iSonea

Sound Asthma Management

ABN 98 009 234 173

Annual Financial Report

For The Year Ended 30 June 2012

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Chairman's Letter

Dear Shareholder,

The financial year 2012 was a year of strategic reassessment and re-focusing of the iSonea Limited business model, in preparation for the launch of commercially viable asthma monitoring software and devices.

Mobile technology is transforming healthcare by empowering patients to take better control of their treatment plans and by improving connectivity between patients and physicians. In the US, chronic diseases now account for nearly 75% of all healthcare spending, which is spurring increased momentum for home monitoring of these patients to improve care and lower long-term expenses.

- Recent independent research[1] has shown that 90% of physicians want patients with chronic conditions to self-monitor symptoms with mobile devices.
- Published clinical studies[2,3,4] demonstrate significant improvement in outcomes with the use of mHealth tools in the management of hypertension, diabetes, and asthma.
- Independent consumer research[5] also predicts that mHealth will improve the convenience, quality and cost of healthcare in the near future, with 60% stating that their use of smartphone apps has reduced the need for doctor visits.

Still in its infancy, the global revenue from mobile health apps alone is estimated to reach $1.3 billion in 2012[6] and $2.5 billion in the next 5 years .[7] More significantly, the total global mHealth market (including diagnosis, treatment and monitoring) is projected to reach $23 billion by 2017, with remote monitoring devices and services for chronic diseases accounting for $15 billion.[7] Trends in capital investment reflect this robust confidence: US venture funding of digital health companies jumped 220% in the first half of 2012 (> $500 million) vs. the same period in 2011.[8] Likewise, the concept of ***connected health*** is attracting the major US disease management companies to partnering and acquisition deals, such as Alere's recently announced collaboration with Welldoc (diabetes management) and acquisition of MedApps, maker of apps and wireless home monitoring devices.

The climate is right for iSonea, as a leader in mobile health device development for asthma management. The innovative apps and monitoring devices currently in our pipeline will help people monitor their symptoms, increase their awareness of risk for an attack, and adhere to their medication plans, to improve outcomes and healthcare expenditures.

With new additions to the Board of Directors and with a new, US-based management team with relevant experience, the Company has been re-positioned to participate in this rapidly expanding mobile health market, while creating a realistic product development pipeline to generate revenue and reach profitability within the next 24 months. This product pipeline is based on:

- AsthmaSense™ series of asthma management smart phone apps, with increasingly intelligent and sophisticated features to predict asthma attacks based on individual risk characteristics and environmental stimuli;
- AirSonea™ personal asthma monitoring system, which is a more sensitive and intelligent WheezoMeter™ on a smart phone; and the
- SonoSentry™ wheeze monitor, a re-engineered, lower cost version of the WheezoMeter for those without smart phones; offering increased sensitivity and data transmission capabilities, and available without a prescription.

After extensive re-assessment of the core Acoustic Respiratory Monitoring (ARM™) technology and customer experience with the existing products, the management team created a new strategic plan to achieve profitability driven by the revolutionary new AirSonea remote monitoring system and the supporting mobile health app, AsthmaSense.

Milestones were defined for each critical step in the development and rollout of the successive AsthmaSense apps, the re-design of the WheezoMeter as the SonoSentry, and the clinical and regulatory steps necessary to attain marketing clearance for both SonoSentry and AirSonea. The Company has delivered on the milestones set in FY 2012 and is moving forward with steady progress toward the goal of launching AirSonea in Q1 FY 2014.

Specific milestones achieved during the course of the year were:

- Capital campaign raised $5.6 million in funds necessary to support the new strategic plan.
- Three new Directors with relevant experience were appointed to the Board; Dr. Washer was appointed the new Chairman and Mr. Haghighat became Executive Vice Chairman.
- Medical Director, VP Marketing, and VP Business Development were added to the new CEO's senior management team.
- Corporate restructure initiative eliminated high fixed cost expenditures and focused on building an organization with medical technology experience and commercial success in the US market.
- AsthmaSense v1.0 mobile health app was launched.
- AsthmaSense v1.01 was developed and a road map for subsequent apps was charted.
- The AirSonea product concept was generated and development plan established.
- A re-engineering project was initiated to lower the cost and increase the gross profit margin of the WheezoMeter, while improving the diagnostic sensitivity and suite of features.
- Regulatory dossier for SonoSentry, a non-prescription version of the WheezoMeter, was compiled for submission to the US Food and Drug Administration (FDA).
- A consumer usability study for the SonoSentry was completed, to support the FDA filing.
- A US pediatric wheeze study was initiated using the WheezoMeter, to help establish the correlation between clinical monitoring of wheeze rate and other conventional methods of asthma assessment.
- Consumer market research – the first ever undertaken by the company – was conducted with a total of 500 asthma consumers, including cohorts with smart phones and those currently using asthma apps, to gain insights into the AsthmaSense and SonoSentry product platforms.
- www.SoundAsthma.com consumer education website and social media channels (Facebook, Twitter, You Tube) were created and launched to stimulate consumer awareness and build brand preference for AsthmaSense.
- Strategic partnership discussions were pursued with three major international companies in the respiratory device and mobile technology sectors, including a new Memorandum of Understanding with Qualcomm Life for technology integration with the SonoSentry device. Additionally, the company has opened discussions with eight new potential partners, including pharmaceutical companies, a large US pharmacy chain, disease management companies and telecommunications firms.
- A product development pipeline encompassing ten new products was mapped out with commercialization objectives between FY 2012 and FY2014.

More detailed descriptions of these accomplishments can be found in the following Operations Report by the Chief Executive Officer.

With the recent launch of AsthmaSense v1.0 in Q4 of fiscal year 2012, the Company has taken the first decisive step on the path toward commercial success, propelled by the marriage of our proprietary wheeze monitoring capabilities with the convenience and efficiency of mobile health. The final stone in this new foundation for iSonea Limited is in place and a clear plan has been devised for the path to profitability.

Shortly after the end of this fiscal year, a strategic investment by a renowned Australian businessman and entrepreneur served to validate this new direction and the potential for iSonea to soon assert leadership in meeting the worldwide need for more effective asthma monitoring solutions.

The Directors would like to thank the shareholders for their continued loyalty and support of iSonea and our mission to launch AirSonea to address the needs of millions of asthmatic patients.

Dr Stewart Washer
Non-Executive Chairman

Mr Ross Haghighat
Executive Vice-Chairman

[1] Float Mobile Learning, 2012

[2] Jethwani K et al; *American Heart Assn*; May 2012

[3] Quinn C et al; *Diabetes Care*; Sept 2011

[4] Zhao H et al; *Telemedicine Journal E Health*; June 2012

[5] PricewaterhouseCoopers Healthcare, June 2012

[6] Research2Guidance, 2012

[7] GSMA, 2012

[8] Burrill Report, August 2012

Review of Operations

Fiscal Year 2012 was a pivotal year for the Company, including significant changes to the Board of Directors, the installation of a new senior management team, the objective assessment of legacy products, and the construction of a new strategic and tactical plan to commercialize Acoustic Respiratory Monitoring (ARM™) technology.

This new plan hinges on the integration of the Company's proprietary ARM technology into a mobile health (mHealth) platform that has the potential to improve asthma management worldwide and thus provide the pathway for a profitable and scalable business for iSonea, over the next 24 months.

This iSonea strategic plan is principally different from the previous Karmelsonix plan in the following ways:

1) The top commercial priority is the development of the **AirSonea**™Asthma Monitor, which is a more intelligent and sensitive WheezoMeter™ on a smartphone.
2) The near-term business model focuses on creating demand for **AsthmaSense**™ mHealth apps and non-prescription asthma monitoring devices marketed directly to consumers, rather than being dependent upon securing reimbursement coverage by government or third party payers or building a costly physician-focused sales organization.
3) A well-planned series of AsthmaSense apps will be developed and launched, allowing the Company to incrementally build the installed customer base and prepare it for the commercialization of the AirSonea product within 12 months.
4) The WheezoMeter is being re-engineered and developed as the **SonoSentry**™, a non-prescription wheeze monitoring device for those without smartphones. The SonoSentry will feature a more sensitive diagnostic algorithm than its predecessor, will utilize current state-of-the-art components, and will be significantly less expensive to build. This will allow both a more competitive price and greater profit margin for the Company. Like the AirSonea, this device will be able to transmit and store data in a cloud-based, secure, interactive viewing station.
5) A large pediatric wheeze monitoring study is being conducted in the USA to compare the sensitivity of the WheezoMeter device and software with traditional physician diagnostic exam procedures, in order to guide further development of the WheezoMeter/SonoSentry products and to provide data necessary for the longer term strategy of gaining physician support and third party reimbursement coverage.
6) Strategic partnership discussions are being aggressively pursued in order to find suitable alliances in the respiratory device, pharmaceutical, and/or disease management segments for which the iSonea asthma monitoring system and data repository will be of significant value. Strategic partnership will be required to harness a sales force and further establish the clinical evidence needed for successful long-term penetration of the physician and payer markets.

Key Achievements of FY 2012

- Capital campaign raised $5.6 million
- New Directors appointed
- Recruited new management team
- Corporate restructure focusing on US commercialisation
- AsthmaSense™ v1.0 mobile health app launched
- Development of AsthmaSense™ App v1.1 and subsequent asthma apps
- AirSonea™ smartphone wheeze monitor development
- SonoSentry™ (Non-Prescription WheezoMeter) submission for FDA 510(k) review
- US Pediatric Wheeze study yields important data for product development
- Consumer education website launched
- Consumer market research confirms adoption intent for AsthmaSense™
- Strategic partnership discussions
- New product pipeline
- Trends support growth for mHealth technologies and better monitoring methods

Capital campaign raised $5.6 million

Earlier in FY 2012, Bergen Global Opportunity Fund, LP invested $1 million through an unsecured convertible instrument. Subsequently, iSonea raised $4,301,266 by way of subscription under a renounceable rights issue that closed on 15 December 2011 and was led by Australian broker Patersons Securities Limited.

The company also received firm commitments for placement of additional shares and options, raising another $300,000 in January 2012 from overseas investors who were unable to participate in the Rights Issue. This support affirmed the direction of the Company in implementing the new strategic plan.

New Directors appointed

Significant changes occurred within the iSonea Board of Directors in March 2012. On 20 March, Dr. David R. Dantzker, MD, a specialist in Pulmonary and Critical Care medicine and an expert on medical technology and venture capital investment, joined the Board. On 31 March, both Mr. Paul Hopper and Mr. Fabio Pannuti stepped down from their Director positions. Subsequently, iSonea appointed Dr. Ross Macdonald and Dr. Stewart Washer to fill the Director vacancies, joining Mr. Jerry Korten and Dr. Dantzker.

All bring extensive experience in development, commercialization, and growth of companies in the pharmaceutical and medical device sectors on a global basis.

Subsequently, Dr. Washer has been appointed Non-Executive Chairman of the Board and Mr. Ross Haghighat Executive Vice-Chairman.

Dr. David Dantzker, MD (Non-Executive Director)

Dr. Dantzker brings more than 10 years of medical technology portfolio management and corporate board experience to iSonea.

As a general partner at Wheatley Partners, LP, Dr. Dantzker manages the medical technology portfolio of investments for the US-based $250 million venture capital fund. Dr. Dantzker also brings extensive pulmonary medicine experience to iSonea's BOD. Before joining Wheatley Partners, Dr. Dantzker held several executive positions at some of the country's most prestigious medical institutions, including president of North Shore-Long Island Jewish Health System; Vice-Chairman of the Department of Internal Medicine and Director of the Pulmonary and Critical Care Medicine division at the University of Texas Health Science Center; and Chairman of the American Board of Internal Medicine as well as its subspecialty board on Pulmonary Disease. Dr. Dantzker has authored 68 peer reviewed articles and edited five books.

