The Manager

Company Announcements

Australian Stock Exchange

4th Floor

20 Bridge Street

SYDNEY NSW 2000

26 October 2007

RHT: Notice of Annual Meeting and Annual Report

Resonance Health Ltd (ASX: RHT) is pleased to present the 2007 Annual Financial Report and invite shareholders to the Annual General Meeting to be held on Tuesday 20 November 2007 at 10am in Perth.

Cash reserves remain strong at $1.9m as of today. In the September quarter Resonance Health Ltd incurred a number of expenses in abandoning the US based pathology diversification strategy but now continues operations on a sound cash flow basis.

Negotiations with a multinational pharmaceutical company are being concluded and an agreement in principal has been reached for the long term provision of FerriScan® services to them. This provides a very positive ongoing endorsement of the FerriScan® technology and a secure revenue stream for the further global expansion of FerriScan®.

By Order of the Board

Resonance Health Limited

Resonance Health Limited ABN: 96 006 762 492

1st Floor, 216 Stirling Hwy, Claremont, WA 6010, AUSTRALIA Postal: PO Box 1135, Nedlands, WA 6909, AUSTRALIA

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RESONANCE HEALTH LIMITED

ABN 96 006 762 492

NOTICE OF ANNUAL GENERAL MEETING

TIME:	**10:00 am**
DATE:	**Tuesday, 20 November 2007**
PLACE:	**UWA Boat Shed Carpark #23 35 Stirling Highway Crawley, Western Australia**

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting (AGM) of Shareholders of Resonance Health Limited will be held at 10:00am on Tuesday 20 November 2007 at The UWA Boat Shed at 35 Stirling Highway, Crawley Western Australia.

The Explanatory Statement to this Notice of Meeting provides additional information on matters to be considered at the Annual General Meeting. The Explanatory Statement and the proxy form are part of this Notice of Meeting.

The Directors have determined that pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the AGM are those who are registered Shareholders at 9:00 am WST on Monday 19 November 2007.

AGENDA

Reports and Accounts

To receive the financial report of the Company for the year ended 30 June 2007, together with the directors' report and the auditor's report.

Ordinary Business

Resolution 1 – Adoption of Remuneration Report (non-binding)

To consider and if thought fit to pass with or without amendment, the following resolution as a non-binding resolution:

> *"That, for the purposes of Section 250R(2) of the Corporations Act 2001 (Cth) and for all other purposes, the Company adopts the Remuneration Report."*

Short Explanation: The Corporations Act provides that a resolution on the remuneration report must be put to vote at a listed company's AGM. The vote on resolution 1 is advisory only and does not bind the Directors or the Company.

Resolution 2 – Re-election of Dr Timothy St Pierre

To consider, and if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

> *"That, Dr Timothy St Pierre, being a Director, retires by rotation in accordance with Clause 13.2 of the Constitution, and being eligible, is hereby re-elected as a Director."*

Resolution 3 – Re-election of Dr Martin Blake

To consider, and if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

> *"That, Dr Martin Blake, being a Director of the Company who was appointed on 3 October 2007 and being eligible and offering himself for re-election, be appointed as a director of the Company."*

By Order of the Board

EOMalley

Eva O'Malley
Company Secretary
26 October 2007

Explanatory Statement

Resolution 1 - Adoption of Remuneration Report

In accordance with Section 250R(2) of the Corporations Act, the Company submits to Shareholders for consideration and adoption of the Remuneration Report. The vote on Resolution 1 is advisory only and does not bind the Directors or the Company.

The Remuneration Report, set out in the Company's 2007 Annual Report from page 6 to 8, includes all of the information required by Section 300A of the Corporations Act, including:

(a) board policy for determining, or in relation to, the nature and amount (or value, as appropriate) of remuneration of directors, secretaries and senior managers of the Company;

(b) discussion of the relationship between such policy and the Company's performance; and

(c) the prescribed details in relation to the remuneration of each Director and certain executives.

A reasonable opportunity will be provided for discussion of the Remuneration Report at the AGM.

The Directors recommend Shareholders vote in favour of this resolution. The Chairman intends to vote undirected proxies in favour of this resolution.

Resolution 2 – Re-election of Dr Timothy St Pierre

Clause 13.2 of the Constitution provides that one-third of the Directors, or if their number is not a multiple of 3 then the number nearest one-third, shall retire from office at each AGM, provided always that no Director, (except a Managing Director) shall hold office for a period in excess of 3 years, or until the third AGM following his or her appointment, whichever is longer, without submitting himself for re-election. A retiring Director is eligible for re-election.

Dr Timothy St Pierre, retiring at this AGM, seeks re-election in accordance with Clause 13.2 of the Constitution. Details regarding the Directors are set out in the Company's 2007 Annual Report.

The directors, other than the retiring directors who abstain from making any recommendation, recommend Shareholders vote in favour of this resolution. The Chairman intends to vote undirected proxies in favour of this resolution.

Resolution 3 – Re-election of Dr Martin Blake

Clause 13.4 of the Constitution provides that a director who was appointed by the directors as an addition to the Board, shall only hold office until the next general meeting and shall be eligible for re-election at such meeting. Dr Martin Blake was appointed by the Board on 3 October 2007. In accordance with clause 13.4 of the Constitution, it is necessary for these directors to stand for re-election at the next general meeting.

Dr Blake is a Radiologist and Nuclear Physician who has been with the Perth Radiological Clinic since 1996 and a Partner with them since 1997. Dr Blake additionally held the position of Head of Department of Nuclear Medicine at Royal Perth Hospital for a number of years.

Dr Blake has published more than a dozen peer review research papers and has been a contributing author to the Royal Australian and New Zealand College of Radiologists (RANZCR) Imaging Guidelines. Dr Blake has additionally held positions as Secretary and Treasurer of the WA Branch of the RANZCR. He is currently completing an MBA and holds directorships on a number of company boards.

The directors, other than the retiring directors who abstain from making any recommendation, recommend Shareholders vote in favour of this resolution. The Chairman intends to vote undirected proxies in favour of this resolution.

RESONANCE HEALTH LIMITED

(ABN 96 006 762 492)

ANNUAL FINANCIAL REPORT

For the year ended

30 JUNE 2007

Corporate Directory

ABN 96 006 762 492

Directors

Mr Ian Anderson
Non executive Chairman

Dr Martin Blake
Non executive Director

Dr Timothy St. Pierre
Executive Director

Dr Andrew Walker
Non executive Director

Company Secretary

Ms Eva O'Malley

Stock Exchange Listing

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

Registered Office and Principal Place of Business

1st 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

Website and e-mail address
www.resonancehealth.com
Email: info@ferriscan.com

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

Solicitors

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

Contents

CHAIRMAN'S REPORT

Dear Shareholder

I am pleased to report that in the 2006/2007 financial year Resonance achieved a 248% increase in revenue to $2.155 million which together with the significant reduction in costs meant that the FerriScan® business unit was profitable for the financial year. This is an outstanding achievement and has had a significant impact on the direction the company is now taking.

