iSonea

ABN 98 009 234 173

Annual Financial Report

For The Year Ended 30 June 2014

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Chairman's Letter

Dear Shareholders,

Forward Momentum after Consolidation

The iSonea Board is confident that the tasks associated with turnaround, re-engineering and stabilisation of the business have reached conclusion and the company is now entering a period of forward momentum.

The Board has identified one overarching step to be put in place to establish an effective pathway for commercialisation and value creation for shareholders. iSonea needs to collaborate more effectively with leading clinicians, health care professionals and peak asthma bodies that are dedicated to addressing the need for a comprehensive approach to managing asthma. iSonea's value proposition then needs to be completed with collaborative independent clinical research.

iSonea operates in a fast moving technological environment where innovation, cost control and accelerated commercial development of key initiatives are crucial. Management of early stage technological companies often concentrates on continually creating, developing and refining new technology and systems and often loses sight of the limited capital, time and resources available to them.

A New CEO, Greg Tunny, Appointed

The Board has accepted the resignation of Stephen Tunnell. Incoming CEO, Greg Tunny brings to iSonea extensive experience in relevant advanced technology products, systems development and commercialisation, having been involved in developing acoustic technologies and signal processing for over ten years.

Greg is a former Managing Director of Thales ATM (Australasia) Pty Ltd, a subsidiary of the French company Thales Group, a leading provider of large national Air Traffic Control Systems, and former Managing Director and CEO of ASC Pty Ltd, Australia's primary naval ship and submarine construction company. More recently, he has enjoyed the challenges presented in providing leadership to startup ventures.

Greg's experience in delivering on major projects, his extensive acoustic technical expertise, and his previous management background with international firms and Australian businesses involved in acoustics, makes him an exciting addition to our resource capacity and team.

New External Information Technology and Marketing Resources Retained

Technology is a key strategic enabler for iSonea as it affects every part of the business. iSonea has established a new supplier partnership with Two Bulls Holdings ("Two Bulls"), a leading Australian IT and App development firm based in Melbourne, with offices in New York and Berlin. Two Bulls' credentials include partnerships with Qualcomm, Disney, Amazon Web Services and Apple Consultants Network.

There is a growing trend in the gamification of apps and the company believes the adoption of new approaches will help keep younger patients engaged in healthy behaviours. In iSonea's case, more active self-management will lead to increased awareness of how asthma affects the individual and compliance with medical regimes. It is a particularly valuable tool when community and social experience is connected to the game. Two Bulls is at the cutting edge of education apps for children, with years of working closely with companies such as Hasbro, Sesame Street and Disney. The company provides iSonea with the experience and creative thinking necessary to move forward with its digital health apps designed to improve the care of children and adolescents diagnosed with asthma.

An experienced, creative marketing team, The Wall Partnership, has been retained to provide the right skill base for marketing and promotion. Significant progress has been made with improved new messaging, new packaging and operating manuals but most importantly, the trial AirSonea® App has an improved user experience and functionality.

Stronger Technology Position with First Mover Advantage in Respiratory Digital Health

Whilst digital health momentum continues, most of the activity has occurred in the consumer adoption of wearable watches and devices that have wellness measures such as heart rate monitors.

The crossover to monitoring of symptoms and behavior in chronic diseases is much more difficult in terms of the regulatory regimes, relevant clinical work and consumer adoption.
iSonea's proprietary technology of Acoustic Respiratory Monitoring (ARM™) detects and measures wheeze, a key symptom of asthma. iSonea's devices are symptom monitors and not diagnostic tools. Our technology will not predict an asthma attack as suggested previously as part of the company's mission.

Existing devices, such as Peak Flow Meters, do not reliably meet home monitoring needs and have deficiencies for self-management of asthma.

Our flagship AirSonea® wheeze monitor device and App uses a cloud-based algorithm to process breath sound recordings to produce a WheezeRATE™. This device is best suited to developed markets with a high penetration of apps and reliable, low cost accessibility to the internet, allowing connection to our cloud-based servers for analysis of recorded breath sounds.

SonoSentry™ is a standalone, hand held device with the algorithm embedded in the device rather than in the cloud.

Recent product launches in asthma digital health have been in compliance monitoring of inhaler medication usage. We are pleased to report that iSonea has recently been granted a patent for compliance monitoring of asthma inhalers. This patent addresses the multitude of inhaler types and regimes that an individual may use, thus differentiating it from other products in this space.

Establish Improved Collaboration with Leading Clinicians, Health Care Professionals and Peak Asthma Bodies

Health authorities widely agree that finding cost effective tools to improve asthma patient self-management is critically important. We believe digital health is a cost effective approach to enable patients to improve their monitoring and self-management of their asthma.

A Review Article on the 'Fundamentals of Lung Auscultation' by Bohadana, et al. * was recently published in the prestigious New England Journal of Medicine and is encouraging in that it draws attention to the development of a monitoring tool such as AirSonea. As part of their conclusions the authors stated:

> *"The development of robust acoustic devices for use at the bedside – as exemplified by electronic stethoscopes paired with small convenient recorders and perhaps in the form of a smartphone with an app – may provide the long-awaited portable objective means to record, analyse, and store lung sounds just as any other clinical information is measured and stored. This development will make sound tracking possible, further enhancing the usefulness of auscultation".*
>
> *("Fundamentals of Lung Auscultation" by Abraham Bohadana, M.D. Gabriel Izbicki, M.D. and Steve S Kraman, M.D. N ENGL J MED 370;8 NEJM.ORG FEBRUARY 20, 2014)

iSonea's Acoustic Respiratory Monitoring (ARM™) technology effectively detects wheeze according to CORSA Guidelines. iSonea has studies being prepared for publication to demonstrate clinical relevance.

The Board believes that independent clinical research is also required to complete the value proposition. It may, for example, take into account asthma severity of patients and their current control state, patient age as well as the healthcare resources available to patients.

Commercial Partnerships in Digital Health and Additional Resources

The company believes there is a substantial opportunity for iSonea's wheeze monitoring products in Digital Health and is working with an international investment bank to help resource the commercialisation pathway.

Our potential partnership landscape is broad, both globally and by country with major industry leaders. Our partnership landscape includes: existing medical device OEM's in the home respiratory space which would view AirSonea or SonoSentry as an extension of their current product offering, technology companies with a stake in mHealth including speciality chip players and cloud based software companies, major pharmaceutical companies, wellness device makers who aspire to cross into disease management space, telecoms, insurers, and pharmacy chains.

Global: iSonea is reopening discussions with world OEM leaders in their respective fields as an extension of their substantial product offerings. The FDA approval of SonoSentry has provided the foundation for reopening these discussions.

Country: Specific country partnership discussions are in progress and progressing satisfactorily.

- **UK and Europe Partnership Opportunity: Confidentiality Agreement Signed:**
  iSonea has signed a commercial-in-confidence confidentiality agreement with a well-credentialed major UK company with the capability to work with the relevant authorities and industry leaders to pilot and then to market the AirSonea® wheeze monitor and app firstly in the UK and then Europe. There are approximately 30 million asthma sufferers in the European and UK markets. Importantly, there are a large number of major cities in the UK that offer excellent opportunities for phased trials and then rollouts. I was in the UK in early August and successfully progressed partnership negotiations.

- **Pilot with Major Australian Pharmacy Chain:**
  iSonea is holding 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 and healthcare professionals to market test the rollout model. The pilot will be independently monitored and evaluated.

Partnership agreements with major global corporations clearly cannot be negotiated overnight. However, the company is approaching this task with a sense of urgency and a much stronger corporate base.

A Period of Forward Momentum

The iSonea Board is confident that the re-engineering of the business has reached its conclusion and the company is now moving forwards on all fronts.

We have reduced the excessively high cash burn rate and achieved more robust internal systems and controls. We have consolidated iSonea's IP management and oversight to Australia and we have engaged a leading Australian based technology provider.

AirSonea, the world-first smartphone enabled wheeze monitor has undergone significant updates and will be validated through clinical trials in partnership with leading clinicians and peak asthma bodies and piloted through a partnership with a major pharmacy chain.

iSonea has achieved US Food and Drug Administration (FDA) clearance to sell SonoSentry™ as an Over-the-Counter (OTC) device in the United States with a view to broadening this market to developing countries.

We are progressing partnership negotiations with a key UK company and are reopen partnership discussions with global corporations with the assistance of a leader investment bank.

Your iSonea Board has met the many challenges presented and firmly established as effective pathway for commercialisation and value creation for shareholders. Whilst the last few months have been a period of consolidation, this now empowers the company to accelerate its commercialisation plans.

Leon L'Huillier
Chairman

Review of Operations

A new Board of Directors was announced on 4th February 2014 with the strategic objective to build shareholder value through commercial partnerships that will drive the development and sale of our AirSonea® devices, software and digital health applications.

In the past six months the company needed to overcome several immediate challenges to build a sound platform for commercialisation. These tasks proved more difficult and much more time consuming than anticipated.

1. Reduced Cash Burn, Built Stronger Cash Reserves and More Robust Internal Systems and Controls

The company continues to achieve the target set by the Board in February 2014 of an underlying cash burn rate less than $500K per month. The 30 June 2014 year-end cash balance of $8.21M represented a $6.9M increase on the 30 June 2013 balance of $1.35M.

The Company's cash position was bolstered by a cash injection of more than $2.3M from ISNOB Option holders exercising their $0.14 listing 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.

Regrettably the failed online launch of the AirSonea® product in September 2013 had a major impact on the company's cash position as sales revenue of only $19K resulted. 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 associated employee and consulting expenditures as the company undertook the online Australian launch of its AirSonea® product. A total of $1.47M during the 7 month period between July 2013 through to January 2014 was spent on marketing and promotional activities towards the launch of AirSonea®.

2. iSonea's Respiratory Mobile Health Technology Platform Clarified

The Company's major technology comprises of a proprietary Acoustic Respiratory Monitoring (ARM™) algorithm that recognises the sound of wheeze and information technology architecture and systems that deliver information to patients, partners and healthcare professionals.

Our product family has two devices. Our flagship AirSonea ® device and associated App has the algorithm residing in the cloud. Our recently FDA cleared device, SonoSentry™1 device has the algorithm imbedded in the device itself.

The algorithm provides wheeze detection and measurement capability. Whilst wheeze is a symptom that is commonly associated with asthma, it is important to note that there are other conditions which can cause a patient to wheeze including hay fever, COPD, acute bronchitis, bronchospasm, swelling in the airways etc.

Our devices are symptom monitors not diagnostic tools and will not predict an asthma attack as suggested as part of the company's former mission. These devices are therefore suited to provide a personal measure of the presence or absence of wheeze. Further, our respiratory therapists believe that routine and regular use of iSonea devices to measure WheezeRATE™ can reveal objective data on medication effectiveness over time, along with a digital diary to help monitor the individual's symptoms and triggers.

3. Better User Experience for the AirSonea® Device and App

Feedback from customers following the launch of AirSonea® in September 2013 identified a number of major functionality issues, and the Company has now enhanced its technology with a user experience to meet the expectations of our customers and healthcare partners.

We have upgraded the algorithms that detect correct placement of the device. The upgrade has also reduced the problem of ambient noise. The two original AirSonea® and AsthmaSense™ apps were combined into a single app to provide the basis for a stronger technology platform. The new AirSonea® App enables the capture of WheezeRATE™ values along with an improved digital journal of symptoms, triggers, and medications.

The AirSonea® App functionality and web registration process have been significantly simplified and connectivity between the device, app and registration websites has been improved.

The device packaging has been updated based on independent consumer research conducted by Sweeney Research, as has the user manual, which will now be easily accessible online.

4. Information Technology Architecture and Functionality Reviewed

AirSonea®'s performance and customer and healthcare provider acceptance relies on a server based IT system that connects AirSonea® to its customers and healthcare partners. The failed launch in Australia indicated web and app problems. Thus, over the past 6 months the Board commissioned a thorough external review of iSonea's information technology architecture and functionality. The recently completed review concluded that the engagement of multiple service providers situated on four continents resulted in a high cost, over- engineered and complex IT infrastructure. This has been remedied.

Importantly, this complex technological infrastructure made the upgrading of the AirSonea® product for pharmacy trials expensive, time consuming and later than anticipated. The company has spent close to $2.2M on information technology over the past 2 years with little advancement.

5. Important Regulatory Approvals

During the year, iSonea received Therapeutic Goods Administration (TGA) listing for its AirSonea® device in Australia, and received CE Mark clearing the device to be marketed in the twenty-seven states of the European Union.

6. Consolidation of the Intellectual Property Portfolio

An independent external audit of the intellectual property portfolio identified a lack of attention to detail, limited strategic focus and significant inconsistencies. This has been remedied. We have now consolidated the patent portfolio with one service provider to ensure our patenting strategy is implemented and that our IP is secured in relevant jurisdictions. This also means we are able to consolidate the technical fields in which our patents are held and more easily maintain a watching brief on competitor activity. Our patent portfolio crosses four main areas, being breath sounds and lung analysis, apnea, cough and asthma.

Trademarks have been consolidated into one portfolio and are being managed out of Australia. New trademarks have been obtained and additional applications have been made to protect the iSonea brand and product portfolio across a broad spectrum of our identified geographic target markets.

Details of the IP portfolio are now included in an easily accessible format for company management.

Subsequent Events

SonoSentry™1 Achieves Milestone FDA Clearance

iSonea has achieved the first clearance of an Over-The-Counter (OTC) wheeze detection device in the United States. This is a significant milestone as FDA clearance now gives iSonea the ability to market this device in the United States as an Over-the-Counter (OTC) product instead of requiring a prescription for the medical device from a medical practitioner.

SonoSentry™2 is a standalone, hand-held pulmonary sound analyser without the requirement of a smartphone to operate. It utilises the same contact sensor and will have an iSonea proprietary algorithm embedded in the device and not in the cloud.

The company is actively investigating the potential to lower the costs of production of SonoSentry to enable a commercial partnership with this product in selected global markets and ahead of the AirSonea® Cloud device in the USA if regulatory clearance of AirSonea® takes a significant time.

<u>Patent Granted for iSonea's Compliance Monitoring of Asthma Inhalers</u>

iSonea's digital health solutions deliver products that will help asthma patients self-manage and better control their asthma. Adding to the suite of wheeze monitoring products, this new iSonea patent monitors the use of asthma inhaler devices for medication delivery. It addresses the multitude of inhaler types and regimes that an individual may use, thus differentiating it from other patients in the area.

The patented medication compliance system consists of a small profile multi-sensor that attaches to all types of inhaled Asthma medication delivery devices, a smart device app, and a backend server to communicate the information to physicians, pharmacists, parents and guardians, and other healthcare professionals.

