

Appendix 4E – Preliminary Final Report

(ASX Listing rule 4.2A)

Company Name:	iSonea Limited (the 'Company')
ABN:	98 009 234 173
Reporting Period:	Financial year ended 30 June 2014
Previous Reporting Period:	Financial year ended 30 June 2013

Results for Announcement to the Market

The results of iSonea Limited for the year ended 30 June 2014 are as follows:

Revenue	Up	257.08%	to	\$269,818
Loss after tax attributable to members	Up	84.74%	to	(\$10,309,957)
Net loss for the period attributable to members	Up	84.74%	to	(\$10,309,957)

Brief explanation of figures reported above

The loss for the Company after income tax for the reporting period was \$10,309,957 (2013: \$5,580,768) and before income tax the loss for the reporting period was \$10,309,957 (2013: \$5,580,768).

There is no tax payable or refund due during the current reporting period, (2013 payable or refund: \$0). This result has been achieved after fully expensing all research and development costs, in the current reporting period of \$3,841,215 (2013: \$2,155,693).

For further details relating to the current period's results, refer to the Operations Report contained within this document.

Dividends

No dividends have been paid or declared by the Company since the beginning of the current reporting period. No dividends were paid for the previous reporting period.

Net Tangible Assets

	30 June 2014	30 June 2013
Net Tangible Assets	\$8,426,447	\$858,356
Shares (No.)	275,913,955	219,675,323
Net Tangible Assets (Cents)	3.05	0.39

Loss per Share

	30 June 2014	30 June 2013
Basic loss per share (cents)	(3.91)	(2.55)
Diluted loss per share (cents)	(3.91)	(2.55)

Status of Audit of Accounts

These accounts are currently in the process of being audited. An Annual Report for the year ended 30 June 2014 containing the Audit Report shall be provided in due course.



ABN 98 009 234 173

A large, circular graphic with a grey background and three wavy, horizontal bands of color: yellow, green, and blue. The text "Appendix 4E Preliminary Final Report" is centered over this graphic.

Appendix 4E Preliminary Final Report

For the Year Ended 30 June 2014

In Compliance with ASX Listing Rule 4.3A

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Review of Financial Result

The Directors of iSonea Limited ("ISN", "iSonea" or "the Company") provide the following Report in relation to the Company for the year ended 30 June 2014.

Principal Activities

The Company's principal activities in the course of the financial year were the research, development and commercialisation of medical devices, and the production of Mobile Health applications. There were no significant changes in the nature of the Company's principal activities during the financial year.

The consolidated loss of the Company after providing for income tax amounted to \$10,309,957 (2013: \$5,580,768).

Review of Financial Result

Since February 2014, the new Board has put in place a series of substantial measures to stabilise the company, including reducing its cost base and cash burn. The Company has now focused on upgrading the AirSonea™ device software, functionality, and registration process together with improving the user experience of the AirSonea™ App.

The recent FDA clearance for the SonoSentry™1 device to be sold over-the-counter (OTC) in the United States and the patent grant for our Asthma Inhaler Compliance Monitor provides the Company with an attractive product portfolio in respiratory mobile health for commercial partnerships.

Statement of Financial Position

The Company has a strong cash position of \$8.21M at 30 June 2014 and continues to achieve the underlying cash burn targets set by the Board in February 2014 of less than \$500K per month. This year-end balance represents a \$6.9M increase on the 30 June 2013 balance of \$1.35M

The Company's cash position was further bolstered during the year by a cash injection of more than \$2.3M from the ISNOB Optionholders who exercised their \$0.14 listed options that 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 these investors have in iSonea and its intellectual property portfolio.

Statement of Profit or Loss

The second half of the year contributed a loss of \$3.1M compared to the first half of the year loss of \$7.2M.

The reduction in the second half year expenditure reflects the success of the Board's commitment to significantly reduce the ongoing cash costs of the Company including non-key consulting and marketing activities.

During the period between July 2013 and January 2014 there was a significant increase in expenditure in the areas of marketing and promotion, corporate administration and the associated employee and consulting expenditures as the Company prepared and undertook an Australian launch of its AirSonea™ product.