During the financial year the Board was pursuing a diversification strategy by seeking US based pathology laboratories that could be acquired on reasonable terms and rolled up into a significant business that would provide positive cash flow. This would then support the development of the FerriScan® and FibroScreen™ technologies. Significant effort was directed to the strategy and many opportunities were considered, but as the year progressed it became more apparent that the valuations underlying these laboratories had changed making the required outcomes increasingly difficult to achieve. After careful review the Board decided in August 2007 to abandon this strategy. During this period the revenue and expenses of the FerriScan® business had changed which left the Board with the opportunity to refocus on this business.

As a result of this, several changes occurred including the resignation of Mr Gary Pace, the Chairman of the Company and the departure of Mr Ed Dooling, our US based CEO. The Company also terminated the consulting engagement with US based Stanmore Capital Partners and so its principals Mr Michael Dalsin and Mr Roger Greene resigned from the Board. We thank these gentlemen for their contribution and efforts in trying to achieve the diversification strategy.

Also, in June 2007 Dr Michael Wooldridge resigned from the Board due to work commitments. Dr Wooldridge had previously chaired the Company for several years and made a significant contribution to the enhancement of the FerriScan® business. We thank Dr Wooldridge for his contribution.

We now have a different looking Company with a revitalized focus on the FerriScan® technology. Due to the capital raising in September 2006 the Company has approximately $2 million in cash on deposit and is operating on a cash flow positive basis. The remaining Directors believe that the reduced size of the Board is appropriate for this next phase of development of the Company which will include a continuing focus on revenue and costs. Resonance will also continue to pursue reimbursement for FerriScan® in Australia, Europe and the United States and seek opportunities to build revenue from other synergistic sources.

It is customary to thank our staff but on this occasion it is particularly important. During most of the past year the Board has been focused on the diversification strategy whilst the staff of the FerriScan® business unit led by Liza Dunne have diligently continued to deliver a world class reporting service to all our customers and maintain the Quality Assurance and Quality Management required to keep this service functioning effectively and efficiently. On behalf of all shareholders and the Board I sincerely thank these outstanding and loyal staff.

I would also like to thank Shareholders for their patience during this past year. For your Board, it has been an active and challenging year that has left the Company in a good position to face the opportunities ahead. We strongly believe that your patience will be rewarded.

Yours faithfully

Ian Anderson

Chairman

30 September 2007

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 2007. In order to comply with the provisions of the Corporations Act, the directors report as follows:

Directors

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

Ian Anderson B.Bus, MBA	***Position:*** Director — Independent and Non-Executive (appointed 31 May 2005) ***Experience:*** Mr Anderson is currently a Consultant to the North Metropolitan Area Health Service of Western Australia as Director, 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 a Board Member of the Queen Elizabeth II Medical Centre Trust, a 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:*** Appointed Chairman 10 August 2007 Chairman of the Remuneration Committee (appointed 10 August 2007) Chairman of the Audit Committee (resigned 10 August 2007)
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, Aragon 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:*** None ***Former directorships in last 3 years:*** Independent Non-Executive Director of Avastra Ltd (December 2005 to April 2007) ***Special responsibilities:*** Member of the Remuneration Committee Chairman of the Audit Committee (appointed 10 August 2007)

DIRECTORS' REPORT (Cont'd)

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
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 currently a director of Generic Health Pty Ltd. He was previously a director of Matrix Healthcare Pty Ltd and the Chairman and CEO of Aspen Medical where he had served over 12 years and led the team that 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 Member of the Remuneration Committee (appointed 10 August 2007)
Company Secretary	
Mr Paul Jobbins B.Bus (Accounting), CA, GDipAppFin	***Position:*** Company Secretary (appointed 31 January 2007) ***Experience*:** Mr Jobbins has broad financial and commercial experience including serving with major banking institutions in Australia and the United Kingdom. He was previously CFO for ASX listed company Reverse Corp Ltd.

On 29 June 2007 The Hon. Dr Michael Wooldridge resigned as a director.

On 10 August 2007 Dr Gary Pace, Mr Michael Dalsin and Mr Roger Greene resigned as directors.

DIRECTORS' REPORT (Cont'd)

Review of Operations

The FerriScan® business unit operates from Perth, Western Australia servicing customers worldwide, providing a non-invasive measurement of liver iron concentration. This business unit has experienced growth and is operating profitably. Revenues have increased significantly for the 2007 financial year as a result of arrangements made with the company's largest FerriScan® customer providing minimum monthly revenues. A significant expense reduction effort was implemented in June 2006 including a reduction in staff numbers and a concerted effort on cost minimisation for the FerriScan® product.

The company has successfully established quality accredited infrastructure and procedures for the electronic handling and analysis of radiological images in a regulated and quality controlled environment. The demand for these services is growing and we are now ideally positioned to take advantage of the increasing demand for the quantitative analysis of radiological images and the quality control of patient related data.

With this increasing demand the company has formally engaged consultants to assist with efforts to obtain health insurance reimbursement for FerriScan® in Australia, Europe, and the United States. This decision underpins the Board's commitment to the growth of FerriScan® revenues and expansion into related services and technologies, including the review of the market potential for the innovative non-invasive diagnostic test for liver fibrosis, FibroScreen™. This product is a diagnostic test for the progression of liver fibrosis (scarring) based on MRI technology that can be used to replace the need for liver biopsy to assess fibrosis for most people with liver disease.

In June 2006 the company commenced a strategy to acquire pathology laboratories in the United States of America. The objective of this strategy was to create management and operational synergies for the company's products. The board was restructured, a US presence was established and negotiations undertaken for the purchase of a number of small US based pathology businesses. During this time it became apparent there had been a marked shift in the valuations of these businesses making it difficult to acquire these businesses at a purchase price favourable to increasing long-term shareholder value. Accordingly, in August 2007, the company ceased this acquisition strategy.

As a result, the board was restructured and our US based CEO, Mr Ed Dooling, who was appointed to lead the pathology business acquisition strategy has been terminated.

The company continues with a strong focus on cost management, while expanding into technologies and services complimentary to the skills and infrastructure now firmly established.

Operating Results

The net loss of the consolidated entity for the financial year after tax was $725,319 (2006: $16,060,845). The prior year includes a charge for 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 and commercialisation of technologies for the quantitative analysis of radiological images in a regulated and quality controlled environment.

The company's core product is FerriScan®, a non-invasive liver diagnostic technology used for the measurement of iron overload in the liver. MRI images are produced by an MRI scanner incorporating the FerriScan® technology and are electronically sent to the FerriScan® service centre. This data is analysed and a report provided detailing the iron measurement amount.

Significant Changes in State of Affairs

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

(i) From 15 September 2006 to 28 September 2006 the Company issued 154,399,468 ordinary shares under a 3 for 4 entitlement issue to provide additional working capital of approximately $2.9 million.

DIRECTORS' REPORT (Cont'd)

After Balance Date Events

On 10 August 2007 the company announced the release of Stanmore Capital Partners, LLC ("Stanmore") from their role as corporate advisors and the termination of our US based CEO, Mr Ed Dooling.