For and on behalf of the Company;

Mr Leon L'Huillier
Chairman

Directors' Report

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

Directors

The names of the Directors in office at any time during the year, or since the end of the year, are as follows:

Mr Leon L'Huillier	**Chairman**
Appointed to the Board	4th February 2014
Last elected by Shareholders	N/A
Experience	Mr Leon L'Huillier is an experienced Chairman, Company Director and Chief Executive with a strong background in the health sector. He has substantial experience across a range industries, government, the not for profit sector and sport. He is a Director of ALH Group Limited, Deputy Chair Australian Prostate Cancer Research, a former Director and Audit Chairman of Woolworths Limited, and other listed public companies. Mr L'Huillier was foundation Chair of the Vision CRC at The University of NSW, a former Chairman of the Royal Children's Hospital Brisbane, former Chairman of the Australian Health Ministers Advisory Council, a former Director of the National Health and Medical Research Council, St. Vincent's Hospital Melbourne and the Microsurgery Foundation. Leon was Chief Executive of the Health Department, Victoria and Chairman and Chief Executive of the Transport Accident Commission (TAC) when the TAC established Victoria's first major Trauma Centre at the Alfred Hospital and introduced the innovative road safety campaigns that contributed to a 50% reduction in the Victorian road toll in the early 90s.
Qualifications	MBA, MPhil, BCom (Hons)
Interest in shares and options	2,816,282 Ordinary Shares and no Options
Committees	Member of the Audit, Risk and Compliance Committee
Directorships held in other entities	No other Public Company Directorships in the past three years
Mr John Ribot-de-Bresac	**Independent Non-Executive Director**
Appointed to the Board	4th February 2014
Last elected by Shareholders	N/A
Experience	Mr. John Ribot-de-Bresac has extensive experience and a strong record of achievement as a senior executive across the sport, leisure and hospitality industries including in strategy development and implementation. Following a distinguished sports career where he received the Australian Sports Medal, he was instrumental in the establishment of the Brisbane Broncos and Melbourne Storm, in executive Director roles, and as chairman of the Brisbane Roar. Currently Mr. Ribot-de-Bresac serves as Director of Victorian Major Events Company, executive chairman of Queensland Clubs Management (QCM), and owns hospitality venues throughout Queensland.
Interest in shares and options	3,828,571 Ordinary Shares and no Options
Committees	Member of the Audit, Risk and Compliance Committee; and Member of the Remuneration & Nomination Committee
Directorships held in other entities	No other Public Company Directorships in the past three years

Mr Bruce Mathieson	**Independent Non-Executive Director**
Appointed to the Board	4th February 2014
Last elected by Shareholders	N/A
Experience	Mr. Bruce Mathieson is currently a Director of Mayne Pharma and Western Desert Resources, a current Director and former Chief Executive Officer (CEO) of ALH Group Pty Limited, a joint venture between Woolworths Limited and the Mathieson family. The ALH Group owns approximately 325 hotels and 520 retail outlets across Australia and employs more than 15,000 staff. Bruce has operated in the hotel, leisure and hospitality industry since 1974 and is a well-respected member of the Australian business community. He is trained as an engineer and brings management and transactional experience across a number of industries to the Board.
Interest in shares and options	48,000,000 Ordinary Shares and no Options
Committees	N/A
Directorships held in other entities	***Listed Directorships held now or in the past 3 years:*** Mayne Pharma Group Limited (ASX Listed: MYX) - Non-Executive Director (from Feb 2007) Western Desert Resources Limited (ASX Listed: WDR) - Non-Executive Director (from Dec 2013)

Dr Timothy Oldham	**Independent Non-Executive Director**
Appointed to the Board	6th January 2014
Last elected by Shareholders	N/A
Experience	Dr Timothy Oldham has more than a decade of direct life sciences business development, alliance management, market entry, and sales & marketing experience in Europe, Asia and Australia. He is CEO of Cell Therapies Pty Ltd, a leading Asia Pacific provider of collection, manufacturing, delivery and distribution capabilities for stem cell therapies and regenerative medicine and was President of Asia Pacific for Hospira, Inc. (2007 to 2012), having held a variety of senior management roles with Mayne Pharma (2002 to 2007) prior to its acquisition by Hospira. These roles encompass the development and commercialisation of pharmaceuticals, devices, biologics and cellular therapies. Prior to this, Dr Oldham was an engagement manager with McKinsey & Co (1997 to 2001). He has been chairman of the European Generic Medicines Association Biosimilars and Biotechnology Committee, a Director of the Generic Medicines Industry Association and a member of the Pharmaceutical Industry Strategy Group. He is a also a Director of Acrux Ltd (ASX:ACR).
Qualifications	BSc (Hons), LLB (Hons), PhD, GAICD
Interest in shares and options	No Ordinary Shares and no Options
Committees	Member of the Audit, Risk and Compliance Committee; and Chairman and Member of the Remuneration & Nomination Committee
Directorships held in other entities	***Listed Directorships held now or in the past 3 years:*** Acrux Limited (ASX Listed: ACR) - Non-Executive Director (from Oct 2013)

Mr David Ashmore	Independent Non-Executive Director
Appointed to the Board	19th June 2014
Last elected by Shareholders	N/A
Experience	David Ashmore is a Fellow of the Institute of Chartered Accountants, a Fellow of the Financial Services Institute of Australasia and a Graduate of the Institute of Company Directors. He has over 40 years of professional assurance services experience and is a former senior partner at Grant Thornton Australia and one of its predecessor firms and was a leader in the audit services division for many years. Mr. Ashmore is an Independent Director and Chairman of Saferoads Holdings Ltd and holds a number of other private company directorships and appointments as an independent member of Audit and Risk Management Committees.
Qualifications	FCA, GAICD and F.FIN
Interest in shares and options	No Ordinary Shares and no Options.
Committees	Chairman of the Audit, Risk and Compliance Committee
Directorships held in other entities	***Listed Directorships held now or in the past 3 years:*** Saferoads Holdings Limited. (ASX Listed SRH) Non-Executive Chairman (from Nov 2012)
Dr Stewart Washer	**Independent Non-Executive Chairman**
Appointed to the Board	3rd April 2012
Resigned from the Board	6th January 2014
Qualifications	BSc (Hons), PhD
Mr Ross Haghighat	**Executive Director & Vice-Chairman**
Appointed to the Board	20th October 2010
Resigned from the Board	4th February 2014
Qualifications	BSc, MSc and M.B.A
Mr Jerome Korten	**Independent Non-Executive Director**
Appointed to the Board	20th October 2010
Resigned from the Board	4th February 2014
Qualifications	BSc Hons (Neuro), MBEc
Dr David Dantzker	**Independent Non-Executive Director**
Appointed to the Board	20th March 2014
Resigned from the Board	4th February 2014
Qualifications	BA, MD
Dr Ross Macdonald	**Independent Non-Executive Director**
Appointed to the Board	3rd April 2012
Resigned from the Board	4th February 2014
Qualifications	PhD, Grad Dipl Bus Admin

Mr Stephen Tunnell	Managing Director
Appointed to the Board	4th February 2014
Resigned from the Board	23rd September 2014
Qualifications	Exec Edn Med Mktg, B.A.A.S Phy Edn, A.S Rep Care Edn

Chief Executive Officer

Mr Greg Tunny	Chief Executive Officer (CEO)
Appointed to position	24th September 2014
Experience	Greg Tunny brings extensive experience in relevant advanced technology products, systems development and commercialisation to iSonea, having been involved in developing acoustic technologies and signal processing for over ten years. Greg is a former Managing Director of Thales ATM (Australasia) Pty Ltd, a subsidiary of the French company Thales Group, and a leading provider of large national Air Traffic Control Systems and former Managing Director and CEO of ASC Pty Ltd, Australia's primary naval ship and submarine construction company. More recently he has enjoyed the challenges presented in providing leadership to startup ventures. Greg's experience in delivering on major projects, his extensive acoustics technical expertise and his previous management background with international firms and Australian businesses involved in acoustics, makes him an exciting addition to our resource capacity.
Qualifications	BAppSC (Physics), Executive MBA, FTSE, CompIE Aust
Interest in shares and options	No Ordinary Shares and no Options
Committees	N/A
Directorships held in other entities	No other Public Company Directorships in the past three years

Company Secretaries

Mr Phillip Hains	Joint Company Secretary

Mr Hains has served as the Company Secretary since 21st November 2006.

Mr Hains is a Chartered Accountant and specialist in the public company environment. He has served the needs of a number of public company Boards of directors and related committees. He has over 20 years' experience in providing accounting, administration, compliance and general management services. He holds a Masters of Business Administration from RMIT and a Public Practice Certificate from the Institute of Chartered Accountants.

Mr Peter Vaughan	Joint Company Secretary

Mr Vaughan was appointed as Company Secretary on 5th October 2011.

Mr Vaughan is a Chartered Accountant who has worked in the listed company environment for over 10 years across a number of industries. He has served on and provided accounting, administration, compliance and general management services to a number of private, not-for-profit and public company Boards of directors and related committees.

Principal Activities

The Company's principal activities in the course of the financial year has been 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.

Operating and Financial Review

The loss of the Company after income tax for the financial year was $10,309,957 (2013: $5,580,768). This result has been achieved after fully expensing all research and development costs.

The 'Review of Operations Report' provides further details regarding the progress made by the Company since the prior financial period, which have contributed to its result for the year.

Dividends

The Company did not pay any dividends during the financial year. The Directors do not recommend the payment of a dividend in respect of the 2014 financial year.

Significant Changes in the State of Affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Company during the financial year under review not otherwise disclosed in this Annual Report.

Matters Subsequent to Reporting Period

4th July 2014	–	5,674,861 new fully paid ordinary shares were issued following options holders exercising Listed ISNOB Options raising $794,481.
22nd August 2014	–	Patent "Compliance Monitoring for Asthma Inhalers" granted by the US Patent Office.
22nd August 2014	–	FDA Grant Clearance for SonoSentry™1.
23rd September 2014	–	Appointment of new CEO Greg Tunny and resignation of Stephen Tunnell .

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.

Likely Developments and Expected Results

For further information in relation to Company's future Developments and Events please refer to the 'Review of Operations Report'.

Environmental Regulations

The Company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

Risk Management

The Audit Committee is responsible for overseeing the establishment and implementation of the risk management system, and to review and assess the effectiveness of the Company's implementation of that system on a regular basis.

The Audit Committee and senior management will continue to identify the general areas of risk and their impact on the activities of the Company. The potential risk areas for the Company include:

- efficacy, safety and regulatory risk of pre-clinical and clinical medical device development;
- financial position of the Company and the financial outlook;

- economic outlook and share market activity;
- changing government policy (Australian and overseas);
- competitors' products/research and development programs;
- market demand and market prices for medical device technologies;
- environmental regulations;
- ethical issues relating to medical device research and development;
- the status of partnership and contractor relationships;
- other government regulations including those specifically relating to the biomedical and health industries; and
- occupational health and safety and equal opportunity law.

Management will continue to perform a regular review of the following:

- the major risks that occur within the business;
- the degree of risk involved;
- the current approach to managing the risk; and
- where appropriate, determine:
  - any inadequacies of the current approach; and
  - possible new approaches that more efficiently and effectively address the risk.

Biomedical Companies – Inherent Risks

Some of the risks inherent in the development of medical device products to a marketable stage include the uncertainty of patent protection and proprietary rights, whether patent applications and issued patents will offer adequate protection to enable product development or may infringe intellectual property rights of other parties, the obtaining of the necessary regulatory authority approvals and difficulties caused by the rapid advancements in technology.

Also a particular medical device may fail the clinical development process through lack of efficacy or safety. Companies such as iSonea Limited are dependent on the success of their medical devices and on the ability to attract funding to support these activities.

Investment in biomedical device research and development projects cannot be assessed on the same fundamentals as trading and manufacturing enterprises and thus investment in these areas must be regarded as speculative taking into account these considerations.

This Report may contain forward-looking statements regarding the potential of the Company's projects and interests, and the development of the Company's projects and interests, and the development potential of the Company's research and development projects.

Any statement describing a goal, expectation, intention or belief of the Company is a forward-looking statement and should be considered an at-risk statement. Such statements are subject to certain risks and uncertainties, particularly those inherent in the process of discovering, developing and commercialising medical devices that are safe and effective for use as human devices and the financing of such activities.

There is no guarantee that the Company's medical device projects will be successful, or receive regulatory approvals, or prove to be commercially successful in the future. Actual results could differ from those projected, or detailed in this report.

As a result, you are cautioned not to rely on forward-looking statements. Consideration should be given to these, and other risks concerning the Company's research and development program referred to in this Directors' Report and in the Company's 'Operations Report' as contained in this Financial Report for the period ended 30 June 2014.

Meetings of Directors

A number of formal meetings and circular resolutions were held during the year as tabled below:

	Directors' Meetings		Committee Meetings			
			Audit, Risk & Compliance		Remuneration	
Director	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended
Mr Leon L'Huillier	11	11	4	4	-	-
Mr John Ribot-de-Bresac	11	10	4	3	2	2
Mr Bruce Mathieson	11	10	-	-	-	-
Dr Timothy Oldham	12	12	5	5	2	2
Mr David Ashmore	3	3	2	2		
Mr Stephen Tunnell	11	11	-	-	-	-
Dr Stewart Washer	8	8	5	4	-	-
Mr Ross Haghighat	9	9	5	5	-	-
Mr Jerome Korten	9	9	5	5	1	1
Dr David Dantzker	9	8	-	-	1	1
Dr Ross Macdonald	9	9	-	-	1	1
Total Meetings Held	**20**		**9**		**3**	

For the date of appointment and resignation of each Director and Executive please refer to the Remuneration Report section of the Directors Report.

In addition the Board established a number of special purpose committees to meet on regular basis to address various matters.

As at the date of this report, the Company had an Audit, Risk and Compliance Audit Committee and a Remuneration Committee, with membership of the committees as follows:

Position	Audit Committee	Remuneration Committee
Chairman	Mr David Ashmore	Dr Timothy Oldham
Members	Dr Timothy Oldham Mr John Ribot-de-Bresac Mr Leon L'Huillier	Mr John Ribot-de-Bresac

Indemnification of Officers and Auditors

During the financial year, the Company maintained an insurance policy to indemnify Directors and Officers against certain liabilities incurred as such a Director or Officer, including costs and expenses associated in successfully defending legal proceedings. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an Officer or Auditor of the Company or any related body corporate against a liability incurred as such an Officer or Auditor.

Proceedings on Behalf of the Company

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

Non-Audit Services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

During the year ended 30 June 2014 the Company did not engage the external auditor to provide non-audit services.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 for the year ended 30 June 2014 has been received and can be found in the 'Auditor's Independence Declaration' section of this Annual Report.

Share Options on Issue as at the Date of this Report

The unissued ordinary shares of iSonea Limited under option as at the date of this report were:

Unlisted Options:

ASX Code	Date of Expiry	Exercise Price	No. under Option
ISNAZ	15 December 2014	$2.60	45,000
ISNAZ	15 June 2015	$2.60	45,000
ISNAO	15 December 2015	$1.00	650,000
ISNAW	2 April 2017	$0.40	1,000,000
ISNAW	2 April 2017	$0.279	143,060

Shares Issued as a Result of the Exercise of Options

During the year ended 30 June 2014, 15,034,195 and 1,250,000 fully paid ordinary shares of iSonea Limited were issued as a result of the exercise of listed ISNOB options and unlisted ISNAW Options, respectively. Post the end of the financial year 5,674,861 fully paid ordinary shares of iSonea Limited were issued as a result of the exercise of listed ISNOB options at an exercise price of $0.14 per option.

Remuneration Report (Audited)

This Remuneration Report outlines the Director and Executive remuneration arrangements of the Company as required by the Corporations Act 2001 and its Regulations.

This report details the nature and amount of remuneration of each Director of iSonea Limited and all other Key Management Personnel.

For the purposes of this report, Key Management Personnel (KMP) are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any Director (whether Executive or otherwise) of the Company. The Key Management Personnel disclosed below are, or were, also the Company's highest paid executives.

For the purposes of this report, the term 'executive' encompasses the Managing Director (MD), and senior executives of the Company.

This report details the nature and amount of remuneration for each Director of iSonea Limited, and for the other Key Management Personnel.

Directors:

Name	Position	Appointment / Resignation
Mr Leon L'Huillier	Chairman	Appointed Chairman on 4th Feb 2014
Mr John Ribot-de-Bresac	Non-Executive Director	Appointed Non-Executive Director on 4th Feb 2014
Mr Bruce L Mathieson	Non-Executive Director	Appointed Non-Executive Director on 4th Feb 2014
Dr Timothy Oldham	Non-Executive Director	Appointed Non-Executive Director on 6th Jan 2014
Mr David Ashmore	Non-Executive Director	Appointed Non-Executive Director on 19th Jun 2014
Mr Stephen Tunnell	Managing Director	Appointed on 4th Feb 2014 and Resigned on 23rd Sep 2014
Dr Stewart Washer	Executive Chairman	Resigned on 6th Jan 2014
Mr Ross Haghighat	Executive Vice-Chairman	Resigned on 4th Feb 2014
Mr Jerome Korten	Non-Executive Director	Resigned on 4th Feb 2014
Dr David Dantzker	Non-Executive Director	Resigned on 4th Feb 2014
Dr Ross Macdonald	Non-Executive Director	Resigned on 4th Feb 2014

Other Key Management Personnel:

Name	Position	Appointment / Resignation
Mr Michael Thomas	Chief Executive Officer (CEO)	Resigned on 24th Nov 2013
Mr David Model	US Vice President of Finance	Resigned on 28th Feb 2014
Mr Stephen Tunnell	SVP of Operations	Appointed Managing Director on 4th Feb 2014
Mr Greg Tunny	Chief Executive Officer (CEO)	Appointed CEO on 24th Sep 2014

Remuneration Policy

Remuneration of all Non-Executive Directors and Officers of the Company is determined by the Board following recommendation by the Remuneration and Nomination Committee.

The Company is committed to remunerating Executive Directors in a manner that is market-competitive and consistent with "Best Practice" including the interests of shareholders. Remuneration packages are based on fixed and variable components, determined by the Executives' position, experience and performance, and may be satisfied via cash or equity.