Dr. Stewart Washer (Non-Executive Chairman)

Dr. Washer has 20 years of senior executive and board experience in medical device, drug development and agrifood companies. He was a founder of a NZ$120m New Zealand-based life science fund. He is currently the Investment Director with Octa Phillip Bioscience Managers, who manage Australian and UK life-science funds.

Previously Dr. Washer was CEO of Calzada Ltd (ASX:CZD), founding CEO of Phylogica Ltd (ASX:PYC) and before that, CEO of Celentis and managed the commercialization of intellectual property from AgResearch in New Zealand, with 650 scientists and $130m revenues. Dr. Washer has held a number of Board positions in the past as the Chairman of Resonance Health Ltd (ASX:RHT) and Hatchtech Pty Ltd, and as a Director of iCeutica Pty Ltd and AusBiotech Ltd. He was also a Senator with Murdoch University.

He is currently a Director of Immuron Ltd (ASX:IMC).

Dr. Ross Macdonald (Non-Executive Director)

Dr. Macdonald brings extensive biomedical experience in general management, technology commercialization, capital raising and business development, including licensing, mergers and acquisitions.

He was formerly Managing Director and CEO of Living Cell Technologies Ltd. (ASX: LCT; OTCQX: LVCLY), a development stage biotechnology company focused on therapeutics for type-1 diabetes, Parkinson's disease and stroke.

Dr. Macdonald is currently a Member of the Investment Committee of Uniseed Management Pty Ltd., a venture fund established to commercialize research outcomes from the Universities of Queensland, Melbourne and New South Wales, and serves as a Director for pharmaceutical development companies Telesso Technologies Ltd (ASX: TEO) and Hatchtech Pty Ltd.

Previously he was Vice President, Business Development for Sinclair Pharmaceuticals Ltd., Vice President of Corporate Development for Stiefel Laboratories, Inc., and was Vice President of Business Development for Connetics Corporation when it was acquired by Stiefel. He was also Vice President of Research & Development for F.H. Faulding & Co, Ltd., Australia's largest and oldest pharmaceutical company.

Recruited new management team

A new senior management team, with extensive experience in pioneering and building medical device companies, was recruited during FY2012:

Jonathan Freudman, MD (Medical Director)

Dr Freudman has 25 years of healthcare experience, including 16 years practicing internal medicine for Kaiser Permanente, during which time he helped establish disease management programs for asthma, diabetes, and heart failure.

He was in charge of technology assessment at Blue Shield of California, and has been an industry consultant since 2002 assisting early-stage medical device and biotech companies with clinical trial design, aspects of new product commercialization, and reimbursement strategies. He is also on faculty at the University of California San Francisco School of Medicine.

Michael A Cheney (Vice President of Marketing)

Mr Cheney has 25 years' experience as a strategic marketing leader for pharmaceutical, biotechnology, and medical device companies. He has launched major market-shaping brands for Wyeth Laboratories and BASF/Knoll Pharmaceuticals.

For six years, he was VP Marketing and responsible for the International Business Unit at Cyberonics, Inc., a pioneer in neurostimulation therapy devices for CNS disorders. He also has experience in the respiratory care/sleep disordered breathing market, where he developed marketing strategies to increase adoption of innovative tests for the diagnosis of sleep apnea.

Jan P Barker (Vice-President of Business Development)

Ms Barker brings experience in venture capital investing and fund raising, board of director participation, company growth and exits, leadership, management and a broad coalition of business skills from her 25 year career in healthcare.

Ms. Barker was a partner with MedVenture Associates, a venture fund investing in healthcare for six years. Prior to that she was a founder and managing member of The Crucible Group, LLC, a venture development organization. In both partnerships she participated in private equity related investments in the device, systems and information technology segments of healthcare.

Corporate restructure focusing on US commercialisation

Expenses during the first half of FY2012 reflected the restructuring of the company with the goals of eliminating high fixed-cost resources that would not produce profitable returns and building an organization with a track record of commercial success in the US.

Reduced sales revenues were the result of reductions in sales staff and promotional expenditures related to the Company's first generation products. A more profitable and scalable model has been designed to tap into the growing global demand for smartphone-based mobile health products that will enable universal and affordable access to asthma monitoring and disease management tools.

Substantive revenues from this commercial plan are projected to occur with later versions of the AsthmaSense app data management plan in FY2013 and with the launch of the AirSonea device in FY2014.

AsthmaSense™ v1.0 mobile health app launched

The first new product from iSonea Ltd, the AsthmaSense App v1.0, was officially launched for iPhone and Android users on 31 May 2012, through the iTunes, Google Play, and Amazon.com distribution channels.

AsthmaSense is the most intelligent asthma app available, alerting patients or parents to take action when it senses that the risk of an attack is changing, based on symptoms, medication usage, or breathing function. The first version of the app keeps track of these factors with a simple one-touch interactive system that offers flexible customization options to fit the busy schedules of people coping with asthma. The app also offers auto-dialing of family or emergency phone numbers, if needed. An updated, global version of the app (v1.0.1) includes the ability to select the appropriate emergency service depending upon country of origin and metric conversions for certain measurements.

Thousands of consumers have downloaded v1.0 during the first few weeks of its availability, with the majority of downloads coming from the USA and Australia. Our strategy for raising awareness and promoting the value of the app is to harness positive word of mouth via social media and asthma blogger support, driving interested customers to our consumer education website, www.SoundAsthma.com, to learn about our products and build brand preference for AsthmaSense.

Development of AsthmaSense™ App v1.1 and subsequent asthma apps

The Company is already aggressively moving forward with the development of subsequent versions of the AsthmaSense app, each designed to bring enhanced features to an increasing pool of smartphone app users, preparing the way for the launch of AirSonea in fiscal year 2014.

AsthmaSense v1.1 will provide access to a cloud-based data storage function, ensuring that personal data can be retrieved by patient or family via their computer, if the phone is ever lost or damaged. Establishing this function is the first step in creating the framework for patient trend data to be integrated into a plan that can be shared with and adjusted by physicians or caregivers.

AsthmaSense v1.1 also provides the development framework to enable the next evolutionary version of this app, with more sophisticated asthma risk-sensing and prediction capabilities. This is a crucial step for supporting the AirSonea asthma monitoring system. AsthmaSense v1.1 is on track for release in Q2 of FY 2013.

AirSonea™ smartphone wheeze monitor development

AirSonea is the next generation WheezoMeter on a smartphone. It couples the Acoustic Respiratory Monitoring (ARM) proprietary sensor and software with the extreme portability and convenience of a personal phone, to enable frequent, easy monitoring and automatic data transmission via the AsthmaSense app. Thus, the development and launch of each of the AsthmaSense apps helps to pave the way to AirSonea.

AirSonea is the ultimate personal asthma monitoring system. It will bring wheeze measurement, symptom and trigger patterns, GPS-specific environmental data, medication usage, and sophisticated risk alert features together in one easy-to-use package to improve asthma management outcomes. AirSonea is the top priority of our New Product Development Team. It is moving steadily toward an anticipated launch date within the next 12 months in Australia, the US and the UK, pending regulatory review and clearance.

SonoSentry™ (Non-Prescription WheezoMeter) submission for FDA 510(k) review

The first generation SonoSentry is a standalone wheeze monitoring device intended to replace the WheezoMeter. This will be an important product for asthma consumers who do not yet have smartphones. When commercialized, this portable device will provide objective measurement of wheezing - a hallmark symptom of asthma - and will also be used to measure response to treatment.

The regulatory path starts with the conversion of the WheezoMeter to a non-prescription, direct-to-consumer device, crucial for its introduction into the US market. Simultaneously with the regulatory development, the device is also undergoing technology development processes in order to update the component circuitry and to substantially lower the cost of manufacturing, in order to make the price more attractive to consumers while increasing the profit margin to the Company. An affordable OTC device will not need reimbursement coverage for consumer adoption in the US and will make the technology more attractive in Australian and European markets.

One essential step for the US Food and Drug Administration (FDA) submission was the completion of a usability study to demonstrate that consumers could effectively use the device without the guidance of healthcare professionals. The usability study, involving 20 consumers, was completed in June and data are currently being compiled to complete the submission dossier to the FDA. The SonoSentry filing is on track for submission to the FDA in Q1 FY 2013. The typical FDA review period is 90 days.

US Pediatric Wheeze study yields important data for product development

The first US Pediatric Wheeze study was designed to involve a total of 95 children in the asthma patient and control groups. Institutional Review Board (IRB) approvals were completed in Q3 FY 2012 and the study was initiated in 3 sites. As of fiscal year end, the study had enrolled only 20% of the patient goal, due to a lower than expected incidence of wheezing patients, however real-time access to the data identified essential input for the further development of the WheezoMeter successors.

Experience with the device in clinical settings has identified opportunities to make the device a) easier to use and b) adjust the frequency range of the analytical algorithm, in order to increase device sensitivity. The Company has one of the largest databases of respiratory sounds in existence, which we are now using to adjust the algorithm so that it is more consistent with acoustic guidelines established by the American Thoracic Society (ATS) and more attuned to physician experience.

The primary objective of this study is to establish correlation between wheeze detection via Acoustic Respiratory Monitoring (ARM™) and other conventional methods of assessing asthma, including physician exam and clinical impressions. It is expected that the data provided by this study will support future regulatory submissions and clinical adoption of wheeze monitoring technology.

Consumer education website launched

Creating awareness and demand for a better way to monitor asthma is a crucial goal for market penetration in the US. A key part of the strategy to reach asthma consumers is to utilize social media sites and a consumer-oriented website to introduce Acoustic Respiratory Monitoring, the AsthmaSense™ mobile health apps, and ultimately, the AirSonea and SonoSentry devices.

In Q3 FY2012, the Company launched a new consumer-oriented website (www.SoundAsthma.com) and social media sites under the SoundAsthma™ brand.

Consumer market research confirms adoption intent for AsthmaSense™

Two phases of consumer market research have been conducted by an independent research firm, involving a total of 500 asthma consumers, either patients themselves or parents of children with asthma, who evaluated the AsthmaSense app concept against their current expectations and experience with asthma apps.

The study affirmed the most important features of the AsthmaSense app for consumers, measured their purchase intent, and established pricing rationale for both the app series and the stand alone wheeze monitoring device. In the most recent phase of research, conducted in June 2012, 90% of those who currently use the most established asthma app available in the market expressed a preference for and an intention to purchase AsthmaSense instead.

An increasing number of asthma and mom bloggers have also picked up the AsthmaSense story. In July, more than 15 popular online bloggers posted reviews and product information on AsthmaSense, providing high-profile exposure of the message to a network of more than 400,000 consumers.

Trends support growth for mHealth technologies and better monitoring methods

Published studies of randomized, controlled trials have demonstrated that mobile health monitoring and management tools are producing significant improvement in chronic disease management of asthma, diabetes, and hypertension. Other studies (Asthma Signals 2011) have shown that about 90% of children with poor asthma control can eliminate attacks with more vigilant attention to their triggers and symptoms, emphasizing the importance of frequent monitoring in real-life settings.

The passage of a new comprehensive healthcare law means that the US healthcare market will be increasingly focused on adopting cost-effective, outcomes-driven technologies that are easy for patients to use and incorporate into their daily lives. A recent survey conducted by Pricewaterhouse Coopers Healthcare (June 2012) found that consumer experience with mobile health apps is reducing healthcare utilization and costs.

Mobile health technologies that can monitor chronic diseases are of primary interest to investors, patients, physicians, hospitals, and payers.

Remote monitoring of asthma remains a serious unmet medical need. Leveraging universally available smartphones will enable iSonea to offer asthma consumers cost-effective access to the most innovative monitoring technology available, first with the AsthmaSense app series, and next year, with the ultimate personal asthma monitoring system, AirSonea.

iSonea is now developing technologically advanced and cost-efficient products that are capable of re-setting the bar for successful daily management of asthma and reducing the cost burden. Over the course of the past 12 months, the Company has made critical progress in mapping out the path toward profitability and its goal of becoming the global leader in respiratory monitoring. In the next 24 months, with sufficient resources, iSonea will bring these products to market to create a profitable, sustainable medical technology business.