The sales revenue of only \$19k as a result of that launch in the context of such an increase in expenditure was extremely disappointing. By any measure, the online direct to consumer launch of our flagship AirSonea™ device in Australia in September 2013 was clearly ill-conceived and flawed in strategy and execution.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2014

	Note	Consolidated 30 June 2014 \$ AUD	Consolidated 30 June 2013 \$ AUD
Revenue			
Total operating revenue	3	18,975	10,859
Total non-operating revenue	3	250,843	64,703
Total Revenue		269,818	75,562
Other income		-	360,051
Expenses			
Amortisation expenses		(217,335)	(151,019)
Consulting, employee and director expenses		(2,762,509)	(1,391,628)
Corporate administration expenses		(2,022,781)	(728,294)
Depreciation expenses		(27,269)	(18,495)
Finance expenses		-	(33,499)
Marketing and promotion expenses		(1,905,442)	(1,006,684)
Fair value adjustment to liability		661,812	-
Impairment expenses		-	(152,994)
Research and development expenses		(3,841,215)	(2,155,693)
Travel and entertainment expenses		(465,036)	(378,075)
Loss before income tax expense		(10,309,957)	(5,580,768)
Income tax expense		-	-
Loss after income tax for the year		(10,309,957)	(5,580,768)
Other comprehensive income:			
<i>Items that may not be reclassified subsequently to Profit or Loss</i>			
Exchange differences on translation of foreign operations		42,609	(130,798)
Total comprehensive loss for the half-year		(10,267,348)	(5,711,566)
Loss attributable to owners of the parent entity		(10,309,957)	(5,580,768)
Total comprehensive loss attributable to members of the parent entity		(10,267,348)	(5,711,566)
Loss per share for the half-year attributable to the members of the parent entity			
Basic loss per share (cents per share)	8	(3.91)	(2.55)
Diluted loss per share (cents per share)	8	(3.91)	(2.55)

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2014

	Note	Consolidated 30 June 2014 \$ AUD	Consolidated 30 June 2013 \$ AUD
ASSETS			
Current Assets			
Cash and cash equivalents		8,212,003	1,346,736
Trade and other receivables		84,211	548,008
Inventories		1,064,477	44,233
Other		494,170	78,526
Total Current Assets		9,854,861	2,017,503
Non-Current Assets			
Property, plant and equipment		96,771	53,642
Other intangible assets		649,958	764,061
Other		2,619	2,550
Total Non-Current Assets		749,348	820,253
TOTAL ASSETS		10,604,209	2,837,756
LIABILITIES			
Current Liabilities			
Trade and other payables		1,508,305	548,726
Other financial liabilities		19,499	15,306
Total Current Liabilities		1,527,804	564,032
Non-Current Liabilities			
Other financial liabilities		-	651,307
Total Non-Current Liabilities		-	651,307
TOTAL LIABILITIES		1,527,804	1,215,339
NET ASSETS		9,076,405	1,622,417
EQUITY			
Issued capital	6	95,149,981	77,310,846
Reserves		426,737	1,229,312
Accumulated Losses		(86,500,313)	(76,917,741)
TOTAL EQUITY		9,076,405	1,622,417

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2014

CONSOLIDATED	Issued Capital \$ AUD	Option Reserve \$ AUD	Foreign Currency Translation Reserve \$ AUD	Accumulated Losses \$ AUD	Total \$ AUD
Balance as at 30 June 2012	72,725,708	1,778,093	(346,331)	(72,043,031)	2,114,439
Profit after income tax expense for the year	-	-	-	(5,580,768)	(5,580,768)
Other comprehensive income for the year, net of tax	-	-	(130,798)	-	(130,798)
Total Comprehensive Income for the year	-	-	(130,798)	(5,580,768)	(5,711,566)
<i>Transactions with Equity holders in their capacity as equity holders:</i>					
Shares Issued	5,423,517	-	-	-	5,423,517
Capital Raising Costs	(838,379)	-	-	-	(838,379)
Options Issued	-	634,406	-	-	634,406
Transfers to/from reserves ¹	-	(706,058)	-	706,058	-
Balance at 30 June 2013	77,310,846	1,706,441	(477,129)	(76,917,741)	1,622,417
Profit after income tax expense for the year	-	-	-	(10,309,957)	(10,309,957)
Other comprehensive income for the year, net of tax	-	-	42,609	-	42,609
Total Comprehensive Income for the year	-	-	42,609	(10,309,957)	(10,267,348)
<i>Transactions with Equity holders in their capacity as equity holders:</i>					
Shares Issued	17,398,376	-	-	-	17,398,376
Shares to be Issued	794,481	-	-	-	794,481
Capital Raising Costs	(1,093,722)	-	-	-	(1,093,722)
Options Exercised into Shares	-	(682,500)	-	-	(682,500)
Options Issued	-	1,304,701	-	-	1,304,701
Options Lapsed	740,000	(740,000)	-	-	-
Transfers to/from reserves ¹	-	(727,385)	-	727,385	-
Balance at 30 June 2014	95,149,981	861,257	(434,520)	(86,500,313)	9,076,405