Non-Executive Directors are remunerated out of the aggregate amount approved by shareholders and at a level that is consistent with industry standards. Non-Executive Directors do not receive performance based bonuses and prior Shareholder approval is required to participate in any issue of equity. No retirement benefits are payable other than statutory superannuation, if applicable.

Voting and comments made at the Company's Annual General Meeting

The Remuneration Report for the 2013 financial year received positive shareholder support at the 2013 AGM with a vote of more than 98% in favour. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

Remuneration Policy Versus Company Financial Performance

Directors have been compensated for work undertaken and the responsibilities assumed in being Directors of this publicly listed company based on industry practice, as opposed to company performance which has been difficult to assess given the nature of the activities undertaken.

The Company envisages its performance in terms of earnings will remain negative whilst the Company continues in the development and commercialisation of its medical devices phase. Shareholder wealth reflects the speculative and volatile biotechnology market sector.

This pattern is indicative of the Company's performance over the past five years. Accordingly, no dividends have been paid during the year, or in respect of the 2014 financial year.

Net Loss for financial year 2014	($10,309,957)
Net Loss for financial year 2013	($5,580,768)
Net Loss for financial year 2012	($5,585,172)
Net Loss for financial year 2011	($6,677,311)
Net Loss for financial year 2010	($5,939,761)

Performance Based Remuneration

The purpose of a performance bonus is to reward individual performance in line with Company objectives. Consequently, performance based remuneration is paid to an individual where the individual's performance clearly contributes to a successful outcome for the Company. This is regularly measured in respect of performance against key performance indicators (KPI's).

The Company uses a variety of short-term and long-term KPI's to determine achievement, depending on the role of the executive being assessed and the particular KPI being targeted.

These include:

- successful contract negotiations
- Company share price consistently reaching a targeted rate on the ASX or applicable market over a period of time
- completion of set milestones

Details of Remuneration for Year Ended 30 June 2014

The remuneration for each Director and each of the Key Management Personnel of the consolidated entity during the year was as follows:

Note: For the date of appointment and resignation of each Director and Executive please refer to the Remuneration Report section of the Directors Report.

30 June 2014	Short-term Employment Benefits			Post-Employment Benefits	Share-based Payments	Total
	Cash salary and fees $ AUD	Cash bonus $ AUD	Non-monetary benefits $ AUD	Superannuation Contribution $ AUD	Shares/Options $ AUD	$ AUD
Directors						
Mr Leon L'Huillier	39,954	-	-	3,796	-	43,750
Mr John Ribot-de-Bresac	4,186	-	-	398	-	4,584
Mr Bruce Mathieson	3,805	-	-	361	-	4,166
Dr Timothy Oldham	28,958	-	-	-	-	28,958
Mr David Ashmore	6,195	-	-	-	-	6,195
	83,098	**-**	**-**	**4,555**	**-**	**87,653**
Dr Stewart Washer	87,500	50,000	-	-	78,000[2]	215,500
Mr Ross Haghighat	67,500	-	-	-	78,000[2]	145,500
Mr Jerome Korten	41,667	-	-	-	78,000[2]	119,667
Mr Jerome Korten: CEO	111,083	-	-	-	56,690	167,773
Dr David Dantzker	55,833	-	-	-	78,000[2]	133,833
Mr Ross MacDonald	42,500	-	-	-	78,000[2]	120,500
Mr Stephen Tunnell	118,089	54,503	-	-	23,544	196,136
	524,172	**104,503**	**-**	**-**	**470,234**	**1,098,909**
Other Key Management Personnel						
Mr Michael Thomas	256,680	-	-	-	586,747[3]	843,427
Mr David Model	140,845	-	-	-	4,253[4]	145,098
Mr Stephen Tunnell[1]	132,311	-	-	-	-	132,311
Mr Greg Tunny	-	-	-	-	-	-
	529,836	**-**	**-**	**-**	**591,000**	**1,120,836**
	1,137,106	**104,503**	**-**	**4,555**	**1,061,234**	**2,307,398**

1. Represents Stephen Tunnell fees for services performed under SVP of Operation role.
2. Issue of 200,000 listed ISNOB Options to each Director as approved by shareholder in accordance with resolution 3 of Company's 2013 Annual General Meeting.
3. Total value of $255,063 of Shares were issued via separation agreement.
4. Options issued via separation agreement.

Details of Remuneration for Year Ended 30 June 2013

The remuneration for each Director and each of the Key Management Personnel of the consolidated entity during the prior year was as follows:

30 June 2013	Short-term Employment Benefits			Post-Employment Benefits	Share-based Payments	Total
	Cash salary and fees $ AUD	Cash bonus $ AUD	Non-monetary benefits $ AUD	Superannuation Contribution $ AUD	Shares/Options $ AUD	$ AUD
Directors						
Dr Stewart Washer	81,250	15,000[1]	-	-	25,000[2]	121,250
Mr Ross Haghighat	64,375	-	-	-	25,000[2]	89,375
Mr Jerome Korten	45,000	-	-	-	25,000[2]	70,000
Dr David Dantzker	39,167	-	-	-	25,000[2]	64,167
Dr Ross Macdonald	37,500	-	-	-	25,000[2]	62,500
	267,292	**15,000**	**-**	**-**	**125,000**	**407,292**
Other Key Management Personnel						
Mr Michael Thomas	312,111	60,000[3]	-	-	208,924[4]	581,035
Mr David Model	125,724	-	-	-	7,630[4]	133,354
	437,835	**60,000**	**-**	**-**	**216,554**	**714,389**
	705,127	**75,000**	**-**	**-**	**341,554**	**1,121,681**

1. Cash bonus received for successful capital raising.
2. Issue of 500,000 fully paid ordinary shares to each Director as approved by shareholders in accordance with resolution 3 of the Company's 2012 Annual General Meeting.
3. Cash bonus received for successful Rights Issue raising $4 million before cost as announced to the market on 27th September 2012.
4. Expense relating to options received with various exercise prices and vesting conditions as per employment contract as announced to the ASX on 22 June 2011. For further information see Note 24.

Performance Income as a Proportion of Total Remuneration

All Directors as key management personnel are eligible to receive incentives whether through employment contracts or by the recommendation of the Board. Their performance payments are based on a set monetary value, set number of shares or options or as a portion of base salary. Therefore there is no fixed proportion between incentive and non-incentive remuneration.

Non-Executive Directors are not entitled to receive bonuses and/or incentives.

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

	Fixed Remuneration		At Risk - STI		At Risk - LTI	
	2014	2013	2014	2013	2014	2013
Directors						
Mr Leon L'Huillier	100%	-	-	-	-	-
Mr John Ribot-de-Bresac	100%	-	-	-	-	-
Mr Bruce Mathieson	100%	-	-	-	-	-
Dr Timothy Oldham	100%	-	-	-	-	-
Mr David Ashmore	100%	-	-	-	-	-
Dr Stewart Washer	100%	88%	-	12%	-	-
Mr Ross Haghighat	100%	100%	-	-	-	-
Mr Jerome Korten	100%	100%	-	-	-	-
Dr David Dantzker	100%	100%	-	-	-	-
Dr Ross Macdonald	100%	100%	-	-	-	-
Mr Stephen Tunnell	100%	-	-	-	-	-
Executives						
Mr Michael Thomas	100%	90%	-	10%	-	-
Mr David Model	100%	100%	-	-	-	-
Mr Stephen Tunnell	65%	-	35%	-	-	-
Mr Greg Tunny	-	-	-	-	-	-

At risk long term incentive (LTI) relates to remuneration in the form of share based payments, which are subject to vesting conditions based on length of service. At risk short term incentive (STI) relates to a discretionary bonus approved by the board in respect of performance during the current year.

Share-based Compensation

At the General Meeting held on 31 October 2013, Shareholders approved the establishment of the 2013 Employees', Directors' and Consultants' Share and Option Plan (ESOP). The ESOP is intended to reward Directors, employees and/or consultants for their contributions to the Group. The Plan is to be used as a method of retaining key personnel for the growth and development of the Group. Due to the Group's presence in Israel and USA, the Plan has been established to benefit personnel in Australia, Israel and USA. As at 30 June 2014 equity had been issued to 8 employees in USA and 2 employees in Israel under ESOP.

The terms and conditions of each grant of options affecting Director and Key Management Personnel remuneration in the current or future reporting periods are as follows:

Grant Date	Date Vested & Exercisable	Expiry Date	Exercise Price	Share Price Hurdle	Fully Vested	Value per Option at Grant Date
21 Nov 2008	20 Oct 2011	15 Dec 2015	$1.00	N/A	Yes	$0.180
30 Nov 2010	17 Dec 2010	15 Dec 2013	$0.80	N/A	Yes	$0.080
2 Sep 2011	Qrtly over 4 yrs	31 Jul 2016	$0.26	N/A	Qrtly	$0.328
2 Sep 2011	Milestone Based	31 Dec 2013	$0.40	N/A	No	$0.216
2 Sep 2011	Milestone Based	31 Dec 2013	$0.40	N/A	No	$0.210
2 Sep 2011	30 Sep 2011	1 Jul 2013	$0.30	N/A	Yes	$0.178
2 Sep 2011	30 Sep 2011	1 Jul 2014	$0.60	N/A	Yes	$0.208
29 Nov 2013	29 Nov 2013	30 Jun 2014	$0.14	N/A	Yes	$0.390
5 May 2014	5 May 2014	2 Apr 2017	$0.279	N/A	Yes	$0.077

Options granted under the plan carry no dividend or voting rights until exercised into ordinary fully paid shares.

When exercisable, each option is convertible into one ordinary share as soon as practical after the receipt by the Company of the completed exercise form and full payment of such exercise price.

The exercise price of options granted under this plan shall be determined by the Committee in its sole discretion.

The plan rules contain a restriction on removing the 'at risk' aspect of the instruments granted to executives. Plan participants may not enter into any transaction designed to remove the 'at risk' aspect of an instrument before it vests.

Details of options over ordinary shares in the Company provided as remuneration to each Director of the company and each of the Key Management Personnel are set out below:

	Number of Options Granted During the Year		Number of Options Forfeited During the Year		Number of Options Vested During the Year	
	2014	2013	2014	2013	2014	2013
Other Key Management Personnel						
Mr Michael Thomas	-	-	-	(525,000)	-	-
Mr David Model	55,023	-	-	-	-	-
Mr Stephen Tunnell	-	-	-	-	-	-
Mr Greg Tunny	-	-	-	-	-	-
	55,023	**-**	**-**	**(525,000)**	**-**	**-**

Details of ordinary shares in the Company provided as remuneration to each Director of the Company and each of the Key Management Personnel of the parent entity and Group are set out below:

		Number of Shares Granted During the Year	
		2014	2013
Directors			
Mr Leon L'Huillier		-	-
Mr John Ribot-de-Bresac		-	-
Mr Bruce Mathieson		-	-
Dr Timothy Oldham		-	-
Mr David Ashmore		-	-
Dr Stewart Washer	[2]	200,000	500,000
Mr Ross Haghighat	[2]	200,000	500,000
Mr Jerome Korten	[1,2]	514,943	500,000
Dr David Dantzker	[2]	200,000	500,000
Dr Ross Macdonald	[2]	200,000	500,000
Mr Stephen Tunnell		-	-
Other Key Management Personnel			
Mr Michael Thomas	[1]	481,250	-
Mr David Model		-	-
Mr Stephen Tunnell		-	-
Mr Greg Tunny		-	-
		1,796,193	**2,500,000**

1. Issue of 796,193 new fully paid ordinary shares under ESOP for additional services performed for iSonea Limited.
2. Issue of 1,000,000 new fully paid ordinary shares (200,000 shares to each Director) as a result from Listed ISNOB option exercised issued to Directors as part of their remuneration as approved by shareholders at iSonea Limited Annual General Meeting 2013.

(a) Shareholdings

The number of fully paid ordinary shares in the Company held during the financial year by each Director and Key Management Personnel of iSonea Limited, including their personally related parties, are set out below:

30 June 2014	Balance at Start of the Year	Granted as Compensation	Shares from Options Exercised	Net Change Other[1]	Balance at End of the Year
Directors					
Mr Leon L'Huillier	2,000,000	-	-	816,282	2,816,282
Mr John Ribot-de-Bresac	2,300,000	-	-	1,528,571	3,828,571
Mr Bruce Mathieson	28,000,000	-	-	20,000,000	48,000,000
Dr Timothy Oldham	-	-	-	-	-
Mr David Ashmore	-	-	-	-	-
	32,300,000	**-**	**-**	**22,344,853**	**54,644,853**
Dr Stewart Washer[2]	1,594,000	-	200,000	(1,794,000)	-
Mr Ross Haghighat[2]	4,370,185	-	200,000	(4,570,185)	-
Mr Jerome Korten[2]	1,822,560	314,943	200,000	(2,337,503)	-
Dr David Danzkter[2]	1,130,737	-	200,000	(1,330,737)	-
Mr Ross Macdonald[2]	540,000	-	200,000	(740,000)	-
Mr Stephen Tunnell[3]	409,955	-	79,872	-	489,827
Executives					
Mr Michael Thomas[2]	3,728,213	481,250	399,667	(4,609,130)	-
Mr David Model[2]	-	-	-	-	-
Mr Greg Tunny	-	-	-	-	-
	13,595,650	**796,193**	**1,479,539**	**(15,381,555)**	**489,827**

1. Equity acquired or disposed on-market or acquired during participation in Rights Issues.
2. Directors and Executives resigned during Financial Year 2014.
3. Director resigned 23rd September 2014. Share provided to Stephen Tunnell during his SVP of Operations role, however Option were exercised during his role as Director.

30 June 2013	Balance at Start of the Year	Granted as Compensation	Shares from Options Exercised	Net Change Other	Balance at End of the Year
Directors					
Dr Stewart Washer	-	500,000	-	1,094,000[2]	1,594,000
Mr Ross Haghighat	68,908,129	500,000	-	(65,037,944)[1]	4,370,185
Mr Jerome Korten	8,750,000	500,000	-	(7,427,440)[1]	1,822,560
Dr David Danzkter	-	500,000	-	630,737[2]	1,130,737
Mr Ross MacDonald	-	500,000	-	40,000[2]	540,000
Executives					
Mr Michael Thomas	43,106,590	-	-	(39,378,377)[1]	3,728,213
Mr David Model	-	-	-	-	-
	120,764,719	**2,500,000**	**-**	**(110,079,024)**	**13,185,695**

1. Combination of, consolidation of equity 20:1 basis completed on 13th August 2012 after shareholder approval at Company's General Meeting and equity acquired or disposed on-market during FY 2013.
2. Equity acquired or disposed on-market or acquired during participation in Rights Issues.

b) Options and Rights

The number of options over ordinary shares in the Company held during the financial year by each Director and Key Management Personnel of iSonea Limited, including their personally related parties, are set out below:

30 June 2014	Balance at Start of the Year	Granted as Compensation	Options Exercised	Net Change Other[1]	Balance at End of the Year	Vested and Exercisable	Unvested
Directors							
Mr Leon L'Huillier	-	-	-	-	-	-	-
Mr John Ribot-de-Bresac	-	-	-	-	-	-	-
Mr Bruce Mathieson	-	-	-	-	-	-	-
Dr Timothy Oldham	-	-	-	-	-	-	-
Mr David Ashmore	-	-	-	-	-	-	-
Dr Stewart Washer	-	200,000	(200,000)	-	-	-	-
Mr Ross Haghighat	74,820	200,000	(200,000)	(74,820)	-	-	-
Mr Jerome Korten	46,875	200,000	(200,000)	(46,875)	-	-	-
Dr David Danzkter	-	200,000	(200,000)	-	-	-	-
Mr Ross Macdonald	-	200,000	(200,000)	-	-	-	-
Mr Stephen Tunnell[2]	79,872	-	(79,872)	-	-	-	-
Executives							
Mr Michael Thomas	2,200,000	-	(399,667)	(1,800,333)	-	-	-
Mr David Model	-	-	-	55,023	55,023	55,023	-
Mr Greg Tunny	-	-	-	-	-	-	-
	2,401,567	**1,000,000**	**(1,479,539)**	**(1,867,005)**	**55,023**	**55,023**	**-**

1. Represents Options expired and sold during financial year 2014.
2. Stephen Tunnell is entitled to receive a total of 1,604,167 Unlisted Options subject to shareholder approval.