Under the terms of the Stanmore's Deed of Termination and Release amounts totalling US$185,000 (A$217,098) were paid.

Under the terms of Mr Dooling's contract severance pay totalling US$110,000 (A$129,085) and accrued leave entitlements were paid.

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.

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 2007 (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

		Primary	Post employment	Equity	Other	Total
		Salary & Fees	Superannuation Contributions	Options	Termination Benefits	
		$	$	$	$	$
Directors' remuneration*						
Dr G Pace	2007	59,830	-	-	-	59,830
	2006	11,837	-	-	-	11,837
Dr M Wooldridge	2007	36,594	3,294	-	-	39,888
	2006	47,516	4,276	-	-	51,792
Mr G Aird	2007	36,695	3,303	-	-	39,998
	2006	7,239	651	-	-	7,890
Mr I Anderson	2007	39,884	-	-	-	39,884
	2006	33,905	3,051	-	-	36,956
Mr M Dalsin	2007	-	-	-	-	-
	2006	-	-	-	-	-
Mr R Greene	2007	-	-	-	-	-
	2006	-	-	-	-	-
Dr T St Pierre	2007	-	-	-	-	-
	2006	-	-	-	-	-
Dr A Walker	2007	36,594	3,294	-	-	39,888
	2006	31,405	2,826	-	-	34,231
Executives' remuneration*						
Mr E Dooling – Chief Executive Officer	2007	340,000	-	-	-	340,000
Ms L Dunne – General Manager Resonance Health Analysis Services Pty Ltd	2007	71,013	6,391	-	-	77,404

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

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 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
				7,500,000

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

Options Issued as Part of Remuneration for the Year Ended 30 June 2007

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 specified directors to the date of this report.

Specified Directors	Grant Date	Expiry Date	Value per option at grant date $	Exercise Price $	Balance at start and end of the year Number
Dr M Wooldridge Director	13 May 2004	7 July 2009	$0.016	$0.30	650,000
Dr A Walker Director	13 May 2004	7 July 2009	$0.016	$0.30	300,000

Consultancy Services Agreement for Executive Director Mr Tim St Pierre

The company has an agreement with The University of Western Australia (UWA) for consulting services provided by Mr St Pierre whereby UWA is paid 6 monthly in advance for anticipated consultancy requirements. Upon completion of the period an adjustment is performed for actual consultancy and directors services provided.

Executive Officer's Employment Agreement with Mr Ed Dooling

Pursuant to an agreement dated 26 September 2006, the Company engaged Ed Dooling to perform duties associated with the position of President and Chief Executive Officer. Mr Dooling is paid a base salary of US$220,000 p.a. which is reviewed and modified annually. His employment agreement also provided for a US$15,000 net sign on bonus and a discretionary bonus of up to 50% of base salary.

In addition Mr Dooling is entitled to re-imbursement of health insurance costs, four weeks annual leave and all reasonable relocation expenses should relocation be necessary. In the event of termination of employment without cause Mr Dooling shall be entitled to payment of six months severance at base salary. As a result of the Company's decision to not proceed with the acquisition of US based pathology businesses, Mr Dooling was made redundant on 10 August 2007.

Executive Officer's Employment Agreement with Ms Liza Dunne

Pursuant to an agreement dated 1 December 2006, the Company appointed Liza Dunne as General Manager of Resonance Health Services Pty Ltd on a permanent part time basis. Ms Dunne was employed on a salary package of $125,000 p.a. based on 25 hours worked per week which is reviewed and modified on a half yearly basis. This was subsequently increased to a salary package of $150,000 based on 30 hours worked per week.

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 2007, and the numbers of meetings attended by each director were:

	Director Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	Number eligible To attend	Number attended	Number eligible To attend	Number attended	Number eligible To attend	Number attended
Mr I Anderson	10	10	3	3	-	-
Mr G Aird	10	9	-	-	2	2
Dr T St Pierre	7	7	-	-	-	-
Dr A Walker	10	6	3	3	-	-
Dr G Pace	10	10	-	-	-	-
Dr M Wooldridge	10	7	-	-	2	2
Mr M Dalsin	10	10	3	1	-	-
Mr R Greene	10	10	-	-	-	-

Directors' and Executives' Shareholdings

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

	Opening Balance	Received as Remuneration	Net Change Other*	Received during the year on exercise of options	Balance 30.6.07
Specified Directors					
Dr G Pace	-	-	293,174	-	293,174
Dr M Wooldridge∞	224,742	-	(224,742)	-	-
Mr G Aird	-	-	-	-	-
Mr I Anderson	1,394,890	-	1,046,168	-	2,441,058
Mr M Dalsin	125,000	-	478,412	-	603,412
Mr R Greene	125,000	-	478,414	-	603,414
Dr T St Pierre^	-	-	9,078,750	-	9,078,750
Dr A Walker	-	-	-	-	-
Total	1,869,632	-	11,150,176	-	13,019,808
Specified Executives					
Mr E Dooling	-	-	-	-	-
Ms L Dunne	-	-	458,667	-	458,667
Total	-	-	458,667	-	458,667

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

∞ Dr M Wooldridge resigned as a director on 29 June 2007.

^ Shares held as disclosed in the initial directors interest notice on being appointed director on 21 August 2006.

DIRECTORS' REPORT (Cont'd)

Directors' and Executives' Optionholdings

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

	Opening Balance	Options Exercised	Granted as Remuneration	Net Change Other*	Balance 30.6.07
Specified Directors					
Dr G Pace	-	-	-	-	-
Dr M Wooldridge[∞]	1,130,618	-	-	(1,130,618)	-
Mr G Aird	-	-	-	-	-
Mr I Anderson	-	-	-	-	-
Mr M Dalsin	-	-	-	-	-
Mr R Greene	-	-	-	-	-
Dr T St Pierre	-	-	-	-	-
Dr A Walker	590,000	-	-	(290,000)	300,000
Total	1,720,618	-	-	(1,420,618)	300,000
Specified Executives					
Mr E Dooling	-	-	-	-	-
Ms L Dunne	-	-	-	-	-
Total	-	-	-	-	-

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

[∞] Dr M Wooldridge resigned as a director on 29 June 2007.

No movements in these optionholdings have occurred between 30 June 2006 and the date of this report, other than with respect to directors who have resigned.

Indemnifying Directors and Officers

During the year, Resonance Health Limited paid a premium of $24,475 (2006: 18,304) 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 Code of Conduct APES110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2007:

	$
Taxation compliance services	7,538

Auditor's Independence Declaration

A copy of the auditor's independence declaration for the year ended 30 June 2007, as required under section 307C of the Corporations Act 2001, has been received and can be found on page 11 of the directors' report.

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

Mr Ian Anderson
Chairman

Perth, WA

Dated this 28th Day of August 2007.

HLB Mann Judd

Accountants | Business and Financial Advisers

Auditor's Independence Declaration

As lead auditor for the review of the financial report of Resonance Health Limited for the year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been:

no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Resonance Health Limited.