Strategic partnership discussions

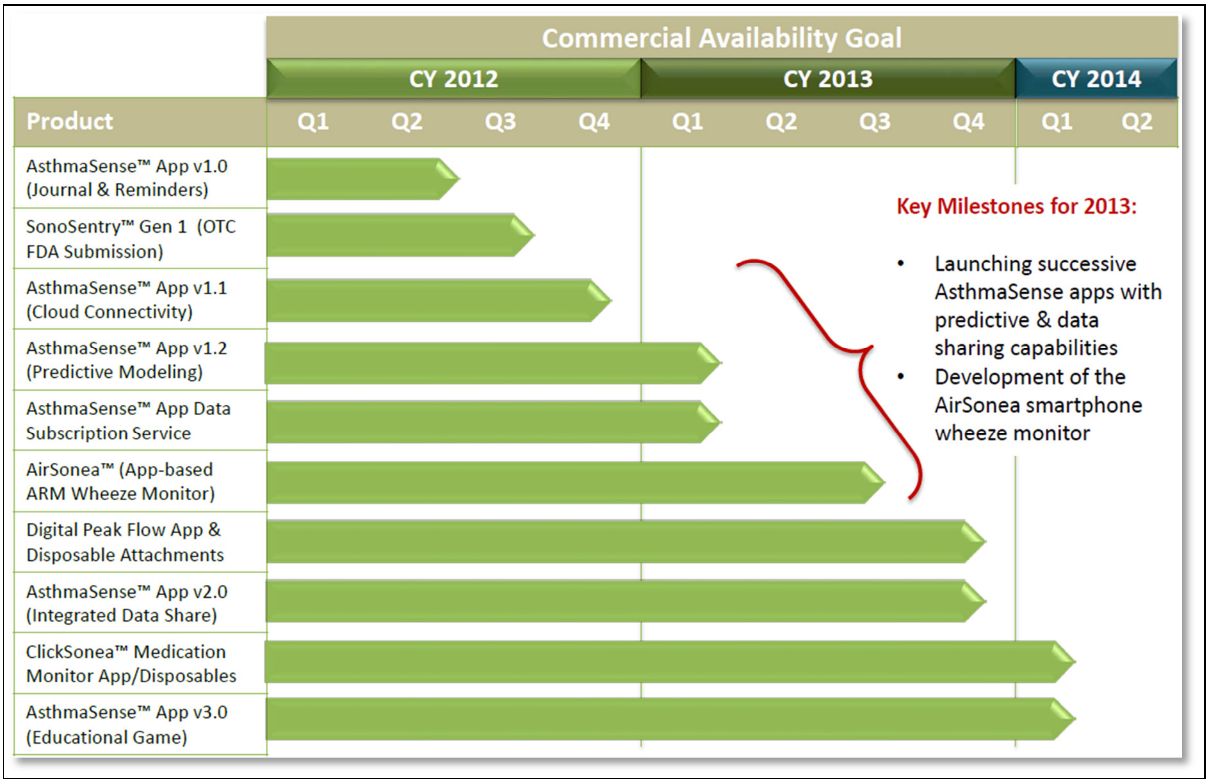
The Company has entered into Memoranda of Understanding with three potential commercial partners, including possible representation in the Japanese market by Omron and a technology development collaboration with Qualcomm Life. These MOUs remain open at the end of FY 2012.

In Q2 of FY 2012, a team from the Company travelled to Japan to meet with Omron and other interested companies. Regulatory and clinical investments to enter the Japanese asthma market are substantial and will require a strategic commitment to pursue.

In Q3, we developed a prototype of the second generation wheeze monitoring technology to link up with the Qualcomm 2Net™ Hub, in order to collect asthma monitoring data for transmission to a back-end cloud-based service. This project will be important for the commercial version of the SonoSentry device later in FY2013.

In Q4, the Company opened discussions with three pharmaceutical companies, two telecommunications firms, one large US-based pharmacy chain, and two major disease management companies. The monitoring and data capturing capabilities of AsthmaSense and AirSonea will offer valuable insights on patient trends and medication adherence, which should be extremely useful to companies in both of these sectors. Prior experience has shown that these explorations take considerable time and effort, but we are encouraged that the mobile health aspect of our product development appears to be the main catalyst for opening these doors.

New product pipeline



For and on behalf of the Company;

Mr. Michael J. Thomas
Chief Executive Officer (CEO)

Directors' Report

The Directors of iSonea Limited ("ISN", "iSonea" or "the Company") provide the following Report in relation to the Company for the year ended 30 June 2012.

Directors

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

Dr Stewart Washer	Independent Non-Executive Chairman
Appointed to the Board	— 3rd April 2012
Last elected by Shareholders	— 27th July 2012
Experience	— Dr. Stewart Washer was appointed on 3rd April 2012 to fill a casual vacancy on the Board, and subsequently appointed as a Director following members approval at the General Meeting held on 27th July 2012. Dr Washer has 15 years' senior executive and board experience in medical device, drug development and agrifood companies. He is currently the Investment Director with Octa Phillip Bioscience Managers, which manages Australian and UK life-science funds. Stewart was previously the CEO of Calzada Ltd (ASX:CZD), the founding CEO of Phylogica Ltd (ASX:PYC) and before this, he was CEO of Celentis and managed the commercialisation of intellectual property from AgResearch in New Zealand with 650 Scientists and $130m revenues. Stewart has held a number of board positions in the past as the Chairman of Resonance Health Ltd (ASX:RHT) and Hatchtech Pty Ltd, a Director of iCeutica Pty Ltd and AusBiotech Ltd. He was also a Senator with Murdoch University. He is currently a Director of Immuron Ltd (ASX:IMC).
Interest in shares and options	— 590,000 Ordinary Shares and no Options
Committees	— Audit, Risk and Compliance Committee Member
Directorships held in other entities	— Former Chairman, Resonance Health Ltd (ASX:RHT) (2007-2010) Former Chairman, Hatchtech Pty Ltd (2008-2010) Former Director, iCeutica Pty Ltd (2009-2010) Former Director, Healthlinx Ltd (ASX:HTX) (2008-2012) Former Director, AusBiotech Organisation (2007-2011) Former Director, Genesis Research and Development Ltd (ASX:GEN) (2006-2010)

Mr Jerome Korten	Independent Non-Executive Director
Appointed to the Board	— 20th October 2010
Last elected by Shareholders	— 30th November 2010
Experience	— Mr. Jerome (Jerry) Korten is a Medical Device Company Executive with expertise in product development, business development and regulatory approval planning. Previously the CEO of Versamed, Inc., he is now working as an advisor to investment bankers in the healthcare field and serves as a mentor to inventors in academia for the NYC Investment Fund. Jerry has been a Director for three medical device companies. His technical expertise is in algorithm development and instrumentation design with a focus on cardio-pulmonary measurements and embedded engineering.
Interest in shares and options	— 590,500 Ordinary Shares and 46,875 Unlisted Options
Committees	— Member of the Audit, Risk and Compliance Committee; and Member of the Remuneration & Nomination Committee
Directorships held in other entities	— Nil

Mr Ross Haghighat		Executive Director & Vice-Chairman
Appointed to the Board	—	20th October 2010
Last elected by Shareholders	—	17th November 2011
Experience	—	Ross Haghighat is a serial entrepreneur with 25 years of experience in founding and transforming companies in the high tech fields of telecommunications, sensors and diagnostics, biotechnology, and specialty materials. Mr Haghighat is the founding CEO of Triton Systems, Inc., a leading product venturing company headquartered in Chelmsford, Massachusetts and with offices in Washington DC, and Fargo, North Dakota. He is also a founder and member of BOD of a global Cleantech business, FRX Polymers Inc. and a leading clinical stage immunotherapy company called Aduro BioTech Inc.
Interest in shares and options	—	3,582,686 Ordinary Shares and 324,820 Unlisted Options
Committees	—	Chairman of the Audit, Risk and Compliance Committee
Directorships held in other entities	—	Director of Aduro BioTech Inc., Director of Triton Systems Inc., Director of VOMAX, LLC, Director of FRX Polymers Inc.

Mr Ross MacDonald		Independent Non-Executive Director
Appointed to the Board	—	3rd April March 2012
Last elected by Shareholders	—	27th July 2012
Experience	—	Dr Ross Macdonald was appointed on 3rd April 2012 to fill a casual vacancy on the Board, and subsequently appointed as a Director following members approval at the General Meeting held on 27th July 2012. Dr MacDonald brings extensive local and international biomedical experience in general management, technology commercialisation, capital raising and business development, including licensing, mergers and acquisitions. He was formerly Managing Director and CEO of Living Cell Technologies Ltd (ASX: LCT; OTCQX: LVCLY), a development stage biotechnology company focused on therapeutics for type-1 diabetes, Parkinson's disease, and stroke. Dr. Macdonald is currently a member of the Investment Committee of Uniseed Management Pty Ltd, a venture fund established to commercialise research outcomes from the Universities of Queensland, Melbourne and New South Wales. He also as a Director for pharmaceutical development companies Telesso Technologies Ltd (ASX:TEO) and Hatchtech Pty Ltd. Previously he held VP positions at Sinclair Pharmaceuticals Ltd, Stiefel Laboratories, Inc., Connetics Corporation and for F.H. Faulding & Co, Ltd, Australia's largest and oldest pharmaceutical company.
Interest in shares and options	—	No securities held.
Committees	—	Chairman of the Remuneration & Nomination Committee
Directorships held in other entities	—	Director of Telesso Technologies Ltd (ASX:TEO) Director of Hatchtech Pty Ltd

Dr David Dantzker MD		Independent Non-Executive Director
Appointed to the Board	—	20th March 2012
Last elected by Shareholders	—	27th July 2012
Experience	—	Dr David R. Dantzker, M.D. was appointed on 20th March 2012 to fill a casual vacancy on the Board, and subsequently appointed as a Director following members approval at the General Meeting held on 27th July 2012. Dr Dantzker is a respected pulmonologist and venture capitalist, who brings more than 10 years' medical technology portfolio management and corporate board experience to iSonea. He is currently a general partner at Wheatley Partners LP and is a former Chairman of Pulmonary Disease for the American Board of Internal Medicine. His role at Wheatley Partners involves overseeing the medical technology portfolio of investments for the US-based $250 million venture capital fund. Before joining Wheatley Partners, Dr Dantzker held several executive positions at some of the country's most prestigious medical institutions, including president of North Shore-Long Island Jewish Health System, vice chairman of the Department of Internal Medicine and director of the Pulmonary and Critical Care Medicine division at the University of Texas Health Science Centre and chairman of the American Board of Internal Medicine. He has authored 68 peer reviewed articles and edited five books.
Interest in shares and options	—	191,812 Ordinary Shares
Committees	—	Nil
Directorships held in other entities	—	Nil

Mr Paul Hopper		Independent Non-Executive Director
Resigned from the Board	—	31st March 2012

Mr Fabio Pannuti		Independent Non-Executive Director
Resigned from the Board	—	31st March 2012

Mr Paul Eisen		Executive Director
Resigned from the Board	—	29th July 2012

Information on 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 almost 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.

Mr Brad Slade	Joint Company Secretary

Mr Slade resigned as Company Secretary on 5th October 2011.

Principal Activities

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

Operating and Financial Review

The loss of the Company after income tax for the financial year was $5,585,172 (2011: $6,677,311). 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 results for the year.

Dividends

The Directors did not pay any dividends during the financial year. The Directors do not recommend the payment of a dividend in respect of the 2012 financial year.