30 June 2013	Balance at Start of the Year	Granted as Compensation	Options Exercised	Net Change Other[1]	Balance at End of the Year	Vested and Exercisable	Unvested
Directors							
Dr Stewart Washer	-	-	-	(250,000)	-	-	-
Mr Ross Haghighat	324,820	-	-	(75,000)	74,820	74,820	-
Mr Jerome Korten	121,875	-	-	-	46,875	46,875	-
Dr David Danzkter	-	-	-	-	-	-	-
Dr Ross Macdonald	-	-	-	-	-	-	-
Executives							
Mr Michael Thomas	3,199,667	-	-	(999,667)	2,200,000	1,500,000	700,000
Mr David Model	144,888	-	-	(144,888)	-	-	-
	3,791,250	**-**	**-**	**(1,469,555)**	**2,321,695**	**1,621,695**	**700,000**

1. Represents Options expired and sold during financial year 2013

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The Directors and Key Management Personnel are subject to service agreements with normal commercial terms and conditions and are rolling with no fixed term.

This is the end of the Audited Remuneration Report.

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

Mr Leon L'Huillier
Chairman
Melbourne
Dated: This the 30th September 2014

Mr David Ashmore
Non-Executive Director
Melbourne
Dated: This the 30th September 2014

Corporate Governance Statement

The Company is committed to implementing the highest standards of corporate governance. In determining what those standards should involve, the "Group" has considered the ASX Corporate Governance Council's ('the Council') Corporate Governance Principles and Recommendations.

A review of the Company's 'Corporate Governance Framework' is performed on a periodic basis to ensure that it is relevant and effective in light of changing legal and regulatory requirements. The Board of Directors ('the Board') continues to adopt a set of Corporate Governance Practices and a Code of Conduct appropriate for the size, complexity and operations of the Company and its subsidiaries.

Where the Company's corporate governance practices do not correlate with the practices recommended by the Council, the Company has stated that fact in the annual report and has set out a mandate for future compliance when the size of the "Group" and the scale of its operations warrants the introduction of those recommendations. All Charters and Policies are available from the Company.

To illustrate where the Company has addressed each of the Council's Principles and Recommendations, the following table cross-references each recommendation with sections of this report. The table does not provide the full text of each recommendation, but rather the topic covered. The Council's Principles and Recommendations can be found on the ASX website.

Recommendation		Page(s)
Principle 1: Lay sold foundations for management and oversight		
1.1	Functions of the Board and Management	27
1.2	Senior Executive Evaluation	30
1.3	Reporting on Principle 1	27,28
Principle 2: Structure the Board to add value		
2.1	Independent Directors	27
2.2	Independent Chairman	27
2.3	Role of the Chairman and Chief Executive Officer (CEO)	27
2.4	Establishment of Nomination Committee	31
2.5	Board and Individual Director Evaluation	30
2.6	Reporting on Principle 2	27, 30, 31, Directors Report
Principle 3: Promote ethical and responsible decision making		
3.1	Code of Conduct	32
3.2	Company Diversity Policy	30
3.3	Reporting on Principle 3	30, 32
Principle 4: Safeguard integrity in Financial Report		
4.1	Establishment of Audit Committee	31
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Principle 5: Make timely and balanced disclosure		
5.1	Policy for Compliance with Continuous Disclosure	29
5.2	Reporting on Principle 5	29
Principle 6: Respect the rights of Shareholders		
6.1	Communications Policy	29
6.2	Reporting on Principle 6	29
Principle 7: Recognise and manage risk		
7.1	Policies on Risk Oversight and Management	31
7.2	Risk Management Report	31
7.3	Chief Executive Officer (CEO) and Chief Financial Officer (CFO) Assurance	31
7.4	Reporting on Principle 7	31
Principle 8: Remunerate fairly and responsibly		
8.1	Establishment of Remuneration Committee	31
8.2	Executive and Non-Executive Director Remuneration	32
8.3	Reporting on Principle 8	31, 32

Board of Directors

Role of the Board

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interest of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

In carrying out its governance role, the main task of the Board is to drive the performance of the consolidated entity. The Board must also ensure that the consolidated entity complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the consolidated entity.

To assist the Board carry out its functions, it has a Code of Conduct in place to guide Directors, the Chief Executive Officer, the Chief Financial Officer and other senior executives and employees in the performance of their roles.

Composition of the Board

To add value to the Company, the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties. The names of the Directors and their qualifications and experience are stated in the Directors' Report under the section headed 'Information on Directors' along with the term of office held by each of the Directors.

The Board believes that the interests of all Shareholders are best served by:

- Directors having the appropriate skills, experience and contacts within the Company's industry;
- The Company striving to have a number of Directors being independent; and
- Some major Shareholders being represented on the Board

The Company recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. Further, the Company also recognises the importance of Independent Directors in ensuring shareholders that the Board is properly fulfilling its role.

The Company assesses whether a Director is independent in accordance with the independence guidelines set out in the Council's Principles and Recommendations. A Director who meets the independence guidelines set out in the Council's Principles and Recommendations is considered to be an Independent Director. For the duration of the 2014 financial year, the Board consisted of a majority of Independent Directors. There are currently five Independent Directors on the Company's Board, which consists of six Directors in total.

Since February 2014, the Board was chaired by Mr Leon L'Huillier, who is an Independent Director. Prior to the Board restructure and the appointment of Mr. L'Huillier in February 2014, Dr. Stewart Washer and Mr. Ross Haghighat fulfilled the role as the Company's Chairman, and Deputy Vice Chairman for period during the financial year. Mr. Haghighat was not considered to be Independent as he performed additional executive management services to the company during the 2014 financial year for which he received additional remuneration. Mr. Washer was considered to be an Independent Director while serving as Chairman during the year. The role of Chairman and the Chief Executive Officer (CEO) was not exercised by the same individual at any stage during or following the financial year.

Responsibility of the Board

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the consolidated entity.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following:

1. Leadership of the Organisation: overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board, management and employees.
2. Strategy Formulation: to set and review the overall strategy and goals for the Company and ensure that there are policies in place to govern the operation of the consolidated entity.
3. Overseeing Planning Activities: overseeing the development of the Company's strategic plan and approving that plan as well as the annual and long term budgets.
4. Shareholder Liaison: ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings.
5. Monitoring, Compliance and Risk Management: overseeing the development of the Company's risk management, compliance, control and accountability systems and monitoring and directing the financial and operation performance of the Company.
6. Company Finances: approving expenses and approving and monitoring acquisitions, divestitures and financial and other reporting.
7. Human Resources: appointing, and, where appropriate, removing the Executive Officers as well as reviewing the performance of the Chief Executive Officer and monitoring the performance of senior management in their implementation of Company strategy.
8. Ensuring the Health, Safety and Well-Being of Employees: in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees.
9. Delegation of Authority: delegating appropriate powers to executives of the Company to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of the Committees of the Board.

Full details of the Board's role and responsibilities are contained in the Board Charter, a copy of which is available for inspection at the Company's registered office.

<u>Board Policies</u>

Conflicts of Interest

Directors must:

- disclose to the Board actual, or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the Company; and
- if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or is unwilling to remove a conflict of interest then the Director must, as per the *Corporations Act*, absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.

Commitments

Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Company.

Confidentiality

In accordance with legal requirements and agreed ethical standards, Directors and key executives of the Company have agreed to keep confidential, information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

Continuous Disclosure

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the ASX Listing Rules the Company immediately notifies the ASX of information:

1. concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
2. that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

The Company also posts all information disclosed in accordance with this policy on the Company's website in an area accessible by the public.

Education and Induction

It is the policy of the Company that new Directors undergo an induction process in which they are given a full briefing on the Company. Information conveyed to new Directors includes:

- details of the roles and responsibilities of a Director;
- formal policies on Director appointment as well as conduct and contribution expectations;
- details of all relevant legal requirements;
- a copy of the Board Charter;
- guidelines on how the Board processes function;
- details of past, recent and likely future developments relating to the Board including anticipated regulatory changes;
- background information on and contact information for key people in the organisation including an outline of their roles and capabilities;
- an analysis of the Company; and
- a copy of the Constitution of the Company.

In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development.

Independent Professional Advice

The Board collectively and each Director has the right to seek independent professional advice at the Company's expense, up to specified limits, to assist them to carry out their responsibilities.

Related Party Transactions

Related party transactions include any financial transaction between a Director and the Company and will be reported in writing at each Board meeting. Unless there is an exemption under the Corporations Act from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

Shareholder Communication

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

1. communicating effectively with shareholders through releases to the market via the ASX and the general meetings of the Company;

2. giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
3. making it easy for shareholders to participate in general meetings of the Company; and
4. requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Shareholders are also able to ring the registered office of the Company to make enquiries of the Company or obtain recent announcements via the ASX website and the Company's website.

Information is communicated to shareholders through:

- the annual report which is published on the Company's website and distributed to shareholders where specifically requested;
- the half-year shareholder's report which is published on the Company's website and distributed to shareholders where specifically requested, containing summarised financial information and a review of the operations during the period since the annual report; and
- other correspondence regarding matters impacting on shareholders as required.

Trading in the Consolidated Entity's Shares

The Company has a Share Trading Policy which states that Directors, members of senior management, certain other employees and their associates likely to be in possession of unpublished price sensitive information may not trade in the Company's securities prior to that unpublished price sensitive information being released to the market via the ASX. Unpublished price sensitive information is information regarding the Company, of which the market is not aware, that a reasonable person would expect to have a material effect on the price or value of the Company's securities.

Diversity Policy

The Company is committed to increasing diversity amongst its employees, and not just in the area of gender diversity. Our workforce is employed based on the right person for the job regardless of their gender, age, nationality, race, religious beliefs, cultural background, sexuality or physical ability or appearance.

Executive and Board positions are filled by the best candidates available without discrimination. The Company is committed to increasing gender diversity within these positions when appropriate appointments become available. The Company is also committed to identifying suitable persons within the organisation, and where appropriate opportunities exist, advance diversity to support the promotion of talented employees into management positions.

The Company has not set any gender specific diversity objectives as it believes that multicultural diversity is as equally important within its organisation.

The following table demonstrates the Company's gender diversity as at 30 June 2014:

	Number of Males	Number of Females
Directors	6	-
Key Management Personnel	3	-
Other Company Employees/Consultants	4	11

Performance Review/Evaluation

A 'Performance Evaluation Policy' has been established to evaluate the performance of the Board, individual Directors and Executive Officers of the Company. The Board is responsible for conducting evaluations on an annual basis in line with these policy guidelines.

During the reporting period, given the transition of the entire Board during January and February 2014, the new Directors did not conducted individual and group performance evaluations on an informal basis as would usually occur, as it was observed that the current Directors had not been in place for a long enough period of time to perform a reasonable and thorough performance and evaluation review. The Board resolved to conduct a performance and evaluation review during the next financial year in accordance with the annual review process.

Further information on policies and procedures established to evaluate the performance of the Board are set out in the Directors' Report under the section headed 'Remuneration Report'.

Attestations by Chief Executive Officer (CEO)/Managing Director (MD), and Chief Financial Officer (CFO)

In accordance with the Board's policy, the CEO/MD, and the CFO make the attestations recommended by the ASX Corporate Governance Council as to the Company's financial condition prior to the Board signing the Annual Report.

Risk Management Accountability

As part of the process of approving the financial statements, at each reporting date the CEO and other responsible senior executives provide statements in writing to the Board on the quality and effectiveness of the company's risk management and internal compliance and control systems.

Board Committees

Audit, Risk and Compliance Committee

Below is a summary of the role, composition and responsibilities of the Audit, Risk and Compliance Committee ('Audit Committee'). Further details are contained in the Audit Committee's Charter, which is available from the Company.

Role

The Audit Committee is responsible for reviewing the integrity of the Company's financial reporting and overseeing the independence of the external Auditors.

Composition

The Audit Committee, consists of four Independent Non-Executive Directors of the Company. The Committee Chairman is an Independent Non-Executive Director. The current members of the Committee as at the date of this report, and their qualifications are detailed in the Directors' Report.

The Audit Committee holds a minimum of two meetings a year. Details of meetings held during the year and attendance of the members of the Audit Committee are disclosed within the Directors' Report of this Annual Report.

Responsibilities

The Audit Committee reviews the audited annual and half-yearly financial statements and any reports which accompany published financial statements before submission to the Board and recommends their approval.

The Audit Committee also recommends to the Board the appointment of the external auditor each year, reviews the appointment of the external auditor, their independence, the audit fee and any questions of resignation or dismissal.

The Audit Committee is also responsible for establishing policies on risk oversight and management.

Remuneration Committee

Role

The role of a Remuneration Committee is to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees and achieve a structured Board that adds value to the Company by ensuring an appropriate mix of skills are present in Directors on the Board at all times. The committee also performs the role of nomination committee.

Composition

The Remuneration Committee currently consists of two Independent Non-Executive Directors of the Company, with the Committee Chairman being an Independent Director. The Board considers that a Remuneration Committee of two members is appropriate given the size of the Company and the scale and nature of its operations. The current members of the Committee as at the date of this report and during the reporting period, and their qualifications are detailed in the Directors' Report.

The Remuneration Committee holds a minimum of two meetings a year. Details of meetings held during the year and attendance of the members of the Remuneration Committee are disclosed within the Directors' Report of this Annual Report.

Responsibilities

The responsibilities of the Remuneration Committee include setting policies for senior officers' remuneration, setting the terms and conditions of employment for the CEO/MD, reviewing and making recommendations to the Board on the Company's incentive schemes and superannuation arrangements, reviewing the remuneration of both Executive and Non-Executive Directors making recommendations to the Board on any proposed changes, undertake a review of the CEO/MD's performance, including, setting with the CEO/MD goals for the coming year and reviewing progress in achieving those goals.

The Nomination duties include devising criteria for Board membership, regularly reviewing the structure of the Board and identifying specific individuals for nomination/removal as Directors for review by the Board. Further responsibilities include overseeing management succession plans including the CEO/MD and their direct reports and evaluation of the Board's performance.

Remuneration Policy

The Remuneration Report includes further details on the Company's remuneration policy and its relationship to the company's performance last year. It also includes details of the remuneration of Directors and senior executives last year. Shareholders are invited to vote on the adoption of the report at the Company's annual general meeting.

Senior Executive Remuneration Policy

The Company is committed to remunerating its senior executives in a manner that is market competitive and consistent with best practice as well as supporting the interests of shareholders. Under the senior executive remuneration policy, remuneration of senior executives may comprise of the following:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- a performance bonus designed to reward actual achievement by the individual of performance objectives and for materially improved Company performance;
- participation in the share/option scheme with thresholds approved by shareholders; and
- statutory superannuation.

The Company aims to align the interests of senior executives with those of shareholders by remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration.

Non-Executive Director Remuneration Policy

Non-Executive Directors are paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of Non-Executive Directors. Non-Executive Directors do not receive performance based bonuses and do not participate in equity schemes of the Company without prior shareholder approval.

Non-Executive Directors are entitled to but not necessarily paid statutory superannuation.

Interests of Stakeholders

Company Code of Conduct

As part of its commitment to recognising the legitimate interests of stakeholders, the Company has established a Code of Conduct to guide compliance with legal and other obligations to legitimate stakeholders. These stakeholders include employees, clients, customers, government authorities, creditors and the community as whole. This code includes the following:

Responsibilities to Shareholders and the Financial Community Generally

The Company complies with the spirit as well as the letter of all laws and regulations that govern shareholders' rights. The Company has processes in place designed to ensure the truthful and factual presentation of the Company's financial position and prepares and maintains its accounts fairly and accurately in accordance with the generally accepted accounting and financial reporting standards.

Responsibilities to Clients, Customers and Consumers

The Company has an obligation to use its best efforts to deal in a fair and responsible manner with each of the Company's clients, customers and consumers and is committed to providing clients, customers and consumers with fair value.

Employment Practices

The Company endeavours to provide a safe workplace in which there is equal opportunity for all employees at all levels of the Company. The Company does not tolerate the offering or acceptance of bribes or the misuse of Company assets or resources.

Obligations Relative to Fair Trading and Dealing

The Company aims to conduct its business fairly and to compete ethically and in accordance with relevant competition laws and strives to deal fairly with the Company's customers, suppliers and competitors and encourages its employees to strive to do the same.

Responsibilities to the Community and to Individuals

As part of the community the Company is committed to conducting its business in accordance with applicable environmental laws and regulations and supports community charities.

The Company is committed to keeping private information from employees, clients, customers, consumers and investors confidential and protected from uses other than those for which it was provided.

Conflicts of Interest

Directors and employees must avoid conflicts as well as the appearance of conflicts between personal interests and the interests of the Company.