1. To transfer the value of lapsed/expired options from the reserve to accumulated losses.

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2014

	Note	Consolidated 30 June 2014 \$ AUD	Consolidated 30 June 2013 \$ AUD
<u>Cash flows from operating activities</u>			
Receipts from customers		18,976	17,685
Payments to suppliers and employees		(9,766,995)	(5,459,503)
Interest received		251,271	64,703
Receipt of R&D tax refund		390,787	441,814
Net cash flows used in operating activities		(9,105,961)	(4,935,301)
<u>Cash flows related to investing activities</u>			
Payments for purchases of plant and equipment		(63,746)	(17,596)
Loans to unrelated entities		(32,813)	-
Net cash flows used in investing activities		(96,559)	(17,596)
<u>Cash flows related to financing activities</u>			
Proceeds from issues of securities		16,941,793	5,210,218
Capital raising costs		(853,600)	(436,163)
Payments to Chief Scientist and BIRD		(169)	(259)
Net cash flows from financing activities		16,088,024	4,773,796
Net increase/(decrease) in cash and cash equivalents		6,885,504	(179,101)
Cash and cash equivalents at the beginning of the year		1,346,736	1,331,165
Effects of exchange rate changes on cash and cash equivalents		(20,237)	194,672
Cash and cash equivalents at the end of the year		8,212,003	1,346,736

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

Note 1 - Statement of Significant Accounting Policies

Corporate Information

This Preliminary Financial Report covers the consolidated entity of iSonea Ltd and its controlled entities. The Company's principal activities are research, development and commercialisation of medical devices.

The Company's Preliminary Financial Report does not include all the notes of the type normally included in an Annual Financial Report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the entity as the full financial report.

This Preliminary Financial Report has been prepared in accordance with the recognition and measurement requirements, but not all disclosure requirements, of Australian Accounting Standards and Interpretations and the Corporations Act 2001. Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards.

Significant accounting policies adopted in preparation of the preliminary financial report are consistent with those adopted by the company in preparation of the 30 June 2013 financial report and the 31 December 2013 half year financial report.

The Preliminary Final Report has been prepared on an accruals basis and is based on historical costs, except for the revaluation of certain non-current assets and financial instruments. Cost is based on fair values of the consideration given in exchange for assets.

The preliminary financial report is presented in Australian dollars.

Note 2 - Dividends

The Company has resolved not to declare any dividends for the financial year ended 30 June 2014.

Note 3 - Revenue

	30 June 2014 \$ AUD	30 June 2013 \$ AUD
Revenue		
<i>Revenue from Operating Activities</i>		
Sales - Medical Devices	18,975	10,859
Total Revenue from Operating Activities	18,975	10,859
<i>Revenue from Non-Operating Activities</i>		
Interest	250,843	64,703
Total Revenue from Non-Operating Activities	250,843	64,703
Total Revenue	269,818	75,562
Other Income		
R&D Tax Concession Refunds	-	360,051
Total Other Income	-	360,051
	269,818	435,613

Note 4 - Segment Information

Primary Reporting Format - Business Segments

The consolidated entity has identified its operating segments based on the internal reports that are reviewed and used by the executive management team in assessing performance and determining the allocation of resources.

The executive management team considers the business from both a product and a geographic perspective and has identified three reportable segments. Medical devices consists of research and development, commercialisation and sale of a suite of medical devices being developed by the Company in the subsidiaries in Israel, United States of America and Australia.

Management monitors the performance in these three regions separately. Corporate, administration and support services are provided in Australia and performance is monitored separately to the medical device business.