Significant Changes in the State of Affairs

On 27th July 2012, at a General Meeting of the Company, members approved the consolidation the Company's securities on a basis of one (1) security for every twenty (20) securities owned, which was subsequently completed on the 13th August 2012 in accordance with section 254H(1) of the Corporations Act.

There have been no other significant changes in the nature of iSonea Limited's principal activities during the financial year.

After Balance Date Events

27th July 2012 – The Company held a General Meeting of the Company where members considered and subsequently approved:

- The appointment of Directors Dr David Dantzker MD, Mr Ross MacDonald, and Dr Stewart Washer; and
- The ratification of prior pre-consolidated issues of securities totalling 77,701,020 fully paid ordinary shares, and 15,000,000 listed options exercisable at $0.007 per option on or before 30 June 2014;
- The consolidation of the Company's share capital on a one (1) for twenty (20) basis which was subsequently enacted by the Company on 13th August 2012.

– The Company announced that Dr Stewart Washer would take over as Chairman of the Company with Ross Haghighat to continue on as an Executive Director in a new role of Vice Chairman.

8th August 2012 – iSonea announced the release of an updated Smartphone App for the Global Market AsthmaSense™.

31st August 2012 – iSonea announces private placement of 17.5 million shares at $0.06 raising $1.05 million to major cornerstone investor Bruce Mathieson.

27th September 2012 – iSonea announces 3:5 fully under-written renounceable Rights Issue to raise $4 million before costs.

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

The likely developments in the Company's operations, to the extent that such matters can be commented upon, are covered in the 'Review of Operations Report'. In the opinion of the Directors, disclosure of information regarding the expected results of those operations are not predictable at this stage, or may prejudice the interests of the Company. Accordingly, this information has not been included in this report.

Environmental Regulations

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

Risk Management

The Board 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 Board 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. 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 2012.

Meetings of Directors

During the financial year, 16 meetings of Directors (including committees of Directors) were held. Attendances by each Director during the year were as follows:

	Directors' Meetings		Committee Meetings			
			Audit, Risk & Compliance Committee		Remuneration & Nomination Committee	
Director	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended
Dr Stewart Washer	3	3	2	2	-	-
Mr Ross Haghighat	10	10	2	2	1	1
Mr Jerry Korten	10	10	6	6	1	1
Dr David Dantzker MD	3	3	-	-	-	-
Mr Ross MacDonald	3	3	-	-	-	-
Mr Paul Hopper	7	6	4	3	-	-
Mr Fabio Pannuti	7	6	4	4	-	-
Mr Paul Eisen	-	-	-	-	-	-

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

Position	Audit Committee	Remuneration Committee
Chairman	Mr Ross Haghighat	Mr Ross MacDonald
Members	Dr Stewart Washer Mr Jerry Korten	Mr Jerry Korten

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 2012 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 2012 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:

Listed Options:

ASX Code	Date of Expiry	Exercise Price	No. under Option
ISNOB	30 June 2014	$0.14	20,752,642

Unlisted Options:

ASX Code	Date of Expiry	Exercise Price	No. under Option
ISNAW	30 November 2012	$0.80	100,000
ISNAW	15 December 2012	$0.60	638,865
ISNAW	15 December 2012	$0.30	115,000
ISNAW	31 December 2012	$0.40	600,000
ISNAW	1 July 2013	$0.30	75,000
ISNAW	15 December 2013	$0.80	225,000
ISNAM	15 December 2013	$1.00	190,625
ISNAW	31 December 2013	$0.40	800,000
ISNAW	1 July 2014	$0.60	1,000,000
ISNAZ	15 December 2014	$2.60	45,000
ISNAZ	15 June 2015	$2.60	45,000
ISNAW	29 September 2015	$0.46	1,250,000
ISNAO	15 December 2015	$1.00	650,000
ISNAW	31 July 2015	$0.26	1,400,000

Shares Issued as a Result of the Exercise of Options

During the year ended 30 June 2012, no ordinary shares of iSonea Limited were issued as a result of the exercise of options. Post the end of the financial year 333 ordinary shares of iSonea Limited were issued as a result of the exercise of listed 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 Chief Executive Officer (CEO), 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	Position	
Dr Stewart Washer	Independent Non-Executive Chairman	(Appointed: 3rd April 2012)
Mr Ross Haghighat	Executive Director & Vice-Chairman	
Mr Jerry Korten	Independent Non-Executive Director	
Dr David Dantzker MD	Independent Non-Executive Director	(Appointed: 20th March 2012)
Mr Ross MacDonald	Independent Non-Executive Director	(Appointed: 3rd April 2012)
Mr Fabio Pannuti	Independent Non-Executive Director	(Resigned: 31st March 2012)
Mr Paul Hopper	Independent Non-Executive Director	(Resigned: 31st March 2012)
Mr Paul Eisen	Executive Director	(Resigned: 29th July 2012)

Executives	Position
Mr Michael Thomas	Chief Executive Officer (CEO)
Mr David Model	Senior Vice President (VP) Finance

Remuneration Policy

Remuneration of all Executive and 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.

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 2012 financial year.

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)
Net Loss for financial year 2009	($6,701,092)
Net Loss for financial year 2008	($11,678,053)

Performance Based Remuneration

The purposes 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 KPI's to determine achievement, depending on the role of the executive being assessed. 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 2012

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

	Short-term Employment Benefits			Post-Employment Benefits	Share-based Payments	
30 June 2012	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Superannuation Contribution $	Shares/Options $	Total $
Directors						
Mr Ross Haghighat	102,803*	-	-	-	30,000[1]	132,803
Mr Jerry Korten	44,615	-	-	-	30,000[1]	74,615
Dr David Dantzker MD	6,250	-	-	-	-	6,250
Mr Ross MacDonald	6,250	-	-	-	-	6,250
Dr Stewart Washer	6,250	-	-	-	-	6,250
Mr Paul Hopper	35,625	-	-	-	30,000[1]	65,625
Mr Fabio Pannuti	35,625	-	-	-	30,000[1]	65,625
	237,418	**-**	**-**	**-**	**120,000**	**357,418**
Other Key Management Personnel						-
Mr Michael Thomas	315,316	81,837[2]	-	-	260,991[3]	658,144
Mr David Model	124,816	-	-	-	5,723[4]	130,539
	440,132	**81,837**	**-**	**-**	**266,714**	**788,683**
	677,550	**81,837**	**-**	**-**	**386,714**	**1,146,101**

* $60,000 relates to fees paid during the current year for prior year services in respect to services rendered to the Company as CEO last year.

1 5 million shares at deemed value of $0.006 per share received as approved by shareholders at the 2011 Annual General Meeting of the Company.

2 Cash bonus received as per employment contract for successful capital raising.

3 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 25.

4 Issue of 1.5 million unlisted options exercisable at $0.015 per option on or before 1 July 2013.

5 The amounts included in cash, salary and fees, represents the fees paid to each Director or KMP form the start of the year, or form the date of their appointment, up until the end of the year, or the date of their resignation.

Details of Remuneration for Year Ended 30 June 2011

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 2011		Short-term Employment Benefits			Post-Employment Benefits	Share-based Payments	Total
		Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Superannuation Contribution $	Shares/Options $	$
Directors							
Mr Ross Haghighat	1,2,11,15	37,649	-	-	-	182,800	220,449
Mr Fabio Pannuti	3, 11	32,606	-	-	-	5,700	38,306
Mr Jerry Korten	3, 11	31,304	-	-	-	5,700	37,004
Mr Paul Hopper	3, 11	33,118	-	-	-	5,700	38,818
Mr Paul Eisen	6, 7, 8, 9	193,333	14,285	-	17,400	111,286	336,304
Mr Peter Marks	4, 5, 11	40,000	-	-	-	119,000	159,000
Prof Noam Gavriely	5,10,13,14	165,338	-	26,276	-	119,000	310,614
Dr Henry Pinskier	5, 12	16,667	-	-	-	108,161	124,828
Prof Nathan Intrator	4, 5, 12	20,000	-	-	-	87,661	107,661
Mr Amir Ohad	4, 5, 12, 13	40,350	-	24,816	-	59,500	124,666
		610,365	**14,285**	**51,092**	**17,400**	**804,508**	**1,497,650**
Other Key Management Personnel							
Mr Michael Thomas	11	25,781	-	-	-	-	25,781
Mr David Model	11	54,141	-	-	-	-	54,141
		79,922	**-**	**-**	**-**	**-**	**79,922**
		690,287	**14,285**	**51,092**	**17,400**	**804,508**	**1,577,572**

1. On the 10 August 2011 shareholders approved the issue of 18,000,000 ordinary shares to Mr Ross Haghighat, these shares were fair valued at the ASX market price on the date approval was received at 1.2 cents per share. The fair value of this grant was $216,000 and has been expensed in the parent entity in consulting, employee and director expenses $170,500 (salary component) and travelling expenses $45,500 (expense reimbursement component).
2. As an incentive for Mr Ross Haghighat to join the board he was awarded 5,000,000 unlisted options, shareholders approved this issue at the Company's Annual General Meeting held on 30 November 2010. The options vested on allotment. As per the Australian accounting standards the options have been valued at grant date and are being expensed over the vesting period of the options in the parent entity. The value of the options were calculated using the Black-Scholes model applying the following inputs:

Issue Date: 17 December 2010	Stock Price: $0.022	Volatility: 50.00%	Risk-free Interest Rate: 5.09%
Dividend Yield: 0.00%	Exercise Price: i) $0.03	Years to Expiry: i) 0.95 years	Option Fair Value: i) $0.0023
	ii) $0.04	ii) 1.95 years	ii) $0.0027

3. As an incentive for Mr Fabio Pannuti, Mr Jerry Korten and Mr Paul Hopper to join the board they were awarded 1,500,000 unlisted options, shareholders approved this issue at the Company's Annual General Meeting held on 30 November 2010. The options vested on allotment. As per the Australian accounting standards the options have been valued at grant date and are being expensed over the vesting period of the options in the parent entity. The value of the options were calculated using the Black-Scholes model applying the following inputs:

Issue Date: 17 December 2010	Stock Price: $0.022	Volatility: 50.00%	Dividend Yield: 0.00%
Exercise Price: $0.030	Years to Expiry: 1.6 years	Risk-free Interest Rate: 5.09%	Option Fair Value: $0.0038

4. In recognition of their past services as Directors Mr Peter Marks (5,000,000) , Mr Amir Ohad (2,500,000) and Prof Nathan Intrator (2,500,000) were awarded unlisted options on their resignation from the board, shareholders approved this issue at the Company's Annual General Meeting held on 30 November 2010. The options vested on allotment. As per the Australian accounting standards the options have been valued at grant date and are being expensed over the vesting period of the options in the parent entity. The value of the options were calculated using the Black-Scholes model applying the same inputs as 3 above.
5. In recognition of their past services as Directors Mr Peter Marks (5,000,000) , Mr Amir Ohad (2,500,000), Prof Nathan Intrator (3,500,000), Dr Henry Pinskier (5,000,000) and Prof Noam Gavriely (4,000,000) were awarded ordinary shares on their resignation from the board, shareholders approved this issue at the Company's Annual General Meeting held on 30 November 2010. These shares were fair valued at the ASX market price on the date approval was received at 2.0 cents per share. The fair value of this grant was $400,000 and has been expensed in the parent entity in consulting, employee and director expenses.

6. The cash bonus paid to Mr Paul Eisen was paid under his employment contract on achievement of performance milestones and approved at the discretion of the board.