How the Company Complies with Legislation Affecting its Operations

Within Australia, the Company strives to comply with the spirit and the letter of all legislation affecting its operations. Outside Australia, the Company will abide by local laws in all countries in which it operates. Where those laws are not as stringent as the Company's operating policies, particularly in relation to the environment, workplace practices, intellectual property and the giving of "gifts", Company policy will prevail.

How the Company Monitors and Ensures Compliance with its Code

The Board, management and all employees of the Company are committed to implementing this Code of Conduct and each individual is accountable for such compliance. Disciplinary measures may be imposed for violating the Code.

Auditor's Independence Declaration

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Melbourne VIC 3000
GPO Box 5099 Melbourne VIC 3001
Australia

DECLARATION OF INDEPENDENCE BY JAMES MOONEY TO THE DIRECTORS OF ISONEA LIMITED

As lead auditor of iSonea Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of iSonea Limited and the entities it controlled during the period.

James Mooney
Partner

BDO East Coast Partnership

Melbourne, 30 September 2014

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Annual Financial Report
For the year ended 30 June 2014

The accompanying notes form part of these financial statements.

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	3		
Operating Revenue		18,975	10,859
Non-operating Revenue		250,843	64,703
Total Revenue		**269,818**	**75,562**
Other Income	3	-	360,051
Expenses	4		
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	5	**-**	**-**
Loss after income tax for the year		**(10,309,957)**	**(5,580,768)**
Other comprehensive income:			
Items that may not be reclassified subsequently to Profit or Loss			
Exchange differences on translation of foreign operations		42,609	(130,798)
Total comprehensive loss for the 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.

As at 30 June 2014

	Note	Consolidated 30 June 2014 $ AUD	Consolidated 30 June 2013 $ AUD
ASSETS			
Current Assets			
Cash and cash equivalents	9	8,212,003	1,346,736
Trade and other receivables	10	84,211	548,008
Inventories	11	1,064,477	44,233
Other	15	494,170	78,526
Total Current Assets		**9,854,861**	**2,017,503**
Non-Current Assets			
Property, plant and equipment	13	96,771	53,642
Other intangible assets	14	649,958	764,061
Other	15	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	16	1,508,305	548,726
Other financial liabilities	17	19,499	15,306
Total Current Liabilities		**1,527,804**	**564,032**
Non-Current Liabilities			
Other financial liabilities	17	-	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	18	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.

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)**
Transactions with Equity holders in their capacity as equity holders:					
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)**
Transactions with Equity holders in their capacity as equity holders:					
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.

For the Year Ended 30 June 2014

	Note	Consolidated 30 June 2014 $ AUD	Consolidated 30 June 2013 $ AUD
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		18,976	17,685
Payments to suppliers and employees (inclusive of GST)		(9,759,274)	(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	**23a)**	**(9,098,240)**	**(4,935,301)**
Cash flows related to investing activities			
Payments for purchases of plant and equipment		(71,467)	(17,596)
Loans to unrelated entities		(32,813)	-
Net cash flows used in investing activities		**(104,280)**	**(17,596)**
Cash flows related to financing activities			
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	**9**	**8,212,003**	**1,346,736**

The accompanying notes form part of these financial statements.

Note 1 - Statement of Significant Accounting Policies

Corporate Information

iSonea Limited is a listed public company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange.

The principal activities of the Company are the research, development and commercialisation of medical devices, and the production of Mobile Health applications.

The financial report of iSonea Limited (the Company) for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the Directors on the 30th Day of September 2014.

Statement of Compliance

The financial report is a general purpose financial report that has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Australian Accounting Interpretations, and complies with other authoritative pronouncements from the Australian Accounting Standards Board, as appropriate for profit entities.

The financial report covers iSonea Limited as a consolidated entity consisting of iSonea Limited and the entities it controlled. The separate financial statements of the parent entity, iSonea Limited, have not been presented within this financial report as permitted by amendments made to the Corporations Act 2001 effective as at 30 June 2010. However, certain disclosure information relating to the parent has been provided in Note 2.

The financial report complies with Australian Accounting Standards, as issued by the Australian Accounting Standards and with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board (IASB).

Basis of Preparation

The financial 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. All amounts are presented in Australian dollars, unless otherwise noted and amounts rounded to the nearest dollar.

Critical Accounting Estimates and Judgements

In the preparation of these financial statements the Directors and Management are required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are continually evaluated. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Operating Segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Going Concern Basis

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 Option holders 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.

Following the Company successfully raising of $13.5 million, before costs, in July 2013, and of advancing its other pipeline projects, along with certain assumptions on the anticipated revenues generated from AirSonea devices sales, receipts of funds from the exercise of expiring 'in-the-money' options, and receipts of certain R&D tax refunds, the Company believes that is has sufficient operating cash and working capital into financial year 2015.

New, revised or amending accounting standards and Interpretations adopted

The following amending Standards have been adopted from 1 July 2013. Adoption of these Standards did not have any effect on the financial position or performance of the Company:

Ref	Title	Summary
AASB 10	**Amendments to AASB 10 *Consolidated Financial Statements***	The consolidated entity has applied AASB 10 from 1 July 2013, which has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights that give it the current ability to direct the activities that significantly affect the investee's returns. The consolidated entity not only has to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes.
AASB 11	**Amendments to AASB 11 – Joint Arrangements**	The consolidated entity has applied AASB 11 from 1 July 2013. The standard defines which entities qualify as joint arrangements and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the net assets are accounted for using the equity method. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities, will account for its share of the assets, liabilities, revenues and expenses separately under the appropriate classifications.
AASB 12	**Amendments to AASB 12 – Disclosure of Interests in Other Entities**	The consolidated entity has applied AASB 12 from 1 July 2013. The standard contains the entire disclosure requirement associated with other entities, being subsidiaries, associates, joint arrangements (joint operations and joint ventures) and unconsolidated structured entities. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'.
AASB 13	**Amendments to AASB 13 – Fair Value Measurement**	The consolidated entity has applied AASB 13 and its consequential amendments from 1 July 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach is used to measure non-financial assets whereas liabilities are based on transfer value. The standard requires increased disclosures where fair value is used. **Consequential amendments were also made to other standards via AASB 2011-8**

Ref	Title	Summary
AASB 127 & 128	**Amendments to AASB 127 – Separate Financial Statements and AASB 128 - Investments in Associates and Joint Ventures**	The consolidated entity has applied AASB 127, AASB 128 and AASB 2011-7 from 1 July 2013. AASB 127 and AASB 128 have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12 and AASB 2011-7 makes numerous consequential changes to a range of Australian Accounting Standards and Interpretations. AASB 128 has also been amended to include the application of the equity method to investments in joint ventures. **Consequential amendments were also made to other standards via AASB 2011-7**
AASB 2012-2	**Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities**	The consolidated entity has applied AASB 2012-2 from 1 July 2013. The amendments enhance AASB 7 'Financial Instruments: Disclosures' and requires disclosure of information about rights of set-off and related arrangements, such as collateral agreements. The amendments apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement.
AASB 2012-5	**Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle**	The consolidated entity has applied AASB 2012-5 from 1 July 2013. The amendments affect five Australian Accounting Standards as follows: - Confirmation that repeat application of AASB 1 'First-time Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; - Clarification of the comparative information requirements when an entity provides an optional third column or is required to present a third statement of financial position in accordance with AASB 101 'Presentation of Financial Statements'; - Clarification that servicing of equipment is covered by AASB 116 'Property, Plant and Equipment', if such equipment is used for more than one period; - Clarification that the tax effect of distributions to holders of equity instruments and equity transaction costs in AASB 132 'Financial Instruments: Presentation' should be accounted for in accordance with AASB 112 'Income Taxes'; - Clarification of the financial reporting requirements in AASB 134 'Interim Financial Reporting' and the disclosure requirements of segment assets and liabilities.
AASB 2012-10	**Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments**	The consolidated entity has applied AASB 2012-10 amendments from 1 July 2013, which amends AASB 10 and related standards for the transition guidance relevant to the initial application of those standards. The amendments clarify the circumstances in which adjustments to an entity's previous accounting for its involvement with other entities are required and the timing of such adjustments.
AASB 2011-4	**Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement**	The consolidated entity has applied 2011-4 from 1 July 2013, which amends AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). Corporations and Related Legislation Amendment Regulations 2013 and Corporations and Australian Securities and Investments Commission Amendment Regulation 2013 (No.1) now specify the KMP disclosure requirements to be included within the Directors' report.

Other than the amended accounting standards listed above, all other accounting standards adopted by the Company are consistent with the most recent Annual Report for the year ended 30 June 2013.

The following Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and therefore have not been adopted by the Company for the annual reporting period ended 30 June 2014:

Ref	Title	Summary	Application date of standard	Impact on financial report	Application date
AASB 9	*Financial Instruments and its consequential amendments*	Completes phases I and III of the IASB's project to replace IAS 39 (AASB 139) 'Financial Instruments: Recognition and Measurement'. This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. Chapter 6 'Hedge Accounting' supersedes the general hedge accounting requirements in AASB 139 and provides a new simpler approach to hedge accounting that is intended to more closely align with risk management activities undertaken by entities when hedging financial and non-financial risks.	1 Jan 18	The company is still determining if there will be any potential impact	1 Jul 18
AASB 2012-3	*Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities*	The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of 'currently has a legally enforceable right of set-off'; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement.	1 Jan 14	No Impact	1 Jul 14
AASB 2013-3	*Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*	The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed.	1 Jan 14	The company is still determining if there will be any potential impact	1 Jul 14

Ref	Title	Summary	Application date of standard	Impact on financial report	Application date
AASB 2013-4	*Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting*	Amends AASB 139 'Financial Instruments: Recognition and Measurement' to permit continuation of hedge accounting in circumstances where a derivative (designated as hedging instrument) is novated from one counter party to a central counterparty as a consequence of laws or regulations.	1 Jan 14	No Impact	1 Jul 14
AASB 2013-5	*Amendments to Australian Accounting Standards – Investment Entities*	Allow entities that meet the definition of an 'investment entity' to account for their investments at fair value through profit or loss. An investment entity is not required to consolidate investments in entities it controls, or apply AASB 3 'Business Combinations' when it obtains control of another entity, nor is it required to equity account or proportionately consolidate associates and joint ventures if it meets the criteria for exemption in the standard.	1 Jan 14	No Impact	1 Jul 14
	Annual Improvements to IFRSs 2011-2013 Cycle	Affects four Accounting Standards as follows: - Clarifies the 'meaning of effective IFRSs' in AASB 1 'First-time Adoption of Australian Accounting Standards'; - Clarifies that AASB 3 'Business Combination' excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself; - Clarifies that the scope of the portfolio exemption in AASB 13 'Fair Value Measurement' includes all contracts accounted for within the scope of AASB 139 'Financial Instruments: Recognition and Measurement' or AASB 9 'Financial Instruments', regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132 'Financial Instruments: Presentation'; and Clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in AASB 3 'Business Combinations' and investment property as defined in AASB 140 'Investment Property' requires the separate application of both standards independently of each other.	1 Jul 14	No Impact	1 Jul 14

Ref	Title	Summary	Application date of standard	Impact on financial report	Application date
	Annual Improvements to IFRSs 2010-2012 Cycle	Affects several Accounting Standards as follows: - Amends the definition of 'vesting conditions' and 'market condition' and adds definitions for 'performance condition' and 'service condition' in AASB 2 'Share-based Payment'; - Amends AASB 3 'Business Combinations' to clarify that contingent consideration that is classified as an asset or liability shall be measured at fair value at each reporting date; - Amends AASB 8 'Operating Segments' to require entities to disclose the judgements made by management in applying the aggregation criteria; - Clarifies that AASB 8 only requires a reconciliation of the total reportable segments assets to the entity's assets, if the segment assets are reported regularly; - Clarifies that the issuance of AASB 13 'Fair Value Measurement' and the amending of AASB 139 'Financial Instruments: Recognition and Measurement' and AASB 9 'Financial Instruments' did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amount, if the effect of discounting is immaterial; - Clarifies that in AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets', when an asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount (i.e. proportional restatement of accumulated amortisation); - and Amends AASB 124 'Related Party Disclosures' to clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a 'related party' of the reporting entity.	1 Jul 14	No Impact	1 Jul 14

Accounting Policies

(a) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 12 to the financial statements. All controlled entities have a 30 June financial year-end.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. In the separate financial statements of the Company, intra-group transactions ('common control transactions') are generally accounted for by reference to the existing book value of the items. Where the transaction value of common control transactions differ from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those policies applied by the parent entity. Subsidiaries are accounted for at cost in the parent entity.

The results of subsidiaries acquired or disposed of during the year are included in the Profit or Loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

(b) Income Tax

The income tax expense is based on the taxable income for the year. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).
Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. In principle, deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (excluding a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled. Current and deferred tax is recognised as an expense or income in Profit or Loss, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/Group intends to settle its current tax assets and liabilities on a net basis.

iSonea Limited (head entity) and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime.

Where the company is entitled to a tax rebate under the R&D Tax Concession during a particular financial year, the rebate is accrued and disclosed as revenue within the Profit or Loss for the year that the expenditure was incurred.

(c) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories comprise cost of purchase and costs incurred in bringing inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated selling costs.

Costs of inventories are assigned as follows:

Raw materials	Purchase cost on a first-in, first-out basis
Finished goods	Purchase cost on a first-in, first-out basis

The Company periodically evaluates the condition and age of inventories and makes provisions for slow moving inventories accordingly.

If in a particular period production is not at normal capacity, the costs of inventories does not include additional fixed overheads in excess of those allocated based on normal capacity. Such unallocated overheads are recognised as an expense in Profit or Loss in the period in which they are incurred. Furthermore, cost of inventories does not include abnormal amounts of materials, labour or other costs resulting from inefficiency.

(d) Plant and Equipment

Plant and equipment is stated at cost, less accumulated depreciation and impairment.

Cost includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to Profit or Loss during the financial period in which they are incurred.

Depreciation

The depreciable amount of all plant and equipment is depreciated on a straight line basis commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Plant & Equipment	Depreciation Rate
Furniture & fittings	6 - 15%
Computer equipment & software	15 - 33%
Medical equipment	15%
Tooling and Devices for Test	25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in Profit or Loss.

(e) Financial Assets and Liabilities

Recognition

Financial assets and liabilities are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist.

A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire or are transferred and are no longer controlled by the entity. A financial liability is removed from the Statement of Financial Position when the obligation specified in the contract is discharged or cancelled or expired.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are carried at amortised cost using the effective interest rate method less impairment.

Financial Liabilities

Financial liabilities are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist.

A financial liability is removed from the balance sheet when the obligation specified in the contract is discharged or cancelled or expires.

Non-derivative financial liabilities are recognised at amortised cost using the effective interest rate method, comprising original debt less principal payments, amortisation and impairment.

(f) Impairment of Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to Profit or Loss.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(g) Intangibles

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGU's), or groups of CGU's, expected to benefit from the synergies of the business combination. Any impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or groups of CGUs) and then to other assets of the CGU (or groups of CGUs) pro-rata on the basis of the carrying amount of each asset in the CGU (or groups of CGUs). An impairment loss recognised for goodwill is recognised immediately in Profit or Loss and is not reversed in a subsequent period.

Research and Development

Research expenditure is recognised as an expense when incurred. Costs incurred on development projects (relating to design and testing of new or improved technology) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriated proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from 3 to 5 years.

Intellectual Property

Intellectual property relates to technology assets, know-how and patents related to assets acquired on acquisition of iSonea (Israel) Limited (previously KarmelSonix (Israel) Limited) and is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over the expected life, being 10 years. Amortisation commences when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

The amortisation period and the amortisation method for an intangible assets is reviewed at least at the end of each reporting period. If the expected useful life of the asset is different from the previous estimates, the amortisation shall be changed accordingly. Such changes are accounted for as changes in accounting estimates.

(h) Foreign Currency Transactions and Balances

Functional and Presentation Currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and Balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are retranslated at the rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost are not retranslated. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the translation of monetary items are recognised in Profit or Loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in Profit or Loss.

Group Companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the Statement of Financial Position. These differences are recognised in the Profit or Loss in the period in which the operation is disposed.

(i) Employee Benefits

Annual Leave and Long Service Leave

A liability is recognised for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Short term benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions (Israel only) and are recognised as expenses as the services are rendered.