The Board assesses the performance of the operating segments at a number of operating levels including adjusted EBITDA. This measurement excludes the effects of certain expenditure from the operating segments such as depreciation, amortisation and finance costs.

The reportable segments are based on aggregated operating segments determined by similarity of expenses, where expenses in the reportable segments exceed 10% of the total expenses for either the current and/or previous reporting period.

30 June 2014	----- Medical Devices -----			Corporate \$ AUD	Total \$ AUD
	Australia \$ AUD	Israel \$ AUD	USA \$ AUD		
Segment Revenue					
External sales	14,684	4,291	-	-	18,975
Interest revenue	-	-	545	250,298	250,843
Other Income	-	-	-	-	-
Total Segment Revenue	14,684	4,291	545	250,298	269,818
Segment Expenses					
Segment Depreciation Expenses	(816)	(6,448)	(3,730)	(16,275)	(27,269)
Segment Expenses	(1,443,749)	(1,448,288)	(4,462,417)	(3,198,052)	(10,552,506)
Total Segment Expense	(1,444,565)	(1,454,736)	(4,466,147)	(3,214,327)	(10,579,775)
Income Tax Expense	-	-	-	-	-
Net Result	(1,429,881)	(1,450,445)	(4,465,602)	(2,964,029)	(10,309,957)
Assets					
Segment assets	1,500,007	744,440	219,096	8,140,666	10,604,209
Total Assets	1,500,007	744,440	219,096	8,140,666	10,604,209
Liabilities					
Segment liabilities	697,013	87,130	368,461	375,200	1,527,804
Total Liabilities	697,013	87,130	368,461	375,200	1,527,804

Notes to the Financial Statements *Continued.....*

30 June 2013	----- Medical Devices -----			Corporate \$ AUD	Total \$ AUD
	Australia \$ AUD	Israel \$ AUD	USA \$ AUD		
Segment Revenue					
External sales	-	8,614	2,245	-	10,859
Interest Revenue	-	-	-	64,703	64,703
Other Income	-	-	-	360,051	360,051
Total Segment Revenue	-	8,614	2,245	424,754	435,613
Segment Expenses					
Segment Depreciation Expenses	(815)	(5,735)	-	(11,945)	(18,495)
Segment Expenses	(281,099)	(2,286,133)	(2,342,534)	(1,088,120)	(5,997,886)
Total Segment Expense	(281,914)	(2,291,868)	(2,342,534)	(1,100,065)	(6,016,381)
Income Tax Expense	-	-	-	-	-
Net Loss	(281,914)	(2,283,254)	(2,340,289)	(675,311)	(5,580,768)
Assets					
Segment assets	102,466	852,076	270,945	1,612,269	2,837,756
Total Assets	102,466	852,076	270,945	1,612,269	2,837,756
Liabilities					
Segment liabilities	-	719,428	167,044	328,867	1,215,339
Total Liabilities	-	719,428	167,044	328,867	1,215,339

Note 5 - Contingent Liabilities

Office of the Chief Scientist- Israel

Following approval from the Office of the Chief Scientist in Israel (OCS), certain intellectual property (IP) and associated OCS grant royalty payment commitments were acquired by iSonea from Karmel Medical Acoustic Technologies Ltd (KMAT) in 2006.

Prior to iSonea's acquisition, KMAT had received four co-funding grants from the OCS totalling USD\$541,470. Subsequently, iSonea applied for and received a further two similar co-funding research and development grants from OCS totalling USD\$307,047.

The terms of the OCS grant scheme specify that once any IP developed and commercialised from these advances generates sale revenue for the company, a 3% of sales revenue royalty is to be paid to the OCS. The total royalty payment commitment is capped at an amount calculated by adding to the grant amounts received a London Interbank Offered Rate (LIBOR) based interest indexation factor.

As at 30 June 2014, the maximum royalty payment commitment to the OCS of all six grants which may result in commercialised IP was USD\$1,116,795 (2013: USD\$1,078,749).

Notes to the Financial Statements *Continued.....*

Binational Industrial Research and Development Foundation – Israel

In December 2008 the company signed a three party joint venture grant agreement with the Binational Industrial Research and Development Foundation (BIRD) and an American company Sandhill Scientific Inc. (JV partner).