7. Mr Paul Eisen in accordance with his employment contract, has received 6,000,000 unlisted options in 3 parcels of 2,000,000 each. Of the 6,000,000 options, 2,000,000 vested on allotment, 2,000,000 vested on 31 December 2010 and 2,000,000 vested on 30 June 2011. As per the Australian accounting standards the options have been valued at grant date and are being expensed over the vesting period of the options in the subsidiary PulmoSonix Pty Ltd. The value of the options were calculated using the Black-Scholes model applying the following inputs:

Issue Date: 17 December 2010	Stock Price: $0.022	Volatility: 50.00%	Risk-free Interest Rate: 5.09%
Dividend Yield: 0.00%	Exercise Price: i) $0.02	Years to Expiry: i) 1.0 years	Option Fair Value: i) $0.0057
	ii) $0.03	ii) 1.95 years	ii) $0.0045
	ii) $0.04	iii) 3.0 years	iii) $0.0044

8. In recognition of his past services as a Director Mr Paul Eisen was awarded 2,500,000 ordinary shares, shareholders approved this issue at the Company's Annual General Meeting held on 30 November 2010. These shares were fair valued at the ASX market price on the date approval was received at 2.0 cents per share. The fair value of this grant was $50,000 and has been expensed in the parent entity in consulting, employee and director expenses.

9. In recognition of his past services as Directors Mr Paul Eisen was awarded 2,500,000 unlisted options, shareholders approved this issue at the Company's Annual General Meeting held on 30 November 2010. The options vested on allotment. As per the Australian accounting standards the options have been valued at grant date and are being expensed over the vesting period of the options in the parent entity. The value of the options were calculated using the Black-Scholes model applying the following inputs:

Issue Date: 17 December 2010	Stock Price: $0.022	Volatility: 50.00%	Dividend Yield: 0.00%
Exercise Price: $0.020	Years to Expiry: 1.6 years	Risk-free Interest Rate: 5.09%	Option Fair Value: $0.0070

10. In recognition of his past service as Director Prof Noam Gavriely was awarded 6,500,000 unlisted options in two parcels of 4,000,000 and 2,500,000 on his resignation from the board, shareholders approved this issue at the Company's Annual General Meeting held on 30 November 2010. The options vested on allotment. As per the Australian accounting standards the options have been valued at grant date and are being expensed over the vesting period of the options in the parent entity. The value of the options were calculated using the Black-Scholes model applying the same inputs as 9 and 7iii above.

11. The amounts included as cash, salary & fees above, represent the fees paid to each Director or Executive from the date their appointment up until the end of the year.

12. The amounts included as cash, salary & fees above, represent the fees paid to each Director from the start of the year up until the date their resignation, 20 October 2010.

13. The non-monetary short term employment benefits disclosed above relate to motor vehicle benefits provided to Prof Noam Gavriely and Mr Amir Ohad.

14. The amounts included as cash, salary & fees for Prof Noam Gavriely above, includes the fees paid to him as a Director from the start of the year up until the date his resignation, 20 October 2010 and his salary for the full year for his role as Chief Medical Officer.

15. Mr Ross Haghighat received 8,500,000 ordinary fully paid shares as per resolution 10(b) approved by shareholders at the Company's 2010 Annual General Meeting held on 30 November 2010.

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	
	2012	2011	2012	2011	2012	2011
Directors						
Mr Ross Haghighat	100%	100%	-	-	-	-
Mr Jerry Korten	100%	100%	-	-	-	-
Dr David Dantzker MD	100%	-	-	-	-	
Mr Ross MacDonald	100%	-	-	-	-	
Dr Stewart Washer	100%	-	-	-	-	
Mr Fabio Pannuti	100%	-	-	-	-	-
Mr Paul Hopper	100%	-	-	-	-	-
Mr Paul Eisen	-	83%	-	4%	-	13%
Mr Peter Marks	-	100%	-	-	-	-
Prof Noam Gavriely	-	100%	-	-	-	-
Dr Henry Pinskier	-	100%	-	-	-	-
Prof Nathan Intrator	-	100%	-	-	-	-
Mr Amir Ohad	-	100%	-	-	-	-
Executives						
Mr Michael Thomas	87%	100%	-	-	-	-
Mr David Model	100%	100%	-	-	-	-

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 24 May 2007, Shareholders approved the establishment of the 2007 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, the Plan has been established to benefit personnel in both Australia and Israel. As at 30 June 2012 equity had been issued to 3 previous Director, 40 employees and 23 consultants.

The terms and conditions of each grant of options affecting Director and Key Management Personnel remuneration in the previous, this 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 November 2008	20 October 2011	15 December 2015	$0.050	N/A	Yes	$0.0090
30 November 2010	17 December 2010	31 July 2012	$0.030	N/A	Yes	$0.0038
30 November 2010	17 December 2010	31 July 2012	$0.020	N/A	Yes	$0.0070
30 November 2010	17 December 2010	15 December 2012	$0.030	N/A	Yes	$0.0045
30 November 2010	17 December 2010	15 December 2013	$0.040	N/A	Yes	$0.0044
30 November 2010	17 December 2010	30 November 2012	$0.040	N/A	Yes	$0.0027
2 September 2011	2 September 2011	31 July 2012	$0.012	N/A	Yes	$0.0101
2 September 2011	Qrtly over 4 years	31 July 2016	$0.013	N/A	Qrtly	$0.0164
2 September 2011	Milestone Based	31 December 2011	$0.015	N/A	Yes	$0.0064
2 September 2011	Milestone Based	31 December 2012	$0.020	N/A	No	$0.0097
2 September 2011	Milestone Based	31 December 2012	$0.020	N/A	No	$0.0097
2 September 2011	Milestone Based	31 December 2012	$0.020	N/A	No	$0.0097
2 September 2011	Milestone Based	31 December 2013	$0.020	N/A	No	$0.0108
2 September 2011	Milestone Based	31 December 2013	$0.020	N/A	No	$0.0105
30 September 2011	30 September 2011	1 July 2013	$0.015	N/A	Yes	$0.0089
30 September 2011	30 September 2011	1 July 2014	$0.030	N/A	Yes	$0.0104

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	
		2012	2011	2012	2011	2012	2011
Directors							
Mr Ross Haghighat		-	5,000,000	-	-	-	5,000,000
Mr Jerry Korten		-	1,500,000	-	-	-	1,500,000
Dr David Dantzker MD		-	-	-	-	-	-
Mr Ross MacDonald		-	-	-	-	-	-
Dr Stewart Washer		-	-	-	-	-	-
Mr Fabio Pannuti		-	1,500,000	-	-	-	1,500,000
Mr Paul Hopper		-	1,500,000	-	-	-	1,500,000
Mr Paul Eisen		-	8,500,000	-	-	-	12,500,000
Mr Peter Marks		-	5,000,000	-	-	-	5,000,000
Prof Noam Gavriely		-	6,500,000	-	-	-	6,500,000
Dr Henry Pinskier		-	-	-	-	-	3,000,000
Prof Nathan Intrator		-	2,500,000	-	-	-	5,500,000
Mr Amir Ohad		-	2,500,000	-	-	-	2,500,000
Other Key Management Personnel							
Mr Michael Thomas	1, 2	60,000,000	-	(4,000,000)	-	9,250,000	-
Mr David Model	3	1,500,000	-	-	-	1,500,000	-
		61,500,000	**34,500,000**	**(4,000,000)**	**-**	**10,750,000**	**44,500,000**

On 13th August 2012 the Company completed a capital consolidated on a 20 for 1 basis. All values above are shown on a pre-consolidation basis.

1. 28,000,000 options exercisable at $0.015 on or before 31/07/2016 vesting quarterly over 4 years commencing 1 October 2011. See Note 25 for further detail.
2. 32,000,000 options exercisable at $0.02 on various dates vest upon crystallisation of milestones. 4,000,000 vested and subsequently lapsed on 31 December 2011. See Note 25 for further detail.
3. 1,500,000 options exercisable at $0.015 on or before 1 July 2013 vested immediately upon issue in September 2011. Note 25 for further detail.
4. No other options were provided as remuneration to any Director or Key Management Personnel of the parent entity and Group, which were vested and lapsed during the current or previous years.

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	
		2012	2011
Directors			
Mr Ross Haghighat	2	5,000,000	-
Mr Jerry Korten	2	5,000,000	-
Dr David Dantzker MD		-	-
Mr Ross MacDonald		-	-
Dr Stewart Washer		-	-
Mr Fabio Pannuti	2	5,000,000	-
Mr Paul Hopper	2	5,000,000	-
Mr Paul Eisen		-	2,500,000
Mr Peter Marks		-	5,000,000
Prof Noam Gavriely		-	4,000,000
Dr Henry Pinskier		-	5,000,000
Prof Nathan Intrator		-	3,500,000
Mr Amir Ohad		-	2,500,000
Other Key Management Personnel			
Mr Michael Thomas	1	3,000,000	-
Mr David Model		-	-
		23,000,000	**22,500,000**

On 13th August 2012 the Company completed a capital consolidated on a 20 for 1 basis. All values above are shown on a pre-consolidation basis.

1. Issue of 3 million shares at an issue price of $0.01 per share to Mr Michael Thomas in lieu of $30,000 cash payment he was to receive as a Chief Executive Officer of 'sign-on' fee. The shares were issued to him in two 1.5 million tranches on 2nd Sept 2011 and 27th Sept 2011.

2. Issue of shares 5 million shares to each directors as approved by shareholders in accordance with resolutions 3 to 6 of the Company's Nov 2011 Annual General Meeting.
3. No ordinary shares were issued as a result of the exercise of remuneration options to any Director of iSonea Limited or Key Management Personnel during the current or previous year.
4. Further details in relation to these shares is disclosed on pp 19 - 20.

Employment Contracts of Directors and Key Management Personnel

Director/KMP	Duration	Notice Requirements	Termination Requirements
Mr Michael Thomas	Until termination by either party Signed 14 June 2011	For any reason Mr Thomas may terminate by providing 6 months' notice	Pay Mr Thomas on termination any unpaid salary, reimburse all business expenses submitted on the appropriate documentation within 90 days and pay any bonus earned but unpaid on termination on or before the date it would have been payable had their termination not occurred.
		With Cause the Company may terminate by providing 6 months' notice	As above
		Without Cause the Company may terminate by providing 6 months' notice	As above. In addition, the Company will pay Mr Thomas an amount equal to 12 months of the Executive's base salary and $1,250 for medical benefits for six months, subject to the execution of a full general release and the achievement of set milestones by 31 December 2011.

The remaining Directors and Key Management Personnel are subject to service agreements with normal commercial terms and conditions.

This is the end of the Remuneration Report.

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

Dr Stewart Washer
Non-Executive Chairman
Melbourne

Mr Ross Haghighat
Executive Vice-Chairman

Dated: 28th Day of September 2012

Corporate Governance Statement

The Company is committed to implementing the highest standards of corporate governance. In determining what those standards should involve, the consolidated entity 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 consolidated entity 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 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 full details of each recommendation can be found on the ASX Corporate Governance Council's 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	28
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 and 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
4.2	Structure of Audit Committee	31
4.3	Audit Committee Charter	31
4.4	Reporting on Principle 4	31
Principle 5: Make timely and balanced disclosure		
5.1	Policy for Compliance with Continuous Disclosure	28
5.2	Reporting on Principle 5	28
Principle 6: Respect the rights of Shareholders		
6.1	Communications Policy	29
6.2	Reporting on Principle 6	29,30
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 considers a Non-Executive Director to be independent when they are not a substantial shareholder of the Company or an associate of a substantial holder of the Company or have any other material interest and within the past three years has not been employed in an executive capacity by the Company (or subsidiary) and is free from any business or other relationship which could materially interfere with the Director's ability to act in the best interests of the Company and shareholders.

At present there are four Directors classified as being 'Independent', who are also classified as "Non-Executive".

In the past, the Company has considered an Executive Director to be the most appropriate person to act as Chairman of the Company due to the size and life-cycle of the Company and its operations.

Subsequent to the end of the financial year, the composition and roles of the Board were reviewed, and as a consequence an Independent Non-Executive Director, who was appointed to the Board earlier in the year, was appointed to be the Independent Non-Executive Chairman of the Company.