Post employment benefits include superannuation and payments to insurance companies (Israel only) and are defined contribution plans. Such payments are made in accordance with the relevant legislation for country and/or state where an employee normally performs their duties as an employee. Payments are recognised as expenses as the services are rendered.

Share-Based Payments

Shared-based compensation benefits are provided to employees via the iSonea Limited Employee Option Plan and an employee share scheme.

The fair value of options granted under iSonea Limited Option Share Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at the grant date and recognised over the period during which the employees become unconditionally entitled to the options.
The fair value at grant date was determined using an option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

(j) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably measured. Provisions are not recognised for future operating losses.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(k) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the Statement of Financial Position.

(l) Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. All revenue is stated net of the amount of goods and services tax (GST).

(m) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position sheet are shown inclusive of GST.

Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(n) Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to Profit or Loss over the expected useful life of the related asset on a straight-line basis.

Government grants received in Israel as support for research and development projects, include an obligation to pay royalties (ranging from 3.5% to 5%) conditional on future sales arising from the project. These grants are recognised upon receipt as a liability if future economic benefits are expected from the project (i.e. sales). If no economic benefits are expected, the grants are recognised as a reduction of the related research and development expenses and the royalty obligation treated as a contingent liability.

At the end of each reporting date, the Company evaluates if there is reasonable assurance that the liability recognised, in whole or part, will not be repaid. If there are indications the liability will not be repaid, the appropriate amount of the liability is derecognised and recorded in Profit or Loss as a reduction of research and development expenses. Otherwise, the appropriate amount of the liability that reflects expected future royalty payments is recognised with a corresponding adjustment to research and development expenses.
Royalty payments are treated as a reduction of the liability.

(o) Share Capital

Ordinary share capital is recognised as the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(p) Business Combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in Profit or Loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability is recognised in Profit or Loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in Profit or Loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date.

The measurement period ends on either the earlier of:
(i) 12 months from the date of the acquisition; or
(ii) when the acquirer receives all the information possible to determine fair value.

Note 2 - Parent Entity Information

The following information has been extracted from the books and records of the parent entity and has been prepared in accordance with the accounting standards.

		Parent Entity	
		30 June 2014	30 June 2013
	Note	$ AUD	$ AUD
Statement of Financial Position			
Assets			
Current Assets		8,140,666	1,593,641
Non-Current Assets		508,252	354,763
Total Assets		**8,648,918**	**1,948,404**
Liabilities			
Current Liabilities		375,200	328,867
Total Liabilities		**375,200**	**328,867**
Net Assets		**8,273,718**	**1,619,537**
Equity			
Issued Capital		95,149,982	77,310,846
Reserves		861,257	1,706,441
Accumulated Losses[1]		(87,737,521)	(77,397,750)
Total Equity		**8,273,718**	**1,619,537**
Statement of Comprehensive Income			
Total Loss		(11,067,154)	(5,692,504)
Total Comprehensive Income		**(11,067,154)**	**(5,692,504)**

1. Includes transfer of lapsed/expired options from reserve of $727,385

Parent Entity Contingencies and Commitments

The Parent Entity's contingent liabilities are consistent with Note 21.

Expenditure Commitments

The Parent Entity's expenditure commitments are consistent with Note 20.

Parent Entity Guarantees in Respect of the Debts of its Subsidiaries

The Parent Entity has no guarantees in respect of its subsidiaries.

Note 3 - Revenue

	30 June 2014 $ AUD	30 June 2013 $ AUD
Revenue		
Operating Revenue		
Sales - Medical Devices	18,975	10,859
Total Operating Revenue	**18,975**	**10,859**
Non-operating Revenue		
Interest	250,843	64,703
Total Non-operating Revenue	**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 - Expenses

	Note	30 June 2014 $ AUD	30 June 2013 $ AUD
Expenses			
a) Amortisation expenses		**217,335**	**151,019**
b) Consulting, employee and director expenses			
Consulting Expenses		336,403	135,780
Employee Expenses		1,239,544	848,556
Director Expenses		1,186,562	407,292
		2,762,509	**1,391,628**
c) Corporate administration expenses			
Audit and accounting fees		59,705	65,775
Foreign exchange loss		342,960	2,975
Corporate administration expenses		1,390,221	586,504
Office rentals under operating leases		87,600	61,516
Other		142,295	11,524
		2,022,781	**728,294**
d) Depreciation expenses		**27,269**	**18,495**
e) Marketing and promotion expenses		**1,905,442**	**1,006,684**
f) Research and development expenses		**3,841,215**	**2,155,693**
g) Travel and entertainment expenses		**465,036**	**378,075**
h) Finance Expenses		**-**	**33,499**
i) Write-down of inventory carry value		**-**	**152,994**
j) Fair value adjustment to liability		**(661,812)**	**-**
Total Expenses		**10,579,775**	**6,016,381**

Note 5 - Income Tax Expenses

		30 June 2014 $ AUD	30 June 2013 $ AUD
a)	**The prima facie tax on loss from ordinary activities before the loss is reconciled to the income tax as follows:**		
	Loss before income tax	(10,309,957)	(5,580,768)
	Income tax benefit calculated at 30% (2013:30%)	(3,092,987)	(1,674,230)
	Tax effect of amounts which are not deductable in calculating income tax:		
	- impairment and amortisation expenses	65,201	-
	- share-based payments expenses	273,174	134,157
	- other expenses not deductable	2,161	1,646
	Tax benefit associated with R&D rebates	-	(107,520)
	Other deductible items	(148,453)	(160,062)
	Reversal of deferred tax assets not recognised in prior years	-	-
	Deferred tax assets relating to tax losses not recognised	2,900,905	1,806,009
	Income tax reconciliation in Profit or Loss	**-**	**-**
b)	**Unrecognised Deferred Tax Assets and Liabilities**		
	Deferred tax assets and liabilities are attributable to the following:		
	- Tax losses	14,002,612	11,101,707
	- Prepayments	(148,172)	(1,316)
	- Accruals	308,040	70,878
	Net deferred tax assets not recognised	**14,162,479**	**11,171,269**
c)	**Components of Tax**		
	The components of tax expense comprise:		
	- Current Tax	-	-
	- Deferred Tax	-	-
	Net deferred tax assets not recognised	**-**	**-**

Included in the total of deferred tax assets attributable to tax losses not recognised are tax losses in relation to operations in Israel, United States of America and Australia. Tax losses in Australia relate to losses generated from 22 November 2006 to 30 June 2014. The ongoing availability of these tax losses are subject to further review by the Company to ensure compliance with the relevant provisions of Australia Income Tax laws.

Note 6 - Key Management Personnel Compensation

Key Management Personnel includes:

a) Directors

The names and positions of Directors of iSonea Limited in office at any time during, or since, the end of the financial year are:

Name	Position	Appointment / Resignation
Mr Leon L'Huillier	Chairman	Appointed Chairman on 4th Feb 2014
Mr John Ribot-de-Bresac	Non-Executive Director	Appointed Non-Executive Director on 4th Feb 2014
Mr Bruce L Mathieson	Non-Executive Director	Appointed Non-Executive Director on 4th Feb 2014
Dr Timothy Oldham	Non-Executive Director	Appointed Non-Executive Director on 6th Jan 2014
Mr David Ashmore	Non-Executive Director	Appointed Non-Executive Director on 19th Jun 2014
Mr Stephen Tunnell	Managing Director	Appointed on 4th Feb 2014 and Resigned on 23rd Sep 2014
Dr Stewart Washer	Executive Chairman	Resigned on 6th Jan 2014
Mr Ross Haghighat	Executive Vice-Chairman	Resigned on 4th Feb 2014
Mr Jerome Korten	Non-Executive Director	Resigned on 4th Feb 2014
Dr David Dantzker	Non-Executive Director	Resigned on 4th Feb 2014
Dr Ross Macdonald	Non-Executive Director	Resigned on 4th Feb 2014

b) Other Key Management Personnel

Name	Position	Appointment/ Resignation
Mr Michael Thomas	Chief Executive Officer (CEO)	Resigned on 24th Nov 2013
Mr David Model	US Vice President of Finance	Resigned on 28th Feb 2014
Mr Stephen Tunnell	SVP of Operations	Appointed Managing Director on 4th Feb 2014
Mr Greg Tunny	Chief Executive Officer (CEO)	Appointed CEO on 24th Sep 2014

c) Key Management Personnel Compensation

The aggregate compensation made to Directors and other Key Management Personnel of the Company is set out below:

	30 June 2014 $ AUD	30 June 2013 $ AUD
Short-term employee benefits	1,246,164	780,127
Post-employment benefits	-	-
Long-term benefits	-	-
Termination benefits	-	-
Share-based payments	1,061,234	341,554
	2,307,398	**1,121,681**

d) Loans to Directors and Other Key Management Personnel

There were no loans made to Directors or other Key Management Personnel of the Company, including their personally related parties.

e) Other transactions with Other Key Management Personnel

There were no further transactions with Directors or other Key Management Personnel not disclosed above or in Note 26.

Note 7 - Auditor's Remuneration

	30 June 2014 $ AUD	30 June 2013 $ AUD
Remuneration of Company's Auditor, BDO East Coast Partnership for:		
- auditing or reviewing the financial report of the Group	59,150	55,100
	59,150	**55,100**
Remuneration of Subsidiary Company's Auditor, Ernst & Young Israel for:		
- auditing or reviewing the financial report of the subsidiary[1]	8,691	9,063
	67,841	**64,163**

1. Audit fees paid to Ernst & Young subsidiaries for the auditing and/or review of the financial report of iSonea (Israel) Ltd.

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.		

Potential ordinary shares are not considered to be dilutive because the conversion of potential ordinary shares into ordinary shares would increase the basic loss per share.

Note 9 - Cash and Cash Equivalents

	30 June 2014 $ AUD	30 June 2013 $ AUD
Cash at Bank	8,212,003	195,474
Short-term deposits	-	1,151,262
	8,212,003	**1,346,736**

The interest rates on cash at bank on 30th June 2014 was 2.35% (2013: 2.60%).

The Group's exposure to interest rate risk is discussed in Note 27. The maximum exposure to credit risk at the end of the financial year is the carrying amount of each class of cash and cash equivalents mentioned above.

Note 10 - Trade and Other Receivables

	30 June 2014 $ AUD	30 June 2013 $ AUD
Current		
Trade Receivables[1]	84,211	548,008
	84,211	**548,008**

1. Trade receivables include GST/V.A.T receivable and funds receivable from option exercise. Any trade debtors which are past due are not considered impaired.

The ageing of the trade receivables is as follows:

	30 June 2014 $ AUD	30 June 2013 $ AUD
Current		
31-60 days	83,912	547,709
61-90 days	-	-
91 days and over	299	299
	84,211	**548,008**

Refer to Note 27 for more information on the Groups foreign currency risk management policy.

Note 11 - Inventories

	30 June 2014 $ AUD	30 June 2013 $ AUD
(At cost)		
Raw Materials and Stores	186,877	-
Work in Progress	65,121	-
Finished Goods	812,479	44,233
	1,064,477	**44,233**

Note 12 - Controlled Entities

a) Controlled Entities

	Country of Incorporation	Percentage of Ownership*	
		30 June 2014	30 June 2013
Parent Entity:			
iSonea Limited	Australia	-	-
Subsidiaries of iSonea Limited:			
iSonea Australia Pty Ltd	Australia	100%	100%
iSonea (Israel) Limited	Israel	100%	100%
iSonea USA Inc.	United States of America	100%	100%

* Percentage of voting power is in proportionate to ownership.

b) Acquisition of Controlled Entities

On 21 November 2006 the parent entity acquired 100% of iSonea Australia Pty Ltd (previously PulmoSonix Pty Ltd) and iSonea (Israel) Limited (previously KarmelSonix (Israel) Limited), with iSonea Limited entitled to all profits earned from 21 November 2006 for a purchase consideration of $1,835,750 and $1,580,750 respectively.

Note 13 - Property, Plant and Equipment

	30 June 2014 $ AUD	30 June 2013 $ AUD
Furniture & Fittings		
At cost	17,981	16,239
Accumulated depreciation	(10,705)	(9,783)
	7,276	**6,456**
Computer Equipment & Software		
At cost	162,627	131,687
Accumulated depreciation	(129,949)	(118,959)
	32,678	**12,728**
Medical Equipment		
At cost	81,361	67,004
Accumulated depreciation	(43,540)	(32,546)
	37,821	**34,458**
Tooling and Devices for Test		
At cost	23,663	-
Accumulated depreciation	(4,667)	-
	18,996	**-**
Total Plant and Equipment	**96,771**	**53,642**

a) Movement in Carrying Amounts

Movements in carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	Furniture & Fittings $ AUD	Computer Equip & Software $ AUD	Tooling & Devices for Test $ AUD	Medical Equipment $ AUD	Total $ AUD
Balance as at 1 July 2012	6,076	18,663	-	22,389	47,128
Additions	-	3,804	-	13,792	17,596
Depreciation expense	(572)	(11,373)	-	(6,550)	(18,495)
Disposals of assets	-	-	-	-	-
Exchange adjustments	952	1,634	-	4,827	7,413
Carrying amount as at 30 June 2013	**6,456**	**12,728**	**-**	**34,458**	**53,642**
Additions	1,534	31,890	24,081	13,963	71,468
Depreciation expense	(854)	(11,299)	(4,771)	(10,345)	(27,269)
Disposals of assets	-	-	-	-	-
Exchange adjustments	140	(641)	(314)	(255)	(1,070)
Carrying amount as at 30 June 2014	**7,276**	**32,678**	**18,996**	**37,821**	**96,771**

Note 14 - Intangible Assets

	30 June 2014 $ AUD	30 June 2013 $ AUD
Intellectual Property		
At cost	1,903,855	1,800,623
Accumulated Amortisation	(1,253,897)	(1,036,562)
	649,958	**764,061**

The acquired IP was subject to impairment testing at 30 June 2014.

	Acquired Intellectual Property
Balance as at 1 July 2012	894,431
Additions	-
Amortisation	(151,019)
Exchange adjustments	20,649
Carrying amount as at 30 June 2013	**764,061**
Additions	-
Amortisation	(217,335)
Exchange adjustments	103,232
Carrying amount as at 30 June 2014	**649,958**

Amortisation

Amortisation is charged on a straight line basis over the expected life of the asset and begins when the asset is available for use. The Directors have determined that the asset was available for use on 1 January 2008 and the life of the intangible is 10 years. Intellectual property relates to acquired assets. Remaining useful life of intangible asset is 3.5 years.

Note 15 - Other Assets

	30 June 2014 $ AUD	30 June 2013 $ AUD
Current		
Prepayments	494,170	78,526
	494,170	**78,526**
Non-Current		
Car Leases	2,619	2,550
	2,619	**2,550**
	496,789	**81,076**

Note 16 - Trade and Other Payables

	30 June 2014 $ AUD	30 June 2013 $ AUD
Current		
Trade payables	509,696	270,812
Accrued expenses	998,136	276,577
Other payables	473	1,337
	1,508,305	**548,726**

Refer to Note 27 for more information on the Groups foreign currency risk management policy.

Note 17 - Other Financial Liabilities

	30 June 2014 $ AUD	30 June 2013 $ AUD
Current		
Chief Scientist[1]	19,499	15,306
	19,499	**15,306**
Non-Current		
R&D Grants received in Israel	-	651,307
	-	**651,307**
	19,499	**666,613**

1. Detailed information in relation to the Chief Scientist and Bird Foundation grants received in Israel is contained in Note 21.

Note 18 - Issued Capital

The Company has an unlimited authorised share capital of no par value ordinary shares.

	30 June 2014		30 June 2013	
	No.	$ AUD	No.	$ AUD
Fully Paid Ordinary Shares				
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 from 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.