Under this grant agreement iSonea received four grants totalling USD\$367,622 to assist with the joint funding of IP development in conjunction with our JV partner. The terms of these grants include a condition that if any IP developed under this agreement is commercialised, iSonea would pay a royalty amount of 5% on any revenues generated. The royalty payment commitment is capped at a maximum total value equal to the BIRD grants received by the company plus CPI indexation factor.

On the basis of the current status of our research and development outcomes, the Company does not anticipate that any future revenues will be received from the IP developed under this co-funded grants scheme.

As at 30 June 2014, the maximum royalty payment commitment of iSonea under the BIRD JV agreement was USD\$367,622 (2013: USD\$367,622).

Note 6 - Issued Capital

	30 June 2014		30 June 2013	
	No.	\$ AUD	No.	\$ AUD
<u>Fully Paid Ordinary Shares</u>				
Balance at beginning of year	219,675,323	77,310,846	2,334,657,043	72,725,708
Consolidation of Equity ¹	-	-	(2,217,924,879)	-
Shares issued during the year	39,954,437	14,036,089	102,067,283	5,300,893
Shares to be issued	-	794,481	-	-
Share issued form the exercise of options	16,284,195	3,362,287	875,876	122,624
Transactions costs relating to share issues	-	(353,722)	-	(838,379)
Total Issued Capital	275,913,955	95,149,981	219,675,323	77,310,846

1. At Company's General Meeting, 27th July 2012, members approved a 20:1 share capital consolidation which was completed on 13th August 2012.

Note 7 - Reserves

	30 June 2014		30 June 2013	
	No.	\$ AUD	No.	\$ AUD
<u>Options</u>				
Balance at beginning of year	25,557,724	1,706,441	609,240,673	1,778,093
Consolidation of Equity ¹	-	-	(578,778,833)	-
Listed Options issued during the year	1,000,000	390,000	-	-
Unlisted Options issued during the year	1,143,060	73,759	-	-
Share issued form the exercise of options	(16,284,195)	(682,500)	(875,876)	-
Expense recorded options over vesting period	-	840,942	-	634,406
Lapse of options due to nil exercise	(2,690,625)	(1,467,385)	(4,028,240)	(706,058)
Total Reserves	8,725,964	861,257	25,557,724	1,706,441

1. At Company's General Meeting, 27th July 2012, members approved a 20:1 share capital consolidation which was completed on 13th August 2012.

Note 8 - Loss per Share

	30 June 2014	30 June 2013
Basic loss per share (cents)	(3.91)	(2.55)
Diluted loss per share (cents)	(3.91)	(2.55)
a) Net loss used in the calculation of basic and diluted loss per share	(10,309,957)	(5,580,768)
b) Weighted average number of ordinary shares outstanding during the period used in the calculation of basic and diluted loss per share	263,761,594	218,618,893
c) Potential ordinary shares, including options, are excluded from the weighted average number of shares used in the calculations of basics loss per share.		

Note 9 - Events Subsequent to Balance Date

4th July 2014 – 5,674,861 new fully paid ordinary shares were issued following options holders exercising Listed ISNOB Options raising \$794,481

Other than the matters listed above, no other matters or circumstances have arisen since the end of the reporting period which significantly affected or may significantly affect the operations of the economic entity, the result of those operations or the state of affairs of the economic entity in subsequent financial years.

Note 10 - Audit

These accounts are currently in the process of being audited. An Annual Report for the year ended 30 June 2014 containing the Audit Report shall be provided in due course.

Corporate Directory

AUSTRALIAN COMPANY NUMBER (ACN)
009 234 173

iSonea Limited is a Public Company Limited
by shares and is domiciled in Australia.

DIRECTORS

Mr Leon L'Huillier
Dr Timothy Oldham
Mr Bruce L Mathieson
Mr John Ribot-de-Bresac
Mr David Ashmore

Chairman
Non-Executive Director
Non-Executive Director
Non-Executive Director
Non-Executive Director

MANAGING DIRECTOR

Mr Stephen Tunnell

COMPANY SECRETARIES

Mr. Phillip Hains
Mr. Peter Vaughan

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AUDITORS

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BANKERS

National Australia Bank (NAB)
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WEBSITES

www.isoneamed.com
www.airsona.com.au

SECURITIES QUOTED

Australian Securities Exchange
- Ordinary Fully Paid Shares (Code: ISN)