Perth, Western Australia
28 August 2007

L DI GIALLONARDO
Partner, HLB Mann Judd

HLB Mann Judd (WA Partnership)
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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 three out of the four 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:

- Mr Ian Anderson (Chairman)
- Mr G Aird
- Dr A Walker

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:

- Mr G Aird (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

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

The CEO, 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. Resonance Health Limited, through its operating subsidiary Resonance Health Analysis Services Pty Ltd, maintained 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 it 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. Members of the remuneration committee throughout the year were:

- Dr M Wooldridge (Chairman) (resigned 29 June 2007)
- Mr G Aird

On the 10 August 2007 Mr I Anderson and Dr A Walker were appointed to the remuneration committee.

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.

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

		Consolidated		Parent	
	Note	2007 $	2006 $	2007 $	2006 $
Revenue	2(a)	**2,155,340**	**618,323**	**138,237**	**56,697**
Reversal of impairment of loans to subsidiaries		-	-	639,671	-
Employee benefits expense		(1,234,871)	(1,576,893)	(345,648)	(457,296)
Consulting and professional services		(1,049,001)	(983,917)	(830,987)	(435,938)
Research and development		(83,304)	(303,534)	-	-
Depreciation	2(b)	(42,946)	(50,334)	-	(15,586)
Marketing		(28,696)	(269,321)	(3,063)	(75,982)
Statutory and compliance		(106,329)	(237,548)	(80,001)	(130,845)
Travel		(112,597)	(344,328)	(61,225)	(25,010)
Foreign exchange loss		(245,188)	-	-	-
Impairment of goodwill on consolidation	2(b)	-	(12,786,888)	-	-
Impairment of loans to and investments in subsidiaries	2(b)	-	-	(126,608)	(14,681,008)
Other expenses		(169,029)	(353,788)	(34,028)	(29,210)
Loss before income tax		**(916,621)**	**(16,288,228)**	**(703,652)**	**(15,794,178)**
Income tax	3	191,302	227,383	-	-
Net loss attributable to members of parent		**(725,319)**	**(16,060,845)**	**(703,652)**	**(15,794,178)**
Basic (loss) per share (cents per share)	5	(0.2)	(8.1)		

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

BALANCE SHEET
AS AT 30 JUNE 2007

	Note	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Current Assets					
Cash and cash equivalents	7	2,419,360	570,951	1,940,118	345,882
Trade and other receivables	8	558,687	134,106	7,341	55,128
Available for sale investments	9	2,828	3,888	-	-
Other	10	100,049	110,950	19,213	35,107
Total Current Assets		3,080,924	819,895	1,966,672	436,117
Non-Current Assets					
Property, plant and equipment	11	73,631	118,608	-	-
Receivables	8	-	-	-	-
Other financial assets	9	-	-	1,010,951	371,280
Intangible assets	12	-	-	-	-
Total Non-Current Assets		73,631	118,608	1,010,951	371,280
Total Assets		3,154,555	938,503	2,977,623	807,397
Current Liabilities					
Trade and other payables	13	406,536	372,980	254,354	285,300
Interest-bearing loans	14	-	15,935	-	11,741
Provisions	15	26,876	39,232	2,126	-
Total Current Liabilities		433,412	428,147	256,480	297,041
Total Liabilities		433,412	428,147	256,480	297,041
Net Assets		2,721,143	510,356	2,721,143	510,356
Equity					
Issued capital	16(a)	67,504,039	64,589,600	67,504,039	64,589,600
Reserves		87,951	66,284	66,284	66,284
Accumulated losses	17	(64,870,847)	(64,145,528)	(64,849,180)	(64,145,528)
Total Equity		2,721,143	510,356	2,721,143	510,356

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

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

	Note	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
		Inflows/(Outflows)		Inflows/(Outflows)	
Cash flows from operating activities					
Receipts from customers		1,435,192	510,733	-	-
Payments to suppliers and employees		(2,698,331)	(3,614,128)	(1,275,558)	(997,984)
Interest received		136,307	69,183	105,704	56,697
Income tax received		174,730	227,383	-	-
Net cash (used in) operating activities	7(i)	(952,102)	(2,806,829)	(1,169,854)	(941,287)
Cash flows from investing activities					
Loans to subsidiaries		-	-	(126,608)	(1,702,006)
Payments for plant and equipment		(8,349)	(24,223)	-	(3,590)
Proceeds on disposal of plant and equipment		5,660	-	-	-
Payments for research and development		(83,304)	(317,774)	-	-
Net cash (used in) investing activities		(85,993)	(341,997)	(126,608)	(1,705,596)
Cash flows from financing activities					
Proceeds from issue of shares and options		3,087,989	2,257,355	3,087,989	2,257,355
Payments for share issue costs		(185,550)	(62,705)	(185,550)	(62,705)
Proceeds from borrowings		-	62,006	-	19,569
Repayment of borrowings		(15,935)	(46,071)	(11,741)	(7,828)
Net cash provided by financing activities		2,886,504	2,210,585	2,890,698	2,206,391
Net increase / (decrease) in cash held		1,848,409	(938,241)	1,594,236	(440,492)
Cash at the beginning of the financial year		570,951	1,509,192	345,882	786,374
Cash at the end of the financial year	7	2,419,360	570,951	1,940,118	345,882

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2007

	Consolidated			
	Ordinary Shares $	Accumulated Losses $	Reserves $	Total Equity $
Balance at 1 July 2005	62,391,865	(48,084,683)	66,284	14,373,466
Shares issued during the year	1,873,084	-	-	1,873,084
Exercise of options	399,356	-	-	399,356
Cost of share issues	(74,705)	-	-	(74,705)
Loss attributable to members of the parent entity	-	(16,060,845)	-	(16,060,845)
Balance at 30 June 2006	**64,589,600**	**(64,145,528)**	**66,284**	**510,356**
Shares issued during the year	3,087,989	-	-	3,087,989
Cost of share issues	(173,550)	-	-	(173,550)
Translation reserve	-	-	21,667	21,667
Loss attributable to members of the parent entity	-	(725,319)	-	(725,319)
Balance at 30 June 2007	**67,504,039**	**(64,870,847)**	**87,951**	**2,721,143**

	Parent			
	Ordinary Shares $	Accumulated Losses $	Reserves $	Total Equity $
Balance at 1 July 2005	62,391,865	(48,351,350)	66,284	14,106,799
Shares issued during the year	1,873,084	-	-	1,873,084
Exercise of options	399,356	-	-	399,356
Cost of share issues	(74,705)	-	-	(74,705)
Loss attributable to members of the parent entity	-	(15,794,178)	-	(15,794,178)
Balance at 30 June 2006	**64,589,600**	**(64,145,528)**	**66,284**	**510,356**
Shares issued during the year	3,087,989	-	-	3,087,989
Cost of share issues	(173,550)	-	-	(173,550)
Loss attributable to members of the parent entity	-	(703,652)	-	(703,652)
Balance at 30 June 2007	**67,504,039**	**(64,849,180)**	**66,284**	**2,721,143**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

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, Accounting Standards and Interpretations and complies with other requirements of the law.