During the Year ended 30 June 2014, the Company issued the following securities:

Date	Details	No.	Issue Price $ AUD	Total Value $ AUD
05 Jul 13	Issue of Shares pursuant to $13.5m Capital Raising via Private Placement as announced to the market on Private Placement 28 June 2013	38,571,429	0.350	13,500,000
05 Jul 13	Issue of shares- Exercise of Listed ISNOB Options	9,551	0.140	1,337
19 Jul 13	Issue of shares- Exercise of Listed ISNOB Options	218,888	0.140	30,644
26 Jul 13	Issue of shares- Exercise of Listed ISNOB Options	557,784	0.140	78,090
26 Jul 13	Issue of shares- Exercise of Unlisted ISNAW Options	650,000	0.460	451,100
12 Aug 13	Issue of shares- Exercise of Listed ISNOB Options	6,906	0.140	967
12 Aug 13	Issue of shares- Exercise of Unlisted ISNAW Options	600,000	0.460	416,400
02 Sep 13	Issue of shares- Exercise of Listed ISNOB Options	171,322	0.140	23,985
23 Sep 13	Issue of shares- Exercise of Listed ISNOB Options	388,717	0.140	53,895
23 Sep 13	Issue of shares to Consultant in lieu of cash payment for services	50,000	0.790	39,500
27 Sep 13	Issue of shares- Exercise of Listed ISNOB Options	22,465	0.140	3,670
11 Oct 13	Issue of shares- Exercise of Listed ISNOB Options	127,125	0.140	17,798
18 Oct 13	Issue of shares- Exercise of Listed ISNOB Options	571,072	0.140	79,950
13 Nov 13	Issue of shares- Exercise of Listed ISNOB Options	66,305	0.140	9,283
29 Nov 13	Issue of shares- Exercise of Listed ISNOB Options	84,062	0.140	11,769
29 Nov 13	Issue of shares pursuant to Resolution 8 approved by members at the 2013 Annual General Meeting on 31 Oct 2013	231,348	0.407	94,114
29 Nov 13	Issue of shares in accordance with the Employee Share and Option Plan (ESOP)	481,250	0.530	255,062
27 Dec 13	Issue of shares- Exercise of Listed ISNOB Options	347,051	0.140	48,587
17 Jan 14	Issue of shares in lieu of cash payment for professional services rendered	89,074	0.337	30,000
17 Jan 14	Issue of shares- Exercise of Listed ISNOB Options	25,000	0.140	3,500
14 Feb 14	Issue of shares- Exercise of Listed ISNOB Options	664,236	0.140	248,993
28 Feb 14	Issue of shares- Exercise of Listed ISNOB Options	636,940	0.140	323,172
21 Mar 14	Issue of shares- Exercise of Listed ISNOB Options	58,159	0.140	8,142
05 May 14	Issue of shares in lieu of cash payment for professional services rendered	314,943	0.180	56,690
05 May 14	Issue of shares in accordance with the Employee Share and Option Plan (ESOP)	102,265	0.268	27,450

Date	Details	No.	Issue Price $ AUD	Total Value $ AUD
05 May 14	Issue of shares in accordance with the Employee Share and Option Plan (ESOP)	73,059	0.297	21,728
05 May 14	Issue of shares in accordance with the Employee Share and Option Plan (ESOP)	17,959	0.345	6,203
05 May 14	Issue of shares in accordance with the Employee Share and Option Plan (ESOP)	23,110	0.231	5,341
05 May 14	Issue of shares- Exercise of Listed ISNOB Options	101,406	0.140	14,197
30 May 14	Issue of shares- Exercise of Listed ISNOB Options	291,694	0.140	40,837
05 Jun 14	Issue of shares- Exercise of Listed ISNOB Options	1,647,271	0.140	230,618
13 Jun 14	Issue of shares- Exercise of Listed ISNOB Options	60,243	0.140	8,434
20 Jun 14	Issue of shares- Exercise of Listed ISNOB Options	4,796,094	0.140	671,453
27 Jun 14	Issue of shares- Exercise of Listed ISNOB Options	4,181,904	0.140	585,467
30 Jun 14	Shares to be issued		0.140	794,481
		56,238,632		**18,192,857**

During the Year ended 30 June 2013, the Company issued the following securities:

Date	Details	No.	Issue Price $ AUD	Total Value $ AUD
31 Aug 12	Issue of shares pursuant to $1.05m Capital Raising via Private Placement as announced to the market on 13 Aug 2012	17,500,000	0.060	1,050,000
31 Aug 12	Issue of shares to Consultants in lieu of cash payments for services	309,412	0.057	17,636
31 Aug 12	Issue of shares due to conversion of Listed ISNOB Options	333	0.143	48
02 Nov 12	Issue of shares to subscribers and underwriters of the Renounceable Rights Issue as described in the prospectus announced on ASX on 27th September 2012	80,725,145	0.050	4,036,257
14 Dec 12	Issue of shares pursuant to Resolution 3 approved by members at the 2012 Annual General Meeting on 15 Nov 2012	2,500,000	0.050	125,000
14 Dec 12	Issue of shares pursuant to Resolution 4 approved by members at the 2012 Annual General Meeting on 15 Nov 2012	382,726	0.078	30,000
14 Dec 12	Issue of shares to Consultants in lieu of cash payments for services	250,000	0.040	10,000
16 Apr 13	Issue of shares to Consultants in lieu of cash payments for services	400,000	0.080	32,000
24 Apr 13	Issue of shares due to conversion of Listed ISNOB Options	733,164	0.140	102,643
24 Jun 13	Issue of shares due to conversion of Listed ISNOB Options	142,379	0.140	19,933
		102,943,159		**5,423,517**

Terms and Conditions of Issued Capital

Ordinary Shares: Ordinary shareholders have the right to receive dividends as declared and in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy at a meeting of the Company.

Options: Option holders do not have the right to receive dividends and are not entitled to vote at the meeting of the Company until options are exercised into ordinary shares by payment of the exercise price. Options may be exercised at any time from the date they vest to their expiry date. Share options convert into ordinary shares on a one for one basis on the date they are exercised.

Note 19 - Option Reserves

	30 June 2014		30 June 2013	
	No.	$ AUD	No.	$ AUD
Options				
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 from 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.

30 June 2014 Date	Details	No.	Option fair value $ AUD	Total Value $ AUD
Listed Options				
29 Nov 14	Issue of listed options pursuant to Resolution 3A, B, C, D and E approved by members at the 2013 Annual General Meeting on 31 Oct 2013	1,000,000	0.390	390,000
		1,000,000		**390,000**
Unlisted Options				
05 May 14	Issue of options to Employees under Employee Share Option Plan (ESOP)	143,060	0.077	11,059
05 May 14	Issue of options to Employees under Employee Share Option Plan (ESOP)	1,000,000	0.063	62,700
		1,143,060		**73,759**

Note 20 - Capital and Leasing Commitments

a) Operating Lease Commitments

	30 June 2014 $ AUD	30 June 2013 $ AUD
Non-cancellable operating leases contracted for but not capitalised in the financial statements:		
Minimum lease payments payable		
- not later than 12 months	69,644	57,788
- between 12 months and 5 years	-	76,392
	69,644	**134,180**

Haifa, Israel

The lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. There are contingent rental provisions within the lease agreement which link the lease payments to CPI. An option exists to renew the lease at the end of the initial five-year term for two additional terms of one year.

The lease allows for subletting of all lease areas. From the 1 July 2009, the Company surrendered 270m² of the lease. On 1 February 2012 the company announced the lessor that it intends to reduce the rented space by two thirds. This change took place at the end of November 2012.

In order to secure the company's obligations, the Company gave a bank guarantee in the amount of ILS $50,000 to the lessor.

San Diego, USA

iSonea Ltd utilised their option to extend San Diego lease through to June 2015, with rent payable monthly in advance. The lease is linked to 3% yearly increase in rent for each extension year.

In order to secure the company's obligations, the Company has secured USD $7,500 to the lessor.

b) Other commitments

Accounting & Management Fees
The CFO Solution provides accounting and administrative support at a rate of $20,000 per month plus GST. The commitment may be terminated with 3 months written notice by either party.

Note 21 - 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).

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 22 - Segment Reporting

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 -----			Segment	Corporate	Total
	Australia	Israel	USA	Total		
	$ AUD	$ AUD	$ AUD	$ AUD	$ AUD	$ AUD
Segment Revenue						
External sales	14,684	4,291	-	18,975	-	18,975
Interest revenue	-	-	545	545	250,298	250,843
Other Income	-	-	-	-	-	-
Total Segment Revenue	**14,684**	**4,291**	**545**	**19,520**	**250,298**	**269,818**
Segment Expenses						
Segment Depreciation Expenses	(816)	(5,700)	(3,829)	(10,345)	(16,924)	(27,269)
Segment Expenses	(1,509,595)	(1,232,438)	(4,462,318)	(7,204,351)	(3,348,155)	(10,552,506)
Total Segment Expense	**(1,510,411)**	**(1,238,138)**	**(4,466,147)**	**(7,214,696)**	**(3,365,079)**	**(10,579,775)**
Income Tax Expense	-	-	-	-	-	-
Net Result	**(1,495,727)**	**(1,233,847)**	**(4,465,602)**	**(7,195,176)**	**(3,114,781)**	**(10,309,957)**
Assets						
Segment assets	1,500,007	744,440	219,096	2,463,543	8,140,666	10,604,209
Total Assets	**1,500,007**	**744,440**	**219,096**	**2,463,543**	**8,140,666**	**10,604,209**
Liabilities						
Segment liabilities	697,013	87,130	368,461	1,152,604	375,200	1,527,804
Total Liabilities	**697,013**	**87,130**	**368,461**	**1,152,604**	**375,200**	**1,527,804**

30 June 2013	----- Medical Devices -----			Segment	Corporate	Total
	Australia	Israel	USA	Total		
	$ AUD	$ AUD	$ AUD	$ AUD	$ AUD	$ AUD
Segment Revenue						
External sales	-	8,614	2,245	10,859	-	10,859
Interest Revenue	-	-	-	-	64,703	64,703
Other Income	-	-	-	-	360,051	360,051
Total Segment Revenue	**-**	**8,614**	**2,245**	**10,859**	**424,754**	**435,613**
Segment Expenses						
Segment Depreciation Expenses	(815)	(5,735)	-	(6,550)	(11,945)	(18,495)
Segment Expenses	(281,099)	(2,286,133)	(2,342,534)	(4,909,766)	(1,088,120)	(5,997,886)
Total Segment Expense	**(281,914)**	**(2,291,868)**	**(2,342,534)**	**(4,916,316)**	**(1,100,065)**	**(6,016,381)**
Income Tax Expense	-	-	-	-	-	-
Net Loss	**(281,914)**	**(2,283,254)**	**(2,340,289)**	**(4,905,457)**	**(675,311)**	**(5,580,768)**
Assets						
Segment assets	102,466	852,076	270,945	1,225,487	1,612,269	2,837,756
Total Assets	**102,466**	**852,076**	**270,945**	**1,225,487**	**1,612,269**	**2,837,756**
Liabilities						
Segment liabilities	-	719,428	167,044	886,472	328,867	1,215,339
Total Liabilities	**-**	**719,428**	**167,044**	**886,472**	**328,867**	**1,215,339**

Note 23 - Cash Flow Information

a) Reconciliation of cash flow from operations with loss after income tax

	30 June 2014 $AUD	30 June 2013 $AUD
Net Loss for the year	**(10,309,957)**	**(5,580,768)**
Add back depreciation expense	27,269	18,495
Add back amortisation expense	217,335	151,019
Add back equity issued for nil consideration	1,602,005	447,139
Add back foreign exchange adjustments	(27,969)	(288,505)
(Increases)/Decreases in Accounts Receivable	528,469	83,994
(Increases)/Decreases in Other Current Assets	(415,725)	92,554
Increases/(Decreases) in Accounts Payable	282,424	129,247
Increases/(Decreases) in Other Current Liabilities	19,499	-
(Increases)/Decreases in Inventory	(1,021,590)	11,524
Net cash flows used in operating activities	**(9,098,240)**	**(4,935,301)**

b) Non-Cash financing and investing activities

Please refer to Note 18 and 19 for further details regarding equity issued for nil consideration.

Note 24 - Share-based Payments

At the Annual General Meeting held on 30 October 2013, Shareholders approved the establishment of the 2013 Employees', Directors' and Consultants' Share and Option Plan (ESOP). The ESOP is intended to reward Directors, employees and/or consultants for their contributions to the Group. The Plan is to be used as a method of retaining and providing incentives to key personnel for the growth and development of the Group. The Plan has been established to benefit personnel in Australia, Israel and USA.

As at 30 June 2014 equity had been issued to 8 employees in USA and 2 employees in Israel under ESOP

a) The following shares were issued to eligible persons under the ESOP

	30 June 2014 No. of Shares	30 June 2013 No. of Shares
Total granted at the beginning of the year	1,786,465	29,541,064
Consolidation 20:1[1]	-	(28,064,011)
Granted	697,643	309,412
Total granted at end of the year	**2,484,108**	**1,786,465**

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

Shares issued to employees and consultants were valued at 35% of their base Salary and are equal to the value of services provided under an agreement / invoice. See Note 18 for further details.

The weighted average fair value of the shares granted during the year was $0.45 (2013: $0.057). For the year ended 30 June 2014 $315,785 (2013: $17,636) has been expensed in the Profit or Loss.

b) The following options were issued to eligible persons under the ESOP:

	30 June 2014		30 June 2013	
	No. of Options	Weighted Average Exercise Price $ AUD	No. of Options	Weighted Average Exercise Price $ AUD
Outstanding at the beginning of the year	3,335,000	0.40	92,527,314	0.40
Consolidation 20:1[1]	-	-	(87,900,948)	-
Granted	1,143,060	0.06	-	-
Expired/lapsed	(2,275,000)	-	(1,291,366)	-
Outstanding at year-end	**2,203,060**	**0.23**	**3,335,000**	**0.40**
Exercisable at year-end	2,203,060	0.23	3,335,000	0.40

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

There were no options exercised during the current or previous year under ESOP.

The options outstanding at 30 June 2014 had a weighted average exercise price of $0.23 and a weighted average remaining contractual life between 1 to 3 years. Exercise prices range from $0.28 to $0.60 post consolidation in respect of options outstanding at 30 June 2014:

Ref	Issue Date	Quantity	Expiry Date	Exercise Price $ AUD	Value Attributed at Grant Date $ AUD	Expensed YTD $ AUD	Balance to be Expensed over Life $ AUD
1	02 Sep 11	1,400,000[1]	31 Jul 16	0.26	287,000	287,000	-
2	02 Sep 11	400,000	31 Dec 13	0.40	21,600	21,600	-
3	02 Sep 11	400,000	31 Dec 13	0.40	84,000	84,000	-
4	28 Sep 11	75,000	01 Jul 13	0.30	13,350	13,350	-
5	30 Sep 11	1,000,000	01 Jul 14	0.60	208,000	208,000	-
6	15 May 14	1,000,000	02 Apr 17	0.40	62,700	62,700	-
7	15 May 14	143,060	02 Apr 17	0.28	11,101	11,101	-

1. 525,000 Unlisted Options were cancelled in January 2014 re-valuing the options to $287,000 over the life of option. Remainder of 875,000 have lapsed.

A total of $244,121 (2013: $292,191) of unlisted options has been expensed under Consultants, Employees and Directors expense in the Profit or Loss. There is a remaining balance to be expensed in future periods of $Nil (2013: $317,920).

Unlisted Options expensed over the life of options Grants and Expiry dates:

Reference	1	2	3	4	5	6	7
Issue Date	2/09/2011	2/09/2011	2/09/2011	28/09/2011	30/09/2011	5/05/2014	15/05/2014
Grant Date	2/09/2011	2/09/2011	2/09/2011	28/09/2011	30/09/2011	5/05/2014	15/05/2014
Vesting Date	Qtrly Over 4Yrs	Milestone	Milestone	28/09/2011	30/09/2011	5/05/2014	15/05/2014
Share Price	$ 0.0190	$ 0.0190	$ 0.0190	$ 0.0160	$ 0.0150	$0.18	$0.18
Exercise Price	$ 0.0130	$ 0.0200	$ 0.0200	$ 0.0150	$ 0.0300	$0.40	$0.279
Implied Volatility	119.00%	101.70%	97.60%	107.20%	143.80%	85%	85%
Expiry Date	31/07/2016	31/12/2013	31/12/2013	1/07/2013	1/07/2014	2/04/2017	2/04/2017
Option Life (Years)	4.92	2.33	2.33	1.76	2.75	2.91	2.91
Risk Free Rate	3.99%	3.78%	3.78%	3.78%	3.78%	2.91%	2.91%
Escrow Expiry Date	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Hoadley Valuation	$ 0.0164	$ 0.0108	$ 0.0105	$ 0.0089	$ 0.0104	$0.0627	$0.0773
Quantity of Options	28,000,000	8,000,000	8,000,000	1,500,000	20,000,000	1,000,000	143,060
Consolidated Qty of Options	1,400,000	400,000	400,000	75,000	1,000,000	1,000,000	143,060
Hoadley Valuation	$ 459,200	$ 86,400	$ 84,000	$ 13,350	$208,000	$62,700	$11,059
Probability of Achievement	100%	25%	100%	100%	100%	100%	100%
Adjusted Valuation	$ 287,000	$ 21,600	$ 84,000	$ 13,350	$ 208,000	$62,700	$11,101

1. 525,000 Unlisted Options were cancelled in January 2014 re-valuing the options to $287,000 over the life of option. Remainder of 875,000 have lapsed.

c) The following shares were issued outside of the ESOP

	No. of Shares	
	30 June 2014	**30 June 2013**
Total granted at the beginning of the year	217,888,858	2,305,115,979
Consolidation 20:1[1]	-	(2,189,860,868)
Granted	39,256,794	101,757,871
From the exercised of options	16,284,195	875,876
Total granted at end of the year	**273,429,847**	**217,888,858**

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

Shares issued to employees and consultants were valued at the market price of the shares at grant date and are equal to the value of services provided under an agreement/invoice. See Note 18 for further details.