To ensure continuity of the Board and the Company's objectives, the former Executive Chairman, who has been crucial to the Company's development, has been appointed to a new role as Vice-Executive Chairman of the Company.

These Board changes have strengthened the Company's overall Governance position.

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.

Board Policies

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 updated 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 indentifying 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 2012:

	Number of Males	Number of Females
Directors	5	-
Key Management Personnel	2	-
Other Company Employees/Consultants	4	1

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, the Board conducted individual and group performance evaluations on an informal basis which provided the Board with valuable feedback for future development.

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

Attestations by Chief Executive Officer (CEO) and Chief Financial Officer (CFO)

In accordance with the Board's policy, the CEO 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, consisting of three Directors of the Company, with the Chairman being 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 and Nomination Committee

Role

The role of a Remuneration and Nomination Committee ('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.

Composition

The Remuneration Committee currently consists of two Directors of the Company, with the Committee Chairman being 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 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, 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's performance, including, setting with the CEO 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 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

BDO

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

As lead auditor of iSonea Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- 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, 28 September 2012

Annual Financial Report
For the year ended 30 June 2012

For the Year Ended 30 June 2012

	Note	30 June 2012 $ AUD	30 June 2011 $ AUD
Revenue			
Total operating revenue	3	12,968	332,087
Total non-operating revenue	3	54,724	55,046
Total Revenue		**67,692**	**387,133**
Cost of goods sold		(16,978)	(239,770)
Gross profit		**50,714**	**147,363**
Other income	3	544,864	71,644
Expenses			
Amortisation expenses	4a)	(231,220)	(173,801)
Consulting, employee and director expenses	4b)	(1,725,331)	(2,372,038)
Corporate administration expenses	4c)	(1,061,065)	(830,278)
Depreciation expenses	4d)	(34,639)	(49,247)
Finance costs	4h)	(192,238)	-
Marketing and promotion expenses	4d)	(867,183)	(1,651,273)
Research and development expenses	4f)	(1,518,115)	(1,404,785)
Travel and entertainment expenses	4g)	(245,059)	(414,896)
Impairment of inventory	4i)	(305,900)	-
Loss before tax		**(5,585,172)**	**(6,677,311)**
Income tax expense	5	-	-
Loss for the year		**(5,585,172)**	**(6,677,311)**
Other comprehensive income:			
Exchange differences on translation of foreign operations		(214,434)	100,034
Total comprehensive income for the year		**(5,799,606)**	**(6,577,277)**
Loss attributable to owners of the parent entity		(5,585,172)	(6,677,311)
Total comprehensive income attributable to members of the parent entity		(5,799,606)	(6,577,277)
Basic loss per share (cents per share)	8	(9.69)	(17.04)
Diluted loss per share (cents per share)	8	(9.69)	(17.04)

The accompanying notes form part of these financial statements.

Statement of Financial Position

As at 30 June 2012

	Note	30 June 2012 $ AUD	30 June 2011 $ AUD
ASSETS			
Current Assets			
Cash and cash equivalents	9	1,331,165	1,312,065
Trade and other receivables	10	628,752	276,548
Inventories	11	190,695	386,423
Other	15	18,315	38,722
Total Current Assets		**2,168,927**	**2,013,758**
Non-Current Assets			
Property, plant and equipment	13	47,128	195,074
Other intangible assets	14	894,431	1,134,116
Other	15	2,344	10,570
Total Non-Current Assets		**943,903**	**1,339,760**
TOTAL ASSETS		**3,112,830**	**3,353,518**
LIABILITIES			
Current Liabilities			
Trade and other payables	16	391,984	716,852
Other financial liabilities	18	2,896	-
Provisions	17	-	22,354
Total Current Liabilities		**394,880**	**739,206**
Non-Current Liabilities			
Other financial liabilities	18	603,511	504,516
Total Non-Current Liabilities		**603,511**	**504,516**
TOTAL LIABILITIES		998,391	1,243,722
NET ASSETS		**2,114,439**	**2,109,796**
EQUITY			
Issued capital	19	72,725,708	67,479,141
Reserves		1,431,762	1,139,314
Accumulated Losses		(72,043,031)	(66,508,659)
TOTAL EQUITY		**2,114,439**	**2,109,796**

The accompanying notes form part of these financial statements.

For the Year Ended 30 June 2012

	Share Capital $	Option Reserve $	Consolidated Foreign Currency Translation Reserve $	Accumulated Losses $	Total $
Balance as at 30 June 2010	**61,896,696**	**4,661,323**	**(231,931)**	**(63,459,364)**	**2,866,724**
Total comprehensive income for the year:	**-**	**-**	**100,034**	**(6,677,311)**	**(6,577,277)**
Transactions with Equity holders in their capacity as equity holders:					
Shares issued	4,918,687	-	-	-	4,918,687
Capital raising costs	(126,247)	-	-	-	(126,247)
Options exercised net of costs	790,005	-	-	-	790,005
Options issued	-	237,904	-	-	237,904
Transfers to/from reserves*	-	(3,628,016)	-	3,628,016	-
Balance at 30 June 2011	**67,479,141**	**1,271,211**	**(131,897)**	**(66,508,659)**	**2,109,796**
Total comprehensive income for the year	**-**	**-**	**(214,434)**	**(5,585,172)**	**(5,799,606)**
Transactions with Equity holders in their capacity as equity holders:					
Shares issued	6,070,633	-	-	-	6,070,633
Capital raising costs	(824,066)	-	-	-	(824,066)
Options issued	-	557,682	-	-	557,682
Transfers to/from reserves*	-	(50,800)	-	50,800	-
Balance at 30 June 2012	**72,725,708**	**1,778,093**	**(346,331)**	**(72,043,031)**	**2,114,439**

* 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 2012

	Note	30 June 2012 $ AUD	30 June 2011 $ AUD
Cash flows from operating activities			
Receipts from customers		7,807	425,085
Payments to suppliers and employees		(4,949,074)	(5,889,797)
Interest received		54,724	55,046
Interest and other costs of finance paid		-	(30,899)
Receipt of R&D tax refund		-	86,602
Receipt of insurance refunds		6,566	-
Net cash flows used in operating activities	**24**	**(4,879,977)**	**(5,353,963)**
Cash flows related to investing activities			
Proceeds from sales of plant and equipment		2,248	-
Payment for purchases of plant and equipment		(2,280)	(26,002)
Proceeds from rental deposits		-	2,938
Net cash flows used in investing activities		**(32)**	**(23,064)**
Cash flows related to financing activities			
Proceeds from issues of equity securities		5,421,266	2,173,106
Proceeds from the issue of debt securities		-	2,248,786
Capital raising costs		(525,885)	(116,324)
R&D Grants in Israel		7,919	88,124
Net cash flows from financing activities		**4,903,300**	**4,393,692**
Net increase/(decrease) in cash and cash equivalents		23,291	(983,335)
Cash and cash equivalents at the beginning of the year		1,312,065	2,299,687
Effects of exchange rate changes on cash and cash equivalents		(4,191)	(4,287)
Cash and cash equivalents at the end of the year	**9**	**1,331,165**	**1,312,065**

The accompanying notes form part of these financial statements.

Note 1 - Statement of Significant Accounting Policies

Corporate Information

The financial report of iSonea Limited (the Company) for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the Directors on the 28th Day of September 2012.

iSonea Limted is a listed public company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange and American Depository Receipts (ADR) Level 2 ADR Program, in which the ADRs are traded in the US over-the-counter (OTC) market.

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

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 authoritive pronouncements from the Australian Accounting Standards Board, as appropriate for profit orientated entities.

The financial report covers the consolidated entity of iSonea Ltd and controlled entities. The company changed its name on the 10 August 2011 from KarmelSonix Limited to iSonea Limited. 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. iSonea Ltd is a listed public Company, incorporated and domiciled in Australia.

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.

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.

Going Concern Basis

For the year ended 30 June 2012, the consolidated entity incurred an operating loss of $5,585,172 (2011: $6,677,311), and had net consolidated cash outflows from operations of $4,879,977 (2011: $5,353,963). The consolidated entity is moving from medical technology development stage to commercialisation stage in relation to specialist medical devices and as such expects to be utilising cash until its distribution activities increase. Some of the risks inherent in the development of a medical device product 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 and the obtaining of the necessary medical clinical trial or regulatory authority approvals. These conditions indicate a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern.

The Directors have considered the material uncertainties disclosed above and have determined that these financial statements should be prepared on a going concern basis, which assumes the realisation of assets and extinguishment of liabilities in the normal course of business at the amounts stated in these financial statements, for the following reasons:

- In the period since 30 June 2012 the Company has raised over $1m by way of a private placement, as disclosed in note 26.

- On 27 September 2012 the consolidated entity announced an underwritten rights issue to raise a further $4.5m to be closed in October 2012.

- The Directors have prepared cash flow forecasts which include significant expenditure developing the consolidated entity's technology and products. The Directors have the ability to defer expenditure in order to preserve the consolidated entity's cash if necessary.

Based on the above the Directors and Management are satisfied that the consolidated entity has access to sufficient cash flow to meet commitments for a period not less than twelve months from the date of this report. For that reason the financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activity, realisation of assets and the settlement of liabilities in the normal course of business.

Notwithstanding the uncertainty pertaining to the ability of the Company to access additional capital, the financial statements have been prepared on a going concern basis. Accordingly the financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary, should the Company not continue as a going concern.

Amendments to International Accounting Standards

The following amending Standards have been adopted from 1 July 2011. Adoption of these Standards did not have any effect on the financial position or performance of the Company:

Ref	Title	Summary
AASB 124	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: (a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other (b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other (c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.

Ref	Title	Summary
AASB 1054	Australian Additional Disclosures	This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB. This standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas: (a) Compliance with Australian Accounting Standards (b) The statutory basis or reporting framework for financial statements (c) Whether the financial statements are general purpose or special purpose (d) Audit fees (e) Imputation credits
AASB 2011-1	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132, AASB 134, Interpretation 2, Interpretation 112, Interpretation 113]	This Standard amendments many Australian Accounting Standards, removing the disclosures which have been relocated to AASB 1054.

Other than the amended accounting policies listed above, all other account policies adopted by the Company are consistent with the most recent Annual Report for the year ended 30 June 2011.

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 2012:

Ref	Title	Summary	Application date of standard	Impact on financial report	Application date
AASB 119	Employee Benefits	The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans are recognized in full with actuarial gains and losses being recognized in other comprehensive income. It also revised the method of calculating the return on plan assets. The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. Consequential amendments were also made to other standards via AASB 2011-10.	1 Jan 2013	No Impact	1 July 2013
AASB 2012 - 5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle	AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The following items are addressed by this standard: IAS 1 Presentation of Financial Statements • Clarification of the requirements for comparative information IAS 16 Property, Plant and Equipment • Classification of servicing equipment IAS 34 Interim Financial Reporting • Interim financial reporting and segment information for total assets and liabilities	1 January 2013	The entity has not yet determined the potential effect of the standard.	1 July 2013

Ref	Title	Summary	Application date of standard	Impact on financial report	Application date
AASB 9	Financial Instruments	Financial Instruments includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement.	1 January 2015	The entity has not yet determined the potential effect of the standard.	1 July 2015
AASB 10	Consolidated Financial Statements	Consolidated Financial Statements changes the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements. AASB 10 introduces a single definition of control that applies to all entities.	1 January 2013	The entity has not yet determined the potential effect of the standard.	1 July 2013
AASB 11	Joint Arrangements	Joint Arrangements deals with the classification of joint arrangements with two or more parties having joint control. This standard also deals with the joint arrangements where parties do not share joint control. AASB 11 replaces AASB 131 Interests in Joint Ventures. Under AASB 11 joint ventures are accounted for using equity method. This standard is effective from 1 January 2013. The entity has not yet determined the potential effect of the standard.	1 January 2013	The entity has not yet determined the potential effect of the standard.	1 July 2013
AASB 12	Disclosure of Interest in Other Entities	AASB 12 Disclosure of Interest in Other Entities is a disclosure standard and therefore will not affect any of the amounts recognised in the financial statements. This standard is applicable to the entities with interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.	1 January 2013	The entity has not yet determined the potential effect of the standard.	1 July 2013
AASB 13	Fair Value Measurement	AASB 13 Fair Value Measurement and AASB 2001-8 Amendments to Australian Accounting Standards arising from AASB 13. It is effective from 1 January 2013 and explains how to measure fair value and aims to enhance fair value disclosures. The entity has not yet determined the potential effect of the standard.	1 January 2013	The entity has not yet determined the potential effect of the standard.	1 July 2013

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 consolidated statement of comprehensive income 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 the Statement of Comprehensive Income, 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.