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.

The company is a listed public company, incorporated in Australia and operating in Australia and the United States of America.

GOING CONCERN

The consolidated entity incurred a loss for the financial year ended 30 June 2007. 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 will be sufficient to fund the company's operations for that period.

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) Adoption of new and revised standards

In the year ended 30 June 2007, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2006. It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

(c) Statement of compliance

The financial report was authorised for issue on 28 August 2007.

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

(d) Basis of consolidation

The consolidated financial statements comprise the 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. Control exists where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

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

(e) 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.

(f) 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).

(g) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(h) 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.

(i) Cash and cash equivalents

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

(j) 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.

(k) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

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

(l) 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 no 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 o the transaction, affects neither the accounting profit, nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against with the temporary difference can be utilised.

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

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

(n) 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 – 5 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

(i) Impairment

The carrying 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.

(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.

(o) 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.

(p) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

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

(p) Goodwill (Cont'd)

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.

(q) Research and development costs

Research costs are expensed as incurred.

(r) Impairment of assets (other than goodwill)

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 cash the impairment loss is treated as a revaluation decrease).

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.

(s) 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.

(t) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

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

(u) Employee Benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries expected to be settled within 12 months of the reporting date are recognised in sundry creditors in respect of employees' services up to the reporting date. Liabilities for annual leave expected to be settled within 12 months of the reporting date are recognised in provisions in respect of employees' 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.

(v) 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.

(w) Issued Capital

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

(x) 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.

(y) Foreign Currency Translation

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

The functional currency of the foreign operation Resonance USA Inc. is United States dollars (US$). As at the reporting date the assets and liabilities of this subsidiary are translated into the presentation currency of Resonance Health Limited at the rate of exchange ruling at the balance sheet date and the income statement is translated at the average exchange rate for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. These differences are recognised in the income statement in the period in which the operation is disposed.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	Consolidated		Parent	
NOTE 2: Revenues and expenses	2007 $	2006 $	2007 $	2006 $
(a) Revenue				
Liver Scan income	1,868,790	313,532	-	-
Grants received	150,000	233,070	-	-
Interest received	136,550	69,183	105,704	56,697
Other	-	2,538	32,533	-
	2,155,340	618,323	138,237	56,697
(b) Expenses				
Depreciation of non-current assets	42,946	50,334	-	15,586
Loss on sale of property, plant and equipment	7,528	-	-	-
Rental expense on operating leases	84,590	100,566	84,590	100,566
Share based payments expense	-	77,083	-	77,083
Impairment of goodwill on consolidation	-	12,786,888	-	-
Impairment of loans to and investment in subsidiaries	-	-	126,608	14,681,008

NOTE 3: Income tax

Income tax recognised in profit or loss

The major components of tax benefit are:

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Adjustments recognised in the current year in relation to the current tax of prior years – R&D tax offset	191,302	227,383	-	-

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:

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Accounting loss before income tax	(916,621)	(16,288,228)	(703,652)	(15,794,178)
Income tax calculated at 30%	(274,986)	(4,886,468)	(211,096)	(4,738,253)
Non-deductible expenses	-	3,836,066	37,982	4,404,302
Non-assessable income	-	-	(191,900)	-
Benefit of income tax losses not brought to account	274,986	1,050,402	365,014	333,951
Tax refund received (R&D tax offset)	191,302	227,383	-	-
Income tax benefit attributable to loss from ordinary activities	191,302	227,383	-	-

Benefit of Tax losses not recognised

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Benefit of losses available for offset against future taxable income	1,378,477	1,597,468	491,629	474,892

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 4: Segment reporting

Segment Information

The Group's primary segment reporting format is geographical segments as the Group's risks and rates of return are affected predominantly by differences in the geographical areas. Secondary segment information is reported by business segments.

The operating businesses are organised and managed separately according to their location with each segment representing a different physical location. The Group operates within Australia and the United States of America.

Geographical Segments

The following table presents revenue and profit/loss information and certain asset and liability information regarding geographical segments for the year ended 30 June 2007. The Group operated only one reportable geographical segment in Australia for the year ended 30 June 2006.

	Australia	USA	Total
	$	$	$
Segment revenue	2,155,340	-	2,155,340
Segment profit/(loss)	(202,846)	(522,473)	(725,319)
Segment assets	3,123,495	31,060	3,154,555
Segment liabilities	364,830	68,582	433,412
Other segment information			
Net cash outflow from operating activities	(519,878)	(432,224)	(952,102)
Net cash outflow from investing activities	(85,993)	-	(85,993)
Net cash inflow from financing activities	2,886,504	-	2,886,504

Business Segments

The Group's business segments are determined by differences in the products and services provided.

The following table presents revenue and profit/loss information and certain asset and liability information regarding business segments for the year ended 30 June 2007.

	FerriScan®	Path Labs	Corporate	Total
	$	$	$	$
Segment revenue	2,017,103	-	138,237	2,155,340
Segment profit/(loss)	1,018,755	(522,473)	(1,221,601)	(725,319)
Segment assets	1,153,995	31,060	1,969,500	3,154,555
Segment liabilities	108,349	68,582	256,481	433,412

	Consolidated	
NOTE 5: Earnings per share	2007 $	2006 $
Basic and diluted earnings per share	(0.2)	(8.1)
(a) Earnings used in the calculation of basic and dilutive earnings per share	(725,319)	(16,060,845)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 5: Earnings per share (Cont'd)	Consolidated 2007 Number	Consolidated 2006 Number
(b) Weighted average number of ordinary shares for the purposes of basic earnings per share	320,936,125	198,057,790

(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 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Deposits at call	2,419,360	570,951	1,940,118	345,882

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

(i) Reconciliation of loss for the year to net cash flows from operating activities

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Loss for the year	(725,319)	(16,060,845)	(703,652)	(15,794,178)
Non-cash flows in loss:				
Depreciation	42,946	50,334	-	15,586
Write down of property, plant and equipment	-	9,253	-	4,364
Loss on sale of property, plant and equipment	7,528	-	-	-
Impairment of investments	1,060	10,449	(513,063)	14,681,008
Impairment of goodwill on consolidation	-	12,786,888	-	-
Consulting fee	-	77,083	-	77,083
Reclassification to investing activities:				
Research and development	83,304	317,774	-	-
Changes in net assets and liabilities:				
(Increase)/decrease in receivables	(424,581)	34,505	47,787	(34,958)
(Increase)/decrease in other assets	8,093	(26,729)	15,894	(24,015)
Increase/(decrease) in trade creditors and borrowings	45,557	39,677	(18,946)	164,344
Increase/(decrease) in provisions	(12,357)	(45,218)	2,126	(30,521)
Increase/(decrease) in translation reserve	21,667	-	-	-
Net cash used in operating activities	(952,102)	(2,806,829)	(1,169,854)	(941,287)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 8: Trade and other receivables

	Consolidated		Parent	
	2007 $	2006 $	2007 $	2006 $
Current				
Trade receivables	541,488	105,252	-	-
Amount owing to related entity	-	-	-	54,134
Other receivables	17,199	28,854	7,341	994
	558,687	134,106	7,341	55,128

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

Non Current				
Loans to subsidiaries	-	-	5,614,209	5,487,601
Less: Impairment	-	-	(5,614,209)	(5,487,601)
	-	-	-	-
Movement in impairment:				
- balance at the beginning of year	-	-	(5,487,601)	(1,374,979)
- increase during the year	-	-	(126,608)	(4,112,622)
- balance at end of year	-	-	(5,614,209)	(5,487,601)

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.