The weighted average fair value of the shares granted during the year was $0.35 (2013: $0.065). For the year ended 30 June 2014 $39,500 (2013: $42,000) has been expensed in the Profit or Loss.

d) The following options were issued outside of the ESOP

	30 June 2014		30 June 2013	
	No. of Options	**Weighted Average Exercise Price $ AUD**	**No. of Options**	**Weighted Average Exercise Price $ AUD**
Outstanding at the beginning of the year	22,222,724	0.40	516,713,359	0.40
Consolidation 20:1[1]	-	-	(490,877,885)	-
Granted	1,000,000	0.39	-	-
Exercised	(16,284,195)	-	(875,876)	-
Expired/lapsed	(415,625)	-	(2,736,874)	-
Outstanding at year-end	**6,522,904**	**0.40**	**22,222,724**	**0.40**
Exercisable at year-end	6,522,904	0.40	22,222,724	0.40

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

The options outstanding at 30 June 2014 had a weighted average exercise price of $0.39 and a weighted average remaining contractual life of 3 years. Exercise prices range from $0.28 to $2.60 in respect of options outstanding at 30 June 2014.

Note 25 - Matters subsequent to Reporting Date

4th July 2014	–	5,674,861 new fully paid ordinary shares were issued following options holders exercising Listed ISNOB Options raising $794,481.
22nd August 2014	–	Patent "Compliance Monitoring for Asthma Inhalers" granted by the US Patent Office.
22nd August 2014	–	FDA Grant Clearance for SonoSentry™1.
23rd September 2014	–	Resignation of Stephen Tunnell and appointment of new CEO Greg Tunny.

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 26 - Related Party Transactions

iSonea Limited loans funds to subsidiaries on an at-call basis and charges interest on the balance of the funds outstanding based on the Australian Taxation Office (ATO) benchmark interest rate of the prior year 7.05% (2013: 7.80%) per annum. As at 30 June 2014, the balance outstanding from subsidiaries was $38,286,577 (2013: $29,719,382) and the interest charged for the financial year was $2,476,661 (2013: $2,121,288). An accumulated provision for impairment of $37,784,108 (2013: $29,367,374) has been recognised by iSonea Limited against these loans. In the current period the parent recognised an impairment expense of $8,416,734 (2013: $5,102,228) on the loans to subsidiaries. All loans and interest are eliminated on consolidation.

Note 27 - Financial Risk Management

The Group's activities expose it to a variety of financial risks including market risk, credit risk and liquidity risk. Price risk is not a risk exposure. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The Company and Group do not have written policies regarding risk management however, these risks are managed prudently by senior management.

a) Market Risk

(i) Foreign Currency Risk

The Group engages in international purchase transactions and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to the US dollar (USD) and Israeli shekel (ILS). The parent has minimal exposure to foreign exchange risk as it does not hold any foreign currency cash reserves and only makes minor foreign currency payments. The Group does not make use of derivative financial instruments to hedge foreign exchange risk.

The carrying amount of the foreign currency denominated monetary assets and liabilities at the reporting date is as follows, all amounts in the table below are displayed in $AUD at year-end spot rates:

	30 June 2014 $ AUD	30 June 2013 $ AUD
Cash and trade and other receivables		
- ILS	47,755	44,351
- USD	5,591,453	155,247
- EUR	1,592	10,494
	5,640,800	**210,092**
Trade and other payables		
- ILS	(70,738)	(52,815)
- USD	(1,042,793)	(167,044)
	(1,113,531)	**(219,859)**

Sensitivity Analysis

The Group currently has material exposures to the Israeli New Shekel (ILS) and US dollar (USD). The sensitivity analysis below is conducted on a bi-currency basis using the same sensitivity analysis variable, which has been based on the average annual movement in the AUD/ILS exchange rate over the past 5 years based on the year-end spot rates, being 6.00%.

All the amounts in the table below are displayed in $AUD. A positive number indicates an increase in profit and equity. A negative number indicates a decrease in profit and equity.

	(Higher) / Lower 30 June 2014	(Higher) / Lower 30 June 2013
Cash and trade receivables:		
AUD/ILS: 2014: +6.00% (2013: +2.40%)	2,865	1,065
AUD/ILS: 2014: -6.00% (2013: -2.40%)	(2,865)	(1,065)
AUD/USD: 2014: +6.00% (2013: +2.40%)	335,487	3,726
AUD/USD: 2014: -6.00% (2013: -2.40%)	(335,487)	(3,726)
AUD/EUR: 2014: +6.00% (2013: +2.40%)	95	252
AUD/EUR: 2014: -6.00% (2013: -2.40%)	(95)	(252)

	(Higher) / Lower 30 June 2014	(Higher) / Lower 30 June 2013
Trade and other payables		
AUD/ILS: 2014: +6.00% (2013: +2.40%)	4,244	1,268
AUD/ILS: 2014: -6.00% (2013: -2.40%)	(4,244)	(1,268)
AUD/USD: 2014: +6.00% (2013: +2.40%)	64,437	4,009
AUD/USD: 2014: -6.00% (2013: -2.40%)	(64,437)	(4,009)

(ii) Interest Rate Risk

The Group's exposure to interest rate risk is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities.

30 June 2014	Weighted Average Effective Interest Rate %	Floating Interest Rate $ AUD	Fixed Interest Rate within Year $ AUD	Non-Interest Bearing $ AUD	Total $ AUD
Financial Assets					
Cash and trade receivables	2.35%	8,212,003	-	-	8,212,003
Trade and other receivables	-	-	-	84,211	84,211
Total Financial Assets		**8,212,003**	**-**	**84,211**	**8,296,214**
Financial Liabilities					
Trade and other payables	-	-	-	1,508,305	1,508,305
Total Financial Liabilities		**-**	**-**	**1,508,305**	**1,508,305**

30 June 2013	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate within Year	Non-Interest Bearing	Total
	%	$ AUD	$ AUD	$ AUD	$ AUD
Financial Assets					
Cash and trade receivables	2.60%	1,346,736	-	-	1,346,736
Trade and other receivables	-	-	-	548,008	548,008
Total Financial Assets		**1,346,736**	**-**	**548,008**	**1,894,744**
Financial Liabilities					
Trade and other payables	-	-	-	548,726	548,726
Total Financial Liabilities	**-**	**-**	**-**	**548,726**	**548,726**

There has been no change to the Group's exposure to interest rate risk or the manner in which it manages and measures its risk in the current year.

Sensitivity Analysis

A movement in the interest rate by +/- 6.00% (2013: 2.40%), being reflective of the movement of the weighted average interest rates from financial years 2013 to 2014, and all other variables had remained constant, would impact the consolidated entity's loss after tax and equity as follows:

	30 June 2014	30 June 2013
	$ AUD	$ AUD
+6.00% (600 basis points)	492,720	32,322
-6.00% (600 basis points)	(492,720)	(32,322)

b) Credit Risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group. The Group has no significant concentration of credit risk in the current or prior year.

The Group ensures that surplus cash is invested with financial institutions of appropriate credit worthiness and limits the amount of credit exposure to any one counter party.

There has been no significant change in the Group's exposure to credit risk since the previous year. The carrying amount of the Group's financial assets represent the maximum credit exposure.

Ageing of Trade Receivables

	0-30 days	31-60 days	61-90 days	90+ days	Total
	$ AUD	$ AUD	$ AUD	$ AUD	$ AUD
2014 Trade and other receivables	83,912	-	-	299	84,211
2013 Trade and other receivables	547,709	-	-	299	548,008

The credit period offered by the Group is 30 days from the date of invoice. No interest is charged on trade receivables.

c) Liquidity Risk

Liquidity risk is the risk that the Group will not pay its debtors when they fall due. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group manages liquidity risk by maintaining sufficient bank balances to fund its operations and the availability of funding through committed credit facilities.

Management manages this risk by monitoring rolling forecasts of the Group's liquidity reserve on the basis of expected cash flows.

	0-30 days	31-60 days	61-90 days	90+ days	Total
	$ AUD	$ AUD	$ AUD	$ AUD	$ AUD
2014 Trade and other payables	1,448,318	56,658	3,329	-	1,508,305
2013 Trade and other payables	535,433	5,793	7,500	-	548,726

d) Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain a capital structure that maximises shareholder value. In order to maintain or achieve an optimal capital structure, the Group may issue new shares or reduce its capital, subject to the provisions of the Group's constitution.

The capital structure of the Group consists of equity attributed to equity holders of the Group, comprising contributed equity, reserves and accumulated losses disclosed in Notes 18 and 19. By monitoring undiscounted cash flow forecasts and actual cash flows provided to the Board by the Group's Management the Board monitors the need to raise additional equity from the equity markets.

e) Fair Value Estimation

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective fair values determined in accordance with the accounting policies disclosed in Note 1.

Note 28 - Company Details

The Company's Registered Office and Principal Place of Business is:

iSonea Limited
Suite 1, 1233 High Street
Armadale, Victoria
AUSTRALIA 3143

Ph: +61 (0)3 9824 5254
Fx: +61 (0)3 9822 7735

www.isoneamed.com
www.airsonea.com.au

Directors' Declaration

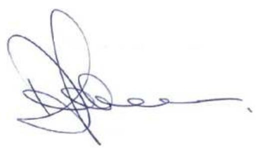
The Directors of the Company declare that:

In the opinion of the Directors:

1. the financial statements and the notes, as set out on pages 36 to 75, and the remuneration disclosures that are contained within the Remuneration report within the Directors' report, set out on pages 8 to 25, are in accordance with the Corporations Act 2001 and:
    a. comply with Accounting Standards and the Corporations Regulations 2001 and other mandate professional reporting requirements; and
    b. give a true and fair view of the financial position as at 30 June 2014 and of the performance for the year ended on that date of the Company;
    c. the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.
2. in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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 2014.

For and on behalf of the Company;



Mr David Ashmore
Non-Executive Director
Melbourne
Dated: This the 30th September 2014

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Level 14, 140 William St
Melbourne VIC 3000
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Australia

INDEPENDENT AUDITOR'S REPORT

To the members of iSonea Limited

Report on the Financial Report

We have audited the accompanying financial report of iSonea Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting* Standards.

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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 control relevant to the company's preparation of the financial report that gives a true and fair view 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 company's internal control. 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.

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

BDO

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*, which has been given to the directors of iSonea Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

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

- (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 15 to 25 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of iSonea Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

BDO East Coast Partnership

BDO

James Mooney
Partner

Melbourne, 30 September 2014

Shareholder Information

As at 26th September 2014

NUMBER OF HOLDERS OF EQUITY SECURITIES

Ordinary Shares

281,588,816 (ASX: ISN) fully paid ordinary shares are held by 4,639 individual shareholders.

All ordinary shares carry one vote per share.

Options

Unlisted Options

650,000 (ASX: ISNAO) unlisted options exercisable at $1.00 on or before 15/12/2015, are held by 2 individual unlisted option holders.

45,000 (ASX: ISNAZ) unlisted options exercisable at $2.60 on or before 15/12/2014, are held by 1 individual unlisted option holder.

45,000 (ASX: ISNAZ) unlisted options exercisable at $2.60 on or before 15/12/2015, are held by 1 individual unlisted option holder.

1,143,060 (ASX: ISNAW) unlisted options exercisable at various prices on or before 02/04/2017, are held by 2 individual unlisted option holders.

Options do not carry a right to vote. Voting rights will be attached to the unissued shares when the options have been exercised.

DISTRIBUTION OF HOLDERS IN EQUITY SECURITIES

	No. of Holders	
	Ordinary Shares	Listed Options
1 - 1,000	1,997	-
1,001 - 5,000	718	-
5,001 - 10,000	443	-
10,001 - 100,000	1,142	-
100,001 +	339	-
Total number of shareholders	**4,639**	**-**
Unmarketable parcels	127	-

TWENTY LARGEST HOLDERS OF QUOTED SECURITIES

	Shareholders	Number	%
1	Investment Holdings Pty Ltd	48,000,000	17.05%
2	Holdrey Pty Ltd	6,916,000	2.46%
3	Braun Peter Karl	4,863,913	1.73%
4	HSBC Custody Nominees Australia Pty Ltd	4,115,364	1.46%
5	Luhopi Pty Ltd	3,528,571	1.25%
6	UBS Nominees Pty Ltd	3,430,000	1.22%
7	Equitas Nominees Pty Ltd	3,340,000	1.19%
8	Winconlon Pty Ltd	3,110,027	1.10%
9	John W King Nominees Pty Ltd	3,097,023	1.10%
10	Principal Asset Management Pty Ltd	3,027,155	1.08%
11	Renlyn Bell Investments Pty Ltd	2,943,132	1.05%
12	Maple Management Ltd	2,846,390	1.01%
13	Laval Enterprises Pty Ltd	2,816,282	1.00%
14	Clemwell Pty Ltd	2,695,733	0.96%
15	Stonemine Pty Ltd	2,530,000	0.90%
16	Mick Ashton Nominees Pty Ltd	2,459,880	0.87%
17	Citicorp Nominees Pty Ltd	2,388,569	0.85%
18	Mcewen Pty Ltd	2,376,500	0.84%
19	One Dog One Bone Pty Ltd	2,300,000	0.82%
20	Graham Thomas Montrose	2,016,216	0.72%
	Total	**108,800,755**	**39%**
	Total balance of remaining holders	172,788,061	61%
	Total on Issue	**281,588,816**	**100%**

SUBSTANTIAL SHAREHOLDERS

The names of substantial shareholders who have notified the Company in accordance with Section 671B of the Corporations Act.

Substantial Shareholders	No. of Shares
Investment Holdings Pty Ltd	48,000,000
Total No. of shares held by Substantial Shareholders	**48,000,000**

SHAREHOLDER ENQUIRIES

Shareholders with enquiries about their shareholdings should contact the Share Register:

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross, Western Australia, 6153
Telephone: +61 (0)8 9315 2333
Facsimilie: +61 (0)8 9315 2233
Email: registrar@securitytransfer.com.au

CHANGE OF ADDRESS, CHANGE OF NAME, CONSOLIDATION OF SHAREHOLDINGS

Shareholders should contact the Share Registry to obtain details of the procedure required for any of these changes.

REMOVAL FROM THE ANNUAL REPORT MAILING LIST

Shareholders who wish to receive the Annual Report should advise the Share Registry in writing. These shareholders will continue to receive all other shareholder information.

TAX FILE NUMBERS

It is important that Australian resident shareholders, including children, have their tax file number or exemption details noted by the Share Registry.

CHESS (Clearing House Electronic Subregister System)

Shareholders wishing to move to uncertified holdings under the Australian Stock Exchange (CHESS) system should contact their stockbroker.

UNCERTIFIED SHARE REGISTER

Shareholding statements are issued at the end of each month in which there is a transaction that alters the balance of your holding.

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	Chairman
Mr John Ribot-de-Bresac	Non-Executive Director
Mr Bruce L Mathieson	Non-Executive Director
Dr Timothy Oldham	Non-Executive Director
Mr David Ashmore	Non-Executive Director

CHIEF EXECUTIVE OFFICER (CEO)
Mr Greg Tunny

COMPANY SECRETARIES
Mr Phillip Hains
Mr Peter Vaughan

PRINCIPAL PLACE OF BUSINESS
Suite 1, 1233 High Street
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Australia
Telephone: + 61 (0)3 9824 5254
Fax: + 61 (0)3 9822 7735

REGISTERED OFFICE
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Australia
Telephone: + 61 (0)3 9824 5254
Fax: + 61 (0)3 9822 7735

SHARE REGISTRY
Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross, Western Australia, 6153
Australia
Telephone: +61 (0)8 9315 2333

SOLICITORS
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SECURITIES QUOTED

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