



Wednesday 30th July 2014

iSonea Achieving Commercialization Milestones

The Directors of iSonea Limited are pleased to provide the following report to accompany the Appendix 4C for the quarter ended June 30 2014.

Our strategic objective is to build shareholder value through the development and sale of our **AirSonea** devices, software and mobile health applications that improve the management of asthma and related respiratory disorders. This will be achieved through partnerships with global and country industry leaders and distribution through retail pharmacy chains in selected markets.

Milestones during the quarter include:

- **AirSonea**® device software and app upgrades completed for pilot.
- Australian pilot planning with a major pharmacy chain progressing.
- Confidentiality agreement signed with a potential major partner in the United Kingdom.
- FDA clearance for **SonoSentry1**™ well advanced.
- Dual global product strategy for developed and developing markets.
- Operating effectiveness being improved.
- Cash position stronger.

Product Readiness: A Better User Experience

Since February 2014, the Company has been focused on creating the user experience that our customers and pharmacy partners will expect. The **AirSonea App** functionality and the web registration process have been significantly simplified and connectivity between the device, app and registration websites has been improved. Packaging has been updated, as has the user manual which will now be easily accessible on-line.

We have upgraded the algorithms that detect correct placement of the device and identify problematic ambient noise, improving first-time capture of a **WheezeRATE**™ recording.



Pilot with Major Pharmacy Chain

iSonea has held productive discussions with a major pharmacy chain with a view to entering into an exclusive arrangement for its pilot and subsequent Australian launch. The purpose of the pilot phase is to introduce the **AirSonea Wheeze Monitor**™ and **AirSonea App** to selected pharmacies to market test the rollout model and ensure everything is in place to support a full national launch. During this phase, the customer experience will be fine-tuned based on pharmacist knowledge of their customers. The pilot will be independently monitored and evaluated.

UK Partnership Opportunity: Confidentiality Agreement Signed

The company has signed a commercial-in-confidence confidentiality agreement with a well-credentialed major UK company with the capability to execute a global digital health platform. There are approximately 6 million asthma sufferers in the UK and its retail pharmacies and health insurers are similar to Australia. Importantly there are a large number of major cities in the UK that offer excellent opportunities for phased product rollouts. The Chairman will visit the UK in early August to progress partnership negotiations.

FDA Clearance Well Advanced

On June 23 2014, the company advised that, following a request from the FDA, iSonea agreed to make labeling related changes for its **SonoSentry1** device. This application was based on demonstrating that the product was “substantially equivalent” to the **Wheezometer®** and requested a change from a prescription to an over the counter (OTC) device.

SonoSentry1 is not smartphone enabled but uses the same sensor head as **AirSonea**, iSonea’s acoustic respiratory algorithms and presents **WheezeRATE** on a LCD screen. On Friday July 25, the FDA supplied the precise wording that we must use and the company has accepted this wording. We emphasise that obtaining FDA clearance is a very precise and demanding process and timing cannot always be predicted accurately. We have been advised that we have now done everything required to achieve clearance and will advise the market as soon as that formality has been achieved.

Following questions from shareholders and the investment community, the Board wishes to clarify the FDA strategy that was developed prior to the appointment of the current Board in February this year. In the 2013 Annual Report it was reported that the 510(k) application for **SonoSentry1** was first filed in October 2012. The company further stated that the “review process provided helpful insights for planning the FDA submission of **AirSonea**.”

AirSonea has never been submitted to the FDA for clearance. Prior to the appointment of the current Board, the company forecast a first-quarter 2014 launch of **AirSonea** in the USA, and this forecast was clearly extraordinarily optimistic.

Dual Global Product Strategy: **AirSonea®** and **SonoSentry2™**

The Board has reviewed the company’s previous and current product development priorities, substantial global market opportunities and key regulatory regimes. Whilst the m-Health market will continue to grow rapidly, the Board notes that the FDA clearance process in the USA for mobile health devices associated with chronic diseases is complex, demanding and often slower than anticipated.

Accordingly, it believes iSonea should progress the following dual product strategy to achieve the best commercial outcomes:

- Our flagship **AirSonea** wheeze monitor device and app that uses a cloud based server to acquire and process **WheezeRATE** recordings. This device is best suited to developed markets with a high penetration of smartphone and apps, low cost WI-FI and cloud based servers.
- A new **SonoSentry2** product with a similar sleek design to **AirSonea** that is a standalone, hand-held pulmonary sound analyzer that does not require a mobile phone to operate. It will have iSonea proprietary algorithms embedded in the device and not in the cloud. It utilizes the same contact sensor

and measures **WheezeRATE** in exactly the same way as **AirSonea**. The device processes the acquired breath sounds and then presents the **WheezeRATE** on an inbuilt LCD screen. Recorded history can be downloaded periodically for storage and further use with the **AirSonea App**. This device should be better suited to market in developing countries where there is expensive Wi-Fi and limited use of cloud based servers.

The company is actively investigating the potential to lower the costs of production of **SonoSentry2** to enable a commercial launch of this product in selected global markets and possibly ahead of the **AirSonea** cloud device in the USA if regulatory clearance of **AirSonea** takes a significant time.

Operating Effectiveness

The company continues to drive operating effectiveness throughout the business including its supplier network. iSonea is developing the capacity and capability to have the right people with the right skills in key areas. iSonea operates in a fast moving technological environment where innovation, cost control and accelerated development of key initiatives is crucial. As commercialization proceeds, the Board has identified the need to transition the company's culture towards a more focused and timely delivery of objectives in a collaborative work and team environment.