Note 9: Financial assets

Current – Available for sale investments				
Shares in listed corporations	14,337	14,337	-	-
Less: Impairment	(11,509)	(10,449)	-	-
	2,828	3,888	-	-

Non-Current – Other financial assets				
Investment in subsidiaries (Note 20) (i)	-	-	10,939,666	10,939,666
Less: Impairment	-	-	(9,928,715)	(10,568,386)
	-	-	1,010,951	371,280

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 10: Other assets

	Consolidated		Parent	
	2007 $	2006 $	2007 $	2006 $
Current				
Prepayments	56,704	65,205	19,213	35,107
Security deposits	43,345	45,745	-	-
	100,049	110,950	19,213	35,107

NOTE 11: Property, plant and equipment

Fixtures and equipment				
At cost	206,730	220,160	-	-
Less: Accumulated depreciation	(133,099)	(101,552)	-	-
Total property, plant and equipment	73,631	118,608	-	-

Reconciliation

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

Fixtures and Equipment				
Balance at the beginning of the year	118,608	156,780	-	16,360
Additions	8,349	24,223	-	3,590
Disposals	(10,380)	(12,061)	-	(4,364)
Depreciation expense	(42,946)	(50,334)	-	(15,586)
Carrying amount at the end of the year	73,631	118,608	-	-

NOTE 12: Intangible assets

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

During the 2005/2006 financial year the directors tested this goodwill for impairment and determined that given the rate of market and sales penetration of FerriScan® to date the FerriScan® service does not constitute an adequate standalone business.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 12: Intangible assets (Cont'd)

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. This impairment loss was recorded in the 2006 financial year.

	Consolidated		Parent	
NOTE 13: Trade and other payables	2007 $	2006 $	2007 $	2006 $
Current				
Trade payables	115,089	50,018	41,859	22,256
Related party payables	175,741	125,787	121,855	125,787
Sundry creditors and accruals	115,706	197,175	90,640	137,257
	406,536	372,980	254,354	285,300

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	26,876	22,660	2,126	-
Income tax	-	16,572	-	-
	26,876	39,232	2,126	-

Note 16: Issued Capital

		2007		2006	
		Number	$	Number	$
(a) Issued and paid up capital					
359,007,227 ordinary shares 16,000,000 incentive shares	$67,504,023 $16	375,007,227	67,504,039	220,607,159	64,589,600
2006:					
204,607,159 ordinary shares 16,000,000 incentive shares	$64,589,584 $16				

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 16: Issued Capital (Cont'd)

Movements during the period

Ordinary shares	Number of shares	Issue price	$
Balance at the beginning of the financial year	204,607,159		64,589,584
Shares issued:			
- Exercise of options in 2004/2005 financial year	600		-
- Shares issued pursuant to share placement in September 2006	154,399,468	$0.02	3,087,989
Share issue expenses			(173,550)
Balance at end of financial year	359,007,227		67,504,023
Incentive shares			
Balance at the beginning of the financial year	16,000,000	$0.000001	16
Total	**375,007,227**		**67,504,039**

(b) Share Options

Options over ordinary shares issued and outstanding at balance date:

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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 16: Issued Capital (Cont'd)

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.

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® 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® 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® 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® 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.

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

(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: Convert to 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 FerriScan® Technology and the expiration of 12 months from Settlement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 16: Issued Capital (Cont'd)

(d) Terms and conditions of incentive shares and options (cont'd)

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 that $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 2007

Note 16: Issued Capital (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	Expired 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
Dr A Walker Director	13 May 2004	7 July 2009	$0.016	$0.30	300,000	-	300,000
Other	13 May 2004	7 July 2009	$0.004	$0.40	800,000	-	800,000
	13 May 2004	7 July 2009	$0.016	$0.30	650,000	-	650,000
	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
	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				8,400,000	(900,000)	7,500,000

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	
	2007 $	2006 $	2007 $	2006 $
Balance 1 July	(64,145,528)	(48,084,683)	(64,145,528)	(48,351,350)
Net loss for year	(725,319)	(16,060,845)	(703,652)	(15,794,178)
Balance 30 June	(64,870,847)	(64,145,528)	(64,849,180)	(64,145,528)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 18: Financial instruments

(a) Weighted average effective interest rate

	Floating Interest Rate		Non-interest Bearing		Total		Weighted Average Effective Interest Rate	
	2007	2006	2007	2006	2007	2006	2007	2006
Financial Assets:								
Cash	2,419,360	570,951	-	-	2,419,360	570,951	5.42%	4.26%
Receivables	-	-	558,687	134,106	558,687	134,106		
Listed shares	-	-	2,828	3,888	2,828	3,888		
Other	43,345	43,345	56,704	67,605	100,049	110,950	6.40%	5.80%
Total Financial Assets	2,462,705	614,296	618,219	205,599	3,080,924	819,895		
Financial Liabilities:								
Payables	-	-	406,536	372,980	406,536	372,980		
Borrowings	-	15,935	-	-	-	15,935	-	6.49%
Total Financial Liabilities	-	15,935	406,536	372,980	406,536	388,915		

(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 2007

	Consolidated		Parent	
NOTE 19: Commitments for expenditure	2007 $	2006 $	2007 $	2006 $
Operating lease commitments				
Commitments for minimum lease payments in relation to non-cancellable operating leases for office premises are payable as follows:				
Within one year	6,964	59,499	6,964	59,499
Later than 1 year but no later than 5 years	-	20,126	-	20,126
Total commitments not recognised in the financial statements	6,964	79,625	6,964	79,625
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	129,610	-	-	-

Amounts disclosed as remuneration commitments include commitments arising from the service contract of the CEO 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.

Name of entity	Country of incorporation	Class of shares	Equity holding	Investment $
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
Resonance USA Inc	USA	Ordinary	100%	-
APMA-Resonance Laboratories, Inc	USA	Ordinary	100%	-
Less: Impairment				(9,928,715)
				1,010,951

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

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.

During the year the company had agreements with two entities that are affiliated with directors Mr Dalsin and Mr Greene.

The first agreement was 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 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 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 by 30 May 2009.

No amounts were paid to MPG in the current financial year. In the previous financial year, 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. Of these shares Mr Dalsin and Mr Greene each have a relevant interest in 250,000 shares.

The second agreement was with 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 paid a monthly retainer of US$15,000 to Stanmore. In addition, Stanmore was 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 was 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 was entitled, subject to shareholder approval, to receive 7,000,000 shares in the Company upon closing, if that occurs. Stanmore was 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.

Stanmore was also entitled to receive commission of 10% on increased revenues received from the Company's major customer.