The company participates in the R & D Tax Offset scheme to obtain a tax rebate equivalent to the entitlements under the R & D Tax Concession. Such rebates are accrued at the time the R & D expenditure is incurred based on its estimated recovery at this time and are disclosed as revenue within the Statement of Comprehensive Income.

(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 the Statement of Comprehensive Income 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 the Statement of Comprehensive Income during the financial period in which they are incurred.

<u>Depreciation</u>

The depreciable amount of all fixed assets 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%
Fit-out assets	16.67%

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 the Statement of Comprehensive Income.

(e) Financial Assets and Liabilities

<u>Recognition</u>

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 expires.

<u>Loans and Receivables</u>

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 balance sheet date which are classified as non-current assets. Loans and receivables are carried at amortised cost using the effective interest rate method less impairment.

<u>Financial Liabilities</u>

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 the Statement of Comprehensive Income.

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) Non-current Assets (or Disposal Groups) Held for Sale and Discontinued Operations

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from other assets in the Statement of Financial Position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the Statement of Financial Position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resell. The results of discontinued operations are presented separately on the face of the Statement of Comprehensive Income.

(h) 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 the Statement of Comprehensive Income 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 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.

(i) 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 balance sheet 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 the Statement of Comprehensive Income, 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 the Statement of Comprehensive Income.

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 balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

(j) 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.

(k) 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.

(l) 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.

(m) 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).

(n) 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.

(o) 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 the Statement of Comprehensive Income 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 the Statement of Comprehensive Income 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.

(p) 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.

(q) 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.

The change in accounting policy has been applied prospectively.

(r) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

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 2012 $	30 June 2011 $
Statement of Financial Position		
Assets		
Current Assets	1,295,400	1,211,850
Non-Current Assets	961,076	766,411
Total Assets	**2,256,476**	**1,978,261**
Liabilities		
Current Liabilities	163,980	259,340
Non-Current Liabilities	-	-
Total Liabilities	**163,980**	**259,340**
Net Assets	**2,092,496**	**1,718,921**
Equity		
Issued Capital	72,725,708	67,479,141
Reserves	1,778,093	1,271,213
Accumulated Losses	(72,411,305)	(67,031,433)
Total Equity	**2,092,496**	**1,718,921**
Statement of Comprehensive Income		
Total Profit/(Loss)	(5,430,672)	(6,998,490)
Total Comprehensive Income	**(5,430,672)**	**(6,998,490)**

Parent Entity Contingencies and Commitments

The Parent Entity's contingent liabilities are consistent with Note 22.

Expenditure Commitments

The Parent Entity's expenditure commitments are consistent with Note 21.

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 Jun 2012 $	30 Jun 2011 $
Revenue		
Revenue from Operating Activities		
Sales - Medical Devices	12,968	332,087
Total Revenue from Operating Activities	**12,968**	**332,087**
Revenue from Non-Operating Activities		
Interest	54,724	55,046
Total Revenue from Non-Operating Activities	**54,724**	**55,046**
Total Revenue	**67,692**	**387,133**
Other Income		
R&D Tax Concession Refunds	544,687	71,644
Other Income	177	-
	544,864	71,644
	612,556	**458,777**

Note 4 - Expenses

	Note	30 Jun 2012 $	30 Jun 2011 $
Expenses			
a) Amortisation expenses		**231,220**	**173,801**
b) Consulting, employee and director expenses			
Consulting Expenses		183,078	536,735
Employee Expenses		548,850	612,841
Director Expenses		993,403	1,222,462
		1,725,331	**2,372,038**
c) Corporate administration expenses			
Audit and accounting fees		95,063	59,885
Foreign exchange loss		99,294	(1,529)
Corporate administration expenses		665,875	640,649
Loss on disposal of fixed assets		83,942	-
Office rentals under operating leases		116,891	131,273
		1,061,065	**830,278**
d) Depreciation expenses		**34,639**	**49,247**
e) Marketing and promotion expenses		**867,183**	**1,651,273**
f) Research and development expenses		**1,518,115**	**1,404,785**
g) Travel and entertainment expenses		**245,059**	**414,896**
h) Finance Expenses		**192,238**	**-**
i) Write-down of inventory carry value		**305,900**	**-**
Total Expenses		**6,180,750**	**6,896,318**

Note 5 - Income Tax Expenses

		30 June 2012 $	30 June 2011 $
(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	(5,585,172)	(6,677,311)
	Income tax benefit calculated at 30% (2011:30%)	(1,675,552)	(2,003,193)
	Tax effect of amounts which are not deductable in calculating income tax:		
	- impairment and amortisation expenses	69,366	52,140
	- share-based payments expenses	148,864	387,705
	- other expenses not deductable	1,036	4,916
	Tax benefit associated with R&D rebates	(162,900)	(17,870)
	Other deductible items	(134,871)	(104,791)
	Reversal of deferred tax assets not recognised in prior years	-	(36,079)
	Deferred tax assets relating to tax losses not recognised	1,754,058	1,717,172
	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	9,295,698	7,541,640
	- Accruals	28,626	6,706
	- Employee provisions	-	11,700
	Net deferred tax assets not recognised	**9,324,324**	**7,560,046**
(c)	**Components of Tax**		
	The components of tax expense comprise:		
	- Current tax	-	-
	- Deferred tax	-	-
	Net deferred tax assets not recognised	**-**	**-**

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits will be available against which the Group can utilise the benefits.

Included in the total of deferred tax assets attributable to tax losses not recognised are tax losses in relation to operations in Israel, United Sates of America and Australia. Tax losses realised in Australia relate to losses generated from 22 November 2006 to 30 June 2012. 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
Dr Stewart Washer	Non-Executive Chairman Non-Executive Director	Appointed Non-Executive Chairman on 27th July 2012 Appointed Non-Executive Director on 3rd April 2012
Mr Ross Haghighat	Executive Chairman Executive Vice-Chairman	Resigned as Executive Chairman on 27th July 2012 Appointed Executive Vice-Chairman on 27th July 2012
Mr Jerry Korten	Non-Executive Director	
Dr David Dantzker MD	Non-Executive Director	Appointed Non-Executive Director on 20th March 2012
Mr Ross MacDonald	Non-Executive Director	Appointed Non-Executive Director on 3rd April 2012
Mr Paul Hopper	Non-Executive Director	Resigned as Non-Executive Director on 31st March 2012
Mr Fabio Pannuti	Non-Executive Director	Resigned as Non-Executive Director on 31st March 2012
Mr Paul Eisen	Executive Director	Resigned as Executive Director on 29th July 2011

(b) Other Key Management Personnel

Name	Position
Mr Michael Thomas	Chief Executive Officer (CEO)
Mr David Model	Vice President of Finance (US)

(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 2012 $	30 June 2011 $
Short-term employee benefits	759,387	755,664
Post-employment benefits	-	17,400
Long-term benefits	-	-
Termination benefits	-	-
Share-based payments	386,714	804,508
	1,146,101	**1,577,572**

Additional disclosures as required by AASB124 can be found in the Remuneration Report on pages 18 to 24

(d) 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 2012	Balance at Start of the Year	Granted as Compensation	Options Exercised	Net Change Other *	Balance at End of the Year	Vested and Exercisable	Unvested
Directors							
Mr Ross Haghighat	5,000,000	-	-	1,496,400	6,496,400	6,496,400	-
Mr Jerome Korten	1,500,000	-	-	937,500	2,437,500	2,437,500	-
Dr David Danzkter	-	-	-	-	-	-	-
Mr Ross MacDonald	-	-	-	-	-	-	-
Dr Stewart Washer	-	-	-	-	-	-	-
Mr Fabio Pannuti	1,500,000	-	-	-	1,500,000	1,500,000	-
Mr Paul Hopper	1,500,000	-	-	-	1,500,000	1,500,000	-
Executives							
Mr Michael Thomas	-	60,000,000 [1]	-	3,993,345	63,993,345	9,250,000	54,743,345
Mr David Model	-	1,500,000 [2]	-	1,397,760	2,897,760	2,897,760	-
	9,500,000	**61,500,000**	**-**	**7,825,005**	**78,825,005**	**24,081,660**	**54,743,345**

* Net Change Other refers to equity acquired or disposed on-market or acquired during participation in the Dec 2011 Rights Issue.

[1] 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 25.

[2] Issue of 1.5 million unlisted options exercisable at $0.015 per option on or before 1 July 2013.

30 June 2011	Balance at Start of the Year	Granted as Compensation	Options Exercised	Net Change Other	Balance at End of the Year	Vested and Exercisable	Unvested
Directors							
Mr Ross Haghighat	-	5,000,000	-	-	5,000,000	5,000,000	-
Mr Jerome Korten	-	1,500,000	-	-	1,500,000	1,500,000	-
Mr Fabio Pannuti	-	1,500,000	-	-	1,500,000	1,500,000	-
Mr Paul Hopper	-	1,500,000	-	-	1,500,000	1,500,000	-
Mr Peter Marks	-	5,000,000	-	(5,000,000)	-	-	-
Prof Noam Gavriely	-	6,500,000	-	-	6,500,000	6,500,000	-
Dr Henry Pinskier	6,000,000	-	-	(6,000,000)	-	-	-
Prof Nathan Intrator	7,000,000	2,500,000	-	(9,500,000)	-	-	-
Mr Paul Eisen	6,000,000	8,500,000	-		14,500,000	14,500,000	-
Mr Amir Ohad	-	2,500,000	-	(2,500,000)	-	-	-
Executives							
Mr Michael Thomas	-	-	-	-	-	-	-
Mr David Model	-	-	-	-	-	-	-
	19,000,000	**34,500,000**	**-**	**(23,000,000)**	**30,500,000**	**30,500,000**	**-**

[1] Net Change Other: During the year, Mr Marks, Dr Pinskier, Mr Ohad and Prof Intrator resigned as Directors of the Company on 20 October 2010. The unlisted options they held at this date have been included under this heading above. Prof Gavriely resigned as a Director on the same date but remained a member of the Key Management Personnel and therefore his options have not been removed from the table above.

[2] Refer to Notes 20 & 25 for further details in relation to issues during the year.

(e) 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 2012		Balance at Start of the Year	Granted as Compensation	Options Exercised	Net Change Other [1]	Balance at End of the Year
Directors						
Mr Ross Haghighat	[3]	41,833,333	5,000,000	-	22,074,796	68,908,129
Mr Jerome Korten	[3]	-	5,000,000	-	3,750,000	8,750,000
Dr David Danzkter		-	-	-	-	-
Mr Ross MacDonald		-	-	-	-	-
Dr Stewart Washer		-	-	-	-	-
Mr Fabio Pannuti	[3]	-	5,000,000	-	-	5,000,000
Mr Paul Hopper	[3]	-	5,000,000	-	-	5,000,000
Executives		-				
Mr Michael Thomas	[4]	-	3,000,000	-	40,106,590	43,106,590
Mr David Model		1,780,086	-	-	(1,780,086)	-
		43,613,419	**23,000,000**	**-**	**64,151,300**	**130,764,719**

[1] Net Change Other refers to equity acquired or disposed on-market or acquired during participation in the Dec 2011 Rights Issue.

