance wishes to respond to several shareholders' enquiries about the reasons for the recent entitlements offering, including a further explanation of the recent cost cutting moves and the need for additional funding for the company.

The Cash Position at the end of 2005

- In the Half Yearly Report for the period ending December 31, 2005, the Company reported working capital of approximately $1.8 million.
- The Half Yearly Report stated that the Company could operate as a going concern for 12 months, and was based upon specific sales forecasts.
- While that report would suggest that the Company could incur average monthly losses of approximately $150,000, the internal sales forecast assumed that FerriScan® sales would increase dramatically as the year progressed. The sales forecasts were based upon specific contracts that were expected to bring additional revenue starting in the June 2006 quarter. Therefore, the additional revenues would significantly reduce losses later in the year.

The Board Review

- On the 20 April Resonance announced that the Company had signed a non-binding Letter of Intent to acquire a US pathology business and would fund the acquisition from an $8m share placement to Queensland Investment Corporation Fund both of which would be subject to shareholder approval.
- In preparation for these transactions several changes were made to the Board including the appointment of Dr Gary W Pace as Chairman. In April, among other analyses, the Board undertook to review sales forecasts and operations.

Sales projections

- While the sales forecast provided for little growth in the first three months of 2006, it anticipated substantial growth thereafter.
- For example, while the Company achieved approximately 90% of projected sales in February of 2006, May 2006 sales were about one-third of the forecast. The May forecast was prepared based upon the assumption that anticipated clinical trials would generate substantial new orders. When the clinical trials did not begin as scheduled, these disappointing results caused the Board to conduct an analysis of prospective sales for the coming several months. Completion of that analysis led to the conclusion that the cash reserves of the Company would not support a sustained delay in the commencement of the trials at then current expense levels.
- Because of this, net operating cash flow yielded losses of approximately $265,000 per month, which the Company could not continue to sustain for an extended period.
- The Company's operational infrastructure was appropriate to provide service at the anticipated sales forecast. In light of the sales growth review the Board also reviewed the Company's operational infrastructure with the specific intent of significantly reducing the ongoing operating losses. This resulted in the departure of several staff and a focus on servicing the needs of existing FerriScan® clients.
- Cash collections for sales are usually received approximately 90 days from delivery of service, putting further pressure on the cash position of the company.

The Likelihood that New Sales Could Be Generated Quickly

- The board considered alternative sales opportunities to make up sales shortfall. No such opportunities that would materialise within the required timeframe were identified.

Alternative Actions Considered by the Board:

In the face of pressure on cash reserves, the Board faced several alternatives with respect to FerriScan®, including:

- Continue to spend at current rates on sales and marketing, and hope against recent experience and evidence that new sales (and cash payments) would materialise before the Company ran out of cash.
- Seek to raise a small amount of money for a Company that only provides FerriScan® services for a while longer, but not enough to develop FibroScreen™ or build the cash reserves.
- Sell the technology, and either liquidate the company or treat it as a "cash box."
- Cut expenses, but still perform at a level that services existing clients.

The Remedy for FerriScan®:

The Board Makes Costs Cuts to a sustainable level while continuing to sell the service

- In the light of the above facts, the Board, with the assistance of its advisor, unanimously took action to cut the approximately $265,000 monthly cash deficit, which, with the lack of sales growth, threatened the survival of the Company.
- An analysis assuming more achievable sales projections yielded a requirement for fewer employee and personnel resources to deliver FerriScan®, allowing an opportunity to substantially reduce monthly losses.

Had the company achieved moderate sales growth while continuing to incur the over all burn rate from April 2006, the company would have been run out of cash within months.

The Cash Position of the Company was Compromised

- While the cost cutting actions were implemented as soon as it became apparent that sales forecasts would not be achieved, the actions to cut costs were taken at the end of May 2006 and by that time more than $1.2 million had been spent in FY 2006 with less than $150,000 in revenues.
- Sales projections were revised to $50,000 per month for the remainder of the year.
- Further, there were unavoidable redundancy costs associated with staff reductions, including severance or notice payments.

Therefore, at the time end of June 2006, cash balance was approximately $571,000.

Alternatives for FibroScreen™

With respect to FibroScreen™, the Board also faced several alternatives, including:

- Spend no money on developing the technology, risking potential competitors catch up with Resonance and create no value for the shareholders.
- Sell the technology at essentially fire sale prices.
- Raise a small amount of money, which could fund some of the FibroScreen™ development, but risk running out of resources before the end of clinical development. The result of which would be to return, yet again, to the capital markets to fund an unfinished technology.
- Raise sufficient funds to fund the significant milestones in the development of FibroScreen™, and also put Resonance in a stronger position to complete other potential acquisitions.

Creating Value for Shareholders:

Capitalising the business such that the Company can develop and gain U.S. Food and Drug Administration (FDA) approval for the fibrosis test

The Plan to Raise Money for a Fibrosis Clinical Trial

- The Directors elected to pursue a Commercial Ready Grant to partially support the development of FibroScreen™ as a cost effective method of funding its development.

- In order to submit an application for the Grant, the Company must have cash on the balance sheet equivalent to the Grant total.
- The total amount of costs for the fibrosis development is estimated to be $2 million to $2.5 million.
- Because of the potential value to shareholders of the fibrosis test if the FDA approves the test, the Board made a decision to raise enough money to complete the development even if the company failed to secure the grant.

The Challenges in the Capital Markets Due to Poor Performance in Stock Price

- The Directors reviewed previous fundraising efforts where share subscribers lost up to 50% of their investment within 6 months of investing.
- The Advisors interviewed a number of potential institutional and retail investor groups and found little appetite for an investment, even at a significant discount to market pricing although some groups have expressed an interest in supporting the rights entitlement which would only occur if shareholders do not take up their entitlement.

The Decision to have an entitlements offering

- The Directors wanted to ensure that the current shareholders, who historically lost significant value, had a right to recapitalise the company in order to capture the value of the fibrosis test and a streamlined FerriScan® Business
- The pricing of the *entitlements* offering was determined to encourage existing shareholders to subscribe.
- Therefore, the *entitlements* offering was not underwritten and available only to current shareholders in the first instance.
- Shareholders would only be diluted if they chose not to invest, and shareholders could also apply to acquire additional shares.

Dedicating resources to closing the acquisition of the pathology lab referred to in past announcement of April 4, 2006.

The Directors continue to believe the long term future for the company is in acquiring established and profitable pathology laboratories in the United States

- These laboratories will serve as a sales and marketing distribution network that are expected to be much more effective than direct marketing.
- The positive cash flow from the business will enable further research and development of novel diagnostics that can be sold into the network.
- The positive cash flow will enable the business to grow minimising highly dilutive equity raisings to which the current shareholders have become accustomed.
- The acquisition strategy would not be viable if the company does not have a strong balance sheet with adequate cash reserves.

Facing the above realities, the Board realised that continuing to burn cash in the hope that a sales prospect might appear was unrealistic. This low probability strategy would lead to insolvency unless substantial sales were closed quickly, followed by immediate cash payments.

While the situation became critical in May, the Board believes it has chosen the best available options to right the ship, identified a path to realising the true value

of the Resonance assets and creating a valuable company. The entitlements offering, followed by the acquisition strategy, provides such an opportunity. The board believes that if Resonance can preserve the FerriScan® asset with a reasonable commercial outcome, develop FibroScreen™, and pursue a pathology acquisition strategy, Resonance can overcome these short term valuation issues and develop its true value in the market.

Yours faithfully

The Board of Resonance Health