As a result of ceasing the pathology business acquisition strategy MPG and Stanmore were released from their role as corporate advisors on 10 August 2007. On the same day Mr Dalsin and Mr Greene resigned as directors.

During the financial year Mr Dalsin and Mr Greene as directors of Stanmore received $191,353 (2006: $81,572) as a monthly retainer for corporate advisory services, $115,372 (2006: nil) as commission on contracts and $90,203 (2006: nil) for placement fees. At balance date an amount of $58,736 (2006: $101,971) was owing to Stanmore as a related party payable.

Also owing at balance date to companies associated with Mr Dalsin and Mr Greene was $52,769 (2006: $23,816) for re-imbursement of travel expenses.

The company also had an agreement with Domain Capital Pty Ltd, an entity associated with Mr Aird, a director of the Company. Under this agreement, 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 would be entitled to receive a procurement fee of 7% of the aggregate subscription amount of those placed shortfall shares. Under this agreement Domain Capital Pty Ltd received $5,600 during the financial year.

The company also has an agreement with The University of Western Australia (UWA) for consulting services provided by Mr St Pierre whereby UWA is paid 6 monthly in advance for anticipated consultancy requirements. Upon completion of the period an adjustment is performed for actual consultancy and directors services provided Since his appointment as a director UWA has received $57,200 for these services. Also owing at balance date is a further amount of $64,236 of which $22,500 is for services to be provided in relation to the next financial year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 20: Related party disclosure (Cont'd)

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 and Resonance USA Inc totalling $610,000 and $553,789 respectively (2006: $1,855,000 and nil) with no fixed repayment date. A cumulative impairment of these loans amounting to $5,614,209 was recorded up to balance date.

During the year expenses were paid by the company on behalf of Resonance Health Analysis Services Pty Ltd, Resonance USA Inc and WA Private Health Care Services Pty Ltd totalling $1,315, $127,396 and $16,572 respectively (2006: nil).

During the year expenses were paid by Resonance Health Analysis Services Pty Ltd totalling $74,886 (2006: nil) on behalf of the company.

NOTE 21: Events subsequent to reporting date

On 10 August 2007 the company announced the release of Stanmore from their role as corporate advisors and the termination of our US based CEO, Mr Ed Dooling.

Under the terms of the Stanmore's Deed of Termination and Release amounts totalling US$185,000 (A$217,098) were paid.

Under the terms of Mr Dooling's contract severance pay totalling US$110,000 (A$129,085) and accrued leave entitlements were paid.

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

	Consolidated		Parent	
NOTE 22: Auditors' remuneration	2007 $	2006 $	2007 $	2006 $
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	25,000	30,000	25,000	30,000
— Taxation compliance services	7,538	14,574	2,794	1,832
— other services	2,250	1,700	2,250	200
	34,788	46,274	30,044	32,032

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 23: Director and key management personnel disclosures

(a) Details of Directors and other key management personnel

(i) Directors

Mr Ian Anderson	Chairman (non-executive)	
Dr Gary Pace	Chairman (non-executive)	Resigned 10 August 2007
The Hon. Dr Michael Wooldridge	Deputy Chairman (non-executive)	Resigned 29 June 2007
Mr Guy Aird	Director (non-executive)	
Mr Ian Anderson	Director (non-executive)	
Mr Michael Dalsin	Director (non-executive)	Resigned 10 August 2007
Mr Roger Greene	Director (non-executive)	Resigned 10 August 2007
Dr Tim St Pierre	Director (executive)	Appointed 21 August 2006
Dr Andrew Walker	Director (non-executive)	

(ii) Other key management personnel

Mr Ed Dooling	President and Chief Executive Officer	Appointed 27 September 2006
Ms Liza Dunne	General Manager	Appointed 1 December 2006

(b) Remuneration of Directors and other key management personnel

The Company 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.

(c) Shareholdings

Number of Ordinary Shares held by Directors and Key Management Personnel

The numbers of ordinary shares in the company held during the financial year by each director and executive 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 30.6.07
Dr G Pace	-	-	293,174	-	293,174
Dr M Wooldridge[∞]	224,742	-	(224,742)	-	-
Mr G Aird	-	-	-	-	-
Mr I Anderson	1,394,890	-	1,046,168	-	2,441,058
Mr M Dalsin	125,000	-	478,412	-	603,412
Mr R Greene	125,000	-	478,414	-	603,414
Mr T St Pierre[^]	-	-	9,078,750	-	9,078,750
Dr A Walker	-	-	-	-	-
Total	1,869,632	-	11,150,176	-	13,019,808
Executives					
Mr E Dooling	-	-	-	-	-
Ms L Dunne	-	-	458,667	-	458,667
Total	-	-	458,667	-	458,667

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

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

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

[∞] Dr M Wooldridge resigned as a director on 29 June 2007.

[^] Shares held as disclosed in the initial directors interest notice on being appointed director on 21 August 2006.

(d) Option Holdings

Number of Options held by Directors and Key Management Personnel

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

	Opening Balance	Options Exercised	Granted as Remuneration	Net Change Other*	Balance 30.6.07
Directors					
Dr G Pace	-	-	-	-	-
Dr M Wooldridge[∞]	1,130,618	-	-	(1,130,618)	-
Mr G Aird	-	-	-	-	-
Mr I Anderson	-	-	-	-	-
Mr M Dalsin	-	-	-	-	-
Mr R Greene	-	-	-	-	-
Dr T St Pierre	-	-	-	-	-
Dr A Walker	590,000	-	-	(290,000)	300,000
Total	1,720,618	-	-	(1,420,618)	300,000
Mr E Dooling	-	-	-	-	-
Ms L Dunne	-	-	-	-	-
Total	-	-	-	-	-

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

[∞] Dr M Wooldridge resigned as a director on 29 June 2007.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

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

(e) Incentive Shareholdings

Number of Incentive Shares held by Directors and Key Management Personnel

Directors	Opening Balance	Received as Remuneration	Converted to Ordinary Shares	Net Change Other	Balance 30.6.07
Dr G Pace	-	-	-	-	-
Dr M Wooldridge (1) [#]	12,371	-	-	(12,371)	-
Mr G Aird	-	-	-	-	-
Mr I Anderson (2)	83,334	-	-	-	83,334
Mr M Dalsin	-	-	-	-	-
Mr R Greene	-	-	-	-	-
Dr T St Pierre (3)	-	-	-	675,000	675,000
Dr A Walker	-	-	-	-	-
Total	95,705	-	-	662,629	758,334
Executives					
Mr E Dooling	-	-	-	-	-
Ms L Dunne	-	-	-	-	-
Total	-	-	-	-	-

[#] Dr M Wooldridge resigned as a director on 29 June 2007.