Cash Position

The company achieved a strong cash position of \$8.21M at 30 June 2014 and continues to achieve the target set by the Board in February 2014 of an underlying cash burn rate of less than \$500K per month. This year end balance is \$900K higher than the end of the March quarter, and represents a \$6.9M increase on the 30 June 2013 balance of \$1.35M. During the June 2014 quarter, the Company had net operating cash outflows of \$1.15M (approx. \$383K per month) which represented a reduction of \$1.7M compared to the March 2014 quarter of \$2.82M (approx. \$940K per month) which included retiring many legacy issues.

The Company's cash position was further bolstered by a cash injection of more than \$2.3M from ISNOB Optionholders exercising their \$0.14 listed options, which expired on 30 June 2014. This was a strong result for the Company, to have almost all of these listed options exercised, and conveys the confidence the market has in iSonea.

The reduction in the cash burn reflects the success of the Board's commitment to significantly reduce the ongoing cash costs of the company. It has and continues to undertake a critical review of all suppliers and is focused on product commercialization and the implementation of the Board's revised business plan.

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Company Secretary

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Chairman

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Looking Forward Statements

Certain statements made in this announcement are forward-looking statements. These forward looking statements are not historical facts but rather are based on iSonea's current expectations, estimates and projections about the industry in which iSonea operates, and its beliefs and assumptions. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "guidance" and similar expressions are intended to identify forward-looking statements and should be considered an at-risk statement. Such statements are subject to certain risks and uncertainties, particularly those risks or uncertainties inherent in the process of developing technology and in the endeavour of building a business around such products and services. These statements are not guarantees of future performance and are subject to known and unknown risks, uncertainties and other factors, some of which are beyond the control of iSonea, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. iSonea cautions shareholders and prospective shareholders not to place undue reliance on these forward-looking statements, which reflect the view of iSonea only as of the date of this release. The forward-looking statements made in this announcement relate only to events as of the date on which the statements are made. iSonea will not undertake any obligation to release publicly any revisions or updates to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date of this announcement except as required by law or by any appropriate regulatory authority.

Appendix 4C – 4th Quarter

Quarterly report for entities admitted on the basis of commitments

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10

Name of entity:

iSonea Limited (ASX:ISN)

ABN:

98 009 234 173

Quarter ended (“current quarter”)

30th June, 2014

Consolidated statement of cash flows

Cash flows related to operating activities	Current Quarter \$A'000	Year-to-Date (12 Months) \$A'000
1.1 Receipts from customers	2	18
1.2 Payments for:		
(a) staff costs	(128)	(1,359)
(b) advertising and marketing	(88)	(1,557)
(c) research and development	(654)	(4,520)
(d) sales costs	(61)	(228)
(e) other working capital	(299)	(1,798)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	75	250
1.5 Interest and other costs of finance paid	-	(3)
1.6 Income taxes paid	7	40
1.7 Other (R&D Tax Refund & Grants)	-	392
Net operating cash flows	(1,146)	(8,765)

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

	Current Quarter \$A'000	Year-to-Date (12 Months) \$A'000
1.8 Net operating cash flows (carried forward)	(1,146)	(8,765)
Cash flows related to investing activities		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	(52)
(e) other non-current assets	(3)	(3)
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other	-	(32)
Net investing cash flows	(3)	(87)
1.14 Total operating and investing cash flows	(1,149)	(8,852)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	2,316	16,944
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	-	-
1.18 Repayment of borrowings	-	-
1.19 Dividends paid	-	-
1.20 Other – (Capital Raising Costs)	(2)	(846)
Net financing cash flows	2,314	16,098
Net increase (decrease) in cash held	1,165	7,246
1.21 Cash at beginning of quarter/year to date	7,308	1,347
1.22 Exchange rate adjustments to item 1.21	(261)	(381)
1.23 Cash at end of quarter	8,212	8,212

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

	Current Quarter \$A'000
1.24 Aggregate amount of payments to the parties included in item 1.2	63
1.25 Aggregate amount of loans to the parties included in item 1.11	-
1.26 Explanation necessary for an understanding of the transactions	
Salaries, Directors fees, Corporate Advisory and Consulting fees at normal commercial rates.	

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated Assets and liabilities but did not involve cash flows

The following securities were issued in lieu of cash payments for services rendered:

5 May 2014 – 313,943 Ordinary Fully Paid shares issued in lieu of cash payment for services rendered - ESOP
Deemed value of services = \$56,689.80

5 May 2014 – 216,393 Ordinary Fully Paid shares issued to various employees as part of Employee and Executive Incentive Plan - ESOP
Deemed value of services = \$56,984.47

5 May 2014 – 1,000,000 Unlisted Options (ISNAW) Exercisable at \$0.40 per option on or before 2 April 2017 issued as part of Employee and Executive Incentive Plan – ESOP
Deemed value of services = \$62,700.00

5 May 2014 – 143,060 Unlisted Options (ISNAW) Exercisable at \$0.279 per option on or before 2 April 2017 issued as part of Employee and Executive Incentive Plan – ESOP
Deemed value of services = \$11,058.54

- 2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

-

Financing facilities available

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

	Amount Available \$A'000	Amount Used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current Quarter \$A'000	Previous Quarter \$A'000
4.1 Cash on hand and at bank	8,212	7,308
4.2 Deposits at call	-	-
4.3 Bank overdraft	-	-
4.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.23)	8,212	7,308

Acquisitions and disposals of business entities

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1 Name of entity	N/A	N/A
5.2 Place of incorporation or registration	-	-
5.3 Consideration for acquisition or disposal	-	-
5.4 Total net assets \$A'000	-	-
5.5 Nature of business	-	-

Compliance Statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.

Sign Here: 
 Company Secretary

Date: Wednesday, 30th July 2014

Print Name: PETER VAUGHAN

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, AASB 107: Statement of Cash Flows apply to this report except for any additional disclosure requirements requested by AASB 107 that are not already itemised in this report.
3. Accounting Standards. ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.