Notes

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

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

(3) Mr St Pierre holds 675,000 Class F Incentive Shares

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

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

(f) Incentive Option Holdings

Number of Incentive Options held by Directors and Key Management Personnel

Directors	Opening Balance	Received as Remuneration	Converted to Unlisted Options	Net Change Other	Balance 30.6.07
Dr G Pace	-	-	-	-	-
Dr M Wooldridge (1) ∞	10,309	-	-	(10,309)	-
Mr G Aird	-	-	-	-	-
Mr I Anderson	-	-	-	-	-
Mr M Dalsin	-	-	-	-	-
Mr R Greene	-	-	-	-	-
Dr T St Pierre	-	-	-	-	-
Dr A Walker	-	-	-	-	-
Total	10,309	-	-	(10,309)	-
Executives					
Mr E Dooling	-	-	-	-	-
Ms L Dunne	-	-	-	-	-
Total	-	-	-	-	-

∞ Dr M Wooldridge resigned as a director on 29 June 2007.

Notes

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

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 2007 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 2007.

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

Mr Ian Anderson
Chairman

Place: Melbourne, VIC
Dated: 28th day of August 2007

HLB Mann Judd

Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of

RESONANCE HEALTH LIMITED

We have audited the accompanying financial report of Resonance Health Limited ("the company"), which comprises the balance sheet as at 30 June 2007, the income statement, statement of changes in equity, cash flow statement and notes to the financial statements for the year then ended for both the company and the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the end of the financial year or from time to time during the financial year.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124: Related Party Disclosures, under the heading "remuneration report" in the directors' report and not in the financial report. We have audited these remuneration disclosures.

Directors' Responsibility for the Financial Report

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

In Note 1(c), the directors state that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's Responsibility

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

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

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

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

HLB Mann Judd (WA Partnership)

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Email: hlb@hlbwa.com.au. Website: http://www.hlb.com.au
Partners: Terry M Blenkinsop, Litsa Christodulou, Wayne M Clark, Lucio Di Giallonardo, Colin D Emmott, Trevor G Hoddy, Norman G Neill, Peter J Speechley

HLB Mann Judd (WA Partnership) is a member of HLB International and the HLB Mann Judd National Association of independent accounting firms

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Resonance Health Limited and included in the Directors' Report, would be on the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion

In our opinion:

(a) the financial report of Resonance Health Limited is in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year then ended; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(c).

Auditor's Opinion on the AASB 124 Disclosures Contained in the Directors' Report

In our opinion the remuneration disclosures that are contained in the directors' report comply with Accounting Standard AASB 124.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

Giallonardo.

Perth, Western Australia
28 August 2007

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 28 September 2007

1. Analysis of Shareholdings

a. Distribution of Shareholders (ASX Code: RHT)

Number of Ordinary Shares Held	Ordinary Shares Number of holders	Number of shares
1 – 1,000	546	124,710
1,001 – 5,000	213	683,150
5,001 – 10,000	288	2,175,608
10,001 – 100,000	955	36,589,309
100,001 – and over	337	319,434,450
	2,339	359,007,227

The number of shareholdings holding less than a marketable parcel of shares are 1,512.

b. Distribution of Optionholders (ASX Code: RHTOB)

	Options Number of holders	Number of options
1 – 1,000	92	22,041
1,001 – 5,000	106	322,351
5,001 – 10,000	45	327,934
10,001 – 100,000	52	2,093,174
100,001 – and over	31	17,839,094
	326	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	18.94
2.	ANZ Nominees Limited <Cash income A/C>	13,683,052	3.81
3.	Paul Roderick Clark <The Pankima A/C>	10,050,000	2.80
4.	Trinity Investments International Pty Ltd <Dorma Investment A/C>	9,100,000	2.54
5.	The University Of Western Australia	9,078,750	2.53
6.	Timothy Guy St Pierre <The St Pierre A/C>	9,078,750	2.53
7.	Wanida Chau-Anusorn <The Medta A/C>	8,070,000	2.25
8.	Dr Franklyn Jay Ives	6,272,934	1.75
9.	TV Games Pty Ltd	4,540,000	1.27
10.	Five Tigers Investment Corporation Ltd	4,494,844	1.25
11.	Dr Simon Bell	4,141,383	1.15
12.	Mr Helmut Rocker	4,000,000	1.11
13.	Mr William James Moulden & Mrs Carol Elaine Moulden <The CAJWM Retirement Fund A/C>	4,000,000	1.11
14.	Mr Robert Francis Panton	2,730,000	0.76
15.	Mr Walter Pellicciotti	2,500,000	0.70
16.	Anahein Pty Ltd	2,408,478	0.67
17.	Southam Investments 2003 Pty Ltd <Warwickshire Investment A/C>	2,399,830	0.67
18.	Mr Johannes Petrus Jozef De Vetten & Mrs Jacqueline De Vetten <J&J De Vetten S/F A/C>	2,385,964	0.67
19.	Mr Thomas Noel Grogan & Mrs Bronwyn Mavis Grogan <Grogan Retirement Fund A/C>	2,344,437	0.65
20.	Mr Ian Bruce Anderson	2,102,471	0.59
		171,380,893	47.75

4. Twenty Largest Optionholders (ASX Code: RHTOB)

	Name	Number of Options	Percentage of Total
1.	Mr Helmut Rocker	3,612,663	17.53
2.	ANZ Nominees Limited <Cash income A/C>	2,976,501	14.45
3.	Robert Francis Panton	1,375,500	6.67
4.	Francis George Heppingstone & Danielle Georgette Heppingstone <FG Heppingstone P/L S/F A/C>	877,000	4.26
5.	Minton Pty Ltd	785,000	3.81
6.	Davies Nominees Pty Ltd <Snape A/C>	750,000	3.64
7.	Nora Goodridge Investments Pty Ltd	740,741	3.60
8.	Mrs Tracy Ann Blake	700,000	3.40
9.	Morgan & Banks Investments Pty Ltd	665,741	3.23
10.	TV Games Pty Ltd	591,667	2.87
11.	Mr James Kelsey Nugent	581,020	2.82
12.	Stephen Newman	370,370	1.80
13.	Mr Stephen Pearson & Mr Robert Pearson <S W Pearson Super Account>	349,256	1.70
14.	Mondo Electronics Pty Ltd <Mondo Electronics S/F A/C>	300,000	1.46
15.	Mr Peter Arthur Kimberley	281,667	1.36
16.	Mondo Electronics Pty Ltd <The Simon Panton Family A/C>	270,835	1.31
17.	BT Portfolio Services Ltd <Hooper S/Fund A/C>	266,667	1.29
18.	Succession Planners Pty Ltd <Let Discretionary Account>	261,111	1.27
19.	Mr John Petersen	250,000	1.21
20.	Classic Roofing Pty Ltd	200,000	0.97
		16,205,739	78.65

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES (Continued)

5. 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
Incentive Shares:			
Class F	63	13,000,000	Subject to milestones
Total Class F	63	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.

Class G	1	3,000,000	Subject to milestones
Total Class G	1	3,000,000	

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

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	35	6,666,667	Subject to milestones
Total Class F	35	6,666,667	

Pacific Healthcare Investments Ltd holds 3,257,218 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.

6. 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

7. Statement in accordance with ASX Listing Rule 4.10.19

The Company believes that for the year ended 30 June 2007, 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.