[2] For those that were not a Director or other Key Management Personnel for the entire period, the opening balance is the balance when they were appointed to the position. If they ceased employment during the period then the balance at the end of the year is the balance when they ceased employment.

[3] 5 million shares at deemed value of $0.006 per share received as approved by shareholders at the 2011 Annual General Meeting of the Company.

[4] CEO sign-on bonus of 3 million shares at a deemed price of $0.01 per share as disclosed to the ASX in 22nd June 2011.

30 June 2011	Balance at Start of the Year	Granted as Compensation	Options Exercised	Net Change Other [1]	Balance at End of the Year
Directors					
Mr Ross Haghighat	-	-	-	41,833,333	41,833,333
Mr Jerome Korten	-	-	-	-	-
Mr Fabio Pannuti	-	-	-	-	-
Mr Paul Hopper	-	-	-	-	-
Mr Peter Marks	9,700,000	5,000,000	-	(14,700,000)	-
Prof Noam Gavriely	82,970,808	4,000,000	-	(5,156,000)	81,814,808
Dr Henry Pinskier	11,135,426	5,000,000	-	(16,135,426)	-
Prof Nathan Intrator	15,604,508	3,500,000	-	(19,104,508)	-
Mr Paul Eisen	985,000	2,500,000	-	-	3,485,000
Mr Amir Ohad	-	2,500,000	-	(2,500,000)	-
Executives					
Mr Michael Thomas	-	-	-	-	-
Mr David Model	-	-	-	-	-
	120,395,742	**22,500,000**	**-**	**(15,762,601)**	**127,133,141**

[1] Net Change Other refers to equity acquired or disposed on market.

[2] For those that were not a Director or other Key Management Personnel for the entire period, the opening balance is the balance when they were appointed to the position. If they ceased employment during the period then the balance at the end of the year is the balance when they ceased employment.

(f) 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.

(g) 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 27.

Note 7 - Auditor's Remuneration

	30 June 2012 $	30 June 2011 $
Remuneration of the auditor of the Company, BDO East Coast Partnership for:		
— auditing or reviewing the financial report of the Group	55,750	47,950
	55,750	**47,950**
Remuneration of the auditor of the Subsidiary Company(s), Ernst & Young Israel for:		
— auditing or reviewing the financial report of the subsidiary(s) (a)	17,006	18,215
	72,756	**66,165**

(a) 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 2012	30 June 2011
Basic loss per share (cents)	(9.69)	(17.04)
Diluted loss per share (cents)	(9.69)	(17.04)
a) Net loss used in the calculation of basic and diluted loss per share	($5,585,172)	($6,677,311)
b) Weighted average number of ordinary shares outstanding during the period used in the calculation of basic and diluted loss per share	57,628,987*	39,185,289*

* Following shareholder approval on 27th July 2012 the Company consolidated its share capital on a 20:1 basis.

c) Potential ordinary shares, including options, are excluded from the weighted average number of shares used in the calculation of basic 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 2012 $	30 June 2011 $
Cash at bank	75,953	204,215
Short-term deposits	1,255,212	1,107,850
	1,331,165	**1,312,065**

The interest rates on cash at bank and term deposits at 30 June 2012 was 3.50% (2011: 4.04%).

Note 10 - Trade and Other Receivables

	30 June 2012 $	30 June 2011 $
Current		
Trade Receivables ^	628,752	276,548
	628,752	**276,548**

^ Trade receivables include GST/V.A.T receivable and R&D tax refundable. Any trade debtors which are past due are not considered impaired.

Note 11 - Inventories

	30 June 2012 $	30 June 2011 $
(At cost)		
Raw materials and stores	38,260	54,706
Work in progress	53,294	93,919
Finished goods	99,141	237,798
	190,695	**386,423**

Note 12 - Controlled Entities

a) Controlled Entities Consolidated

	Country of Incorporation	Percentage of Ownership*	
		30 June 2012	30 June 2011
Parent Entity:			
iSonea Limited	Australia	-	-
Subsidiaries of iSonea Limited:			
PulmoSonix 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 proportion to ownership.

b) Acquisition of Controlled Entities

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

During the prior year the parent entity issued options to employees of its subsidiary, Karmel Sonix (Israel) Ltd, under the 2007 Employee and Consultant Share and Option Plan. The subsidiary has expensed the fair value of the options being 188,077 in the profit and loss during the financial year ended 2011. The parent entity has treated this amount as an addition to its investment in the subsidiary.

Note 13 - Property, Plant and Equipment

	30 June 2012 $	30 June 2011 $
Furniture & Fittings		
At cost	14,666	32,731
Accumulated depreciation	(8,590)	(8,752)
	6,076	23,979
Computer Equipment & Software		
At cost	124,324	358,448
Accumulated depreciation	(105,661)	(296,993)
	18,663	61,455
Medical Equipment		
At cost	43,799	130,884
Accumulated amortisation	(21,410)	(44,270)
Total Leasehold Improvements	22,389	86,614
Fit-out Assets		
At cost	-	46,468
Accumulated depreciation	-	(23,442)
	-	23,026
Total Plant and Equipment	**47,128**	**195,074**

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 $	Computer Equip & Software $	Medical Equipment $	Fit-out Assets $	Total $
Balance as at 1 July 2010	**26,968**	**59,821**	**102,016**	**27,188**	**215,993**
Additions	1,629	33,730	12,267	4,937	52,563
Depreciation expense [1]	(2,342)	(29,327)	(19,399)	(8,091)	(59,159)
Disposals of assets	-	-	-	-	-
Exchange adjustments	(2,276)	(2,769)	(8,270)	(1,008)	(14,323)
Carrying amount as at 30 June 2011	**23,979**	**61,455**	**86,614**	**23,026**	**195,074**
Additions	21,330	821	-	-	22,151
Depreciation expense [2]	(10,597)	(24,551)	(17,254)	(1,696)	(54,098)
Disposals of assets	(30,526)	(21,561)	(51,090)	(21,330)	(124,507)
Exchange adjustments	1,890	2,499	4,119	-	8,508
Carrying amount as at 30 June 2012	**6,076**	**18,663**	**22,389**	**-**	**47,128**

[1] For the year ended 30 June 2011, depreciation has been disclosed in cost of goods sold of $9,912 and $49,247 at depreciation.

[2] For the year ended 30 June 2012, depreciation has been disclosed in cost of goods sold of $19,459 and $34,639 at depreciation.

Note 14 - Intangible Assets

	30 June 2012 $	30 June 2011 $
Intellectual Property (Acquired)		
At cost	1,713,300	1,756,123
Less accumulated depreciation	(818,869)	(622,007)
Net carrying value	**894,431**	**1,134,116**

a) Reconciliation of carrying amounts at the beginning and end of the period:

	Acquired Intellectual Property
Balance at the beginning of year:	1,342,077
Additions	70
Amortisation	(173,801)
Exchange adjustments	(34,230)
Carrying amount as at 30 June 2011	**1,134,116**
Amortisation	(193,672)
Exchange adjustments	(46,013)
Carrying amount as at 30 June 2012	**894,431**

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 5.5 years.

Note 15 - Other Assets

	30 June 2012 $	30 June 2011 $
Current		
Prepayments	18,315	38,722
	18,315	**38,722**
Non-Current		
Security Deposit	-	1,070
Car Leases	2,344	9,500
	2,344	**10,570**

Note 16 - Trade and Other Payables

	Note	30 June 2012 $	30 June 2011 $
Current			
Trade payables	(a)	246,013	491,468
Accrued expenses		132,813	225,384
Other payables		13,158	-
		391,984	**716,852**

a) At balance date there were unhedged foreign currency payables of $ILS3,13,217 (2011: ILS1,498,632, Israeli New Shekel) or $AUD78,336 (2011: $AUD413,023) payable by the economic entity.

Note 17 - Provisions

	30 June 2012 $	30 June 2011 $
Current		
Annual Leave	-	22,354
	-	**22,354**

Note 18 - Other Financial Liabilities

	Note	30 June 2012 $	30 June 2011 $
Current			
Short-term Loan		2,896	-
	a)	**2,896**	**-**
Non-Current			
R&D Grants received in Israel		603,511	504,516
	b)	**603,511**	**504,516**

a) This short-term loan was used to fund product liability insurance premium repaid extinguishing this liability on 17th September 2012.

b) Detailed information in relation to the Chief Scientist and Bird Foundation grants received in Israel is contained in Note 22.

Note 19 - Issued Capital

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

	30 June 2012		30 June 2011	
	No.	$	No.	$
Fully Paid Ordinary Shares				
Balance at beginning of year	1,057,918,224	67,479,141	687,276,239	61,841,766
Share issued during the year	1,276,738,819	6,070,633	317,974,986	4,973,616
Share issued from the exercise of options	-	-	52,666,999	790,005
Transaction costs relating to share issues		(824,066)	-	(126,246)
Total Issued Capital	**2,334,657,043**	**72,725,708**	**1,057,918,224**	**67,479,141**

During the Year ended 30 June 2012, the Company issued the following securities:

Date	Details	No.	Issue Price ($)	Total Value ($)
2 Sep 2011	Issue of shares pursuant to Resolution 3 approved by members at General Meeting of members on 10 Aug 2011	1,339,196	-	-
2 Sep 2011	Issue of shares pursuant to Resolution 3 approved by members at General Meeting of members on 10 Aug 2011	18,000,000	-	-
2 Sep 2011	Issue of shares in accordance with the Employee Share and Option Plan (ESOP)	3,246,889	0.015	48,274
30 Sep 2011	Issue of shares to Bergen Global Management Fund pursuant to the Convertible Note Agreement announced to the market on 29 September 2011	17,000,000	-	1
30 Sep 2011	Issue of shares to Mike Thomas (CEO) as second instalment of sign-on fee	1,500,000	0.010	15,000
30 Sep 2011	Issue of shares to Consultants in lieu of cash payment for services - ESOP	3,000,000	0.013	39,000
21 Oct 2011	Issue of shares for conversion of $250,000 of convertible note as per agreement (Bergen)	25,000,000	0.010	250,000
21 Nov 2011	Issue of shares pursuant to Resolutions 3-6 approved by members at the 2011 Annual General Meeting on 17 Nov 2011	20,000,000	0.006	120,000
22 Dec 2011	Issue of new securities pursuant to Non-Renounceable Rights Issue	860,253,232	0.005	4,301,266
22 Dec 2011	Issue of shares pursuant to Resolution 9 approved by members at the 2011 Annual General Meeting on 17 Nov 2011	3,198,482	0.009	29,689
22 Dec 2011	Issue of shares for conversion of $171,000 of convertible note as per agreement (Bergen)	57,000,000	0.003	171,000
22 Dec 2011	Issue of shares for conversion of $111,000 of convertible note as per agreement (Bergen)	37,000,000	0.003	111,000
30 Dec 2011	Issue of shares for conversion of $270,000 of convertible note as per agreement (Bergen)	90,000,000	0.003	270,000
9 Jan 2012	Issue of shares for conversion of $318,000 of convertible note as per agreement (Bergen)	62,500,000	0.005	317,999
13 Jan 2012	Issue of shares pursuant to $300,000 Capital Raising via Private Placement as announced to the market on 22 December 2011	60,000,000	0.005	300,000
Date	**Details**	**No.**	**Issue Price ($)**	**Total Value ($)**
13 Jan 2012	Issue of shares in lieu of cash payment for professional services rendered	2,300,000	0.006	13,800
13 Jan 2012	Issue of shares in lieu of cash payment for capital raising costs	11,000,000	0.006	66,000
20 Apr 2012	Issue of shares in lieu of cash payment for professional services rendered	4,401,020	0.004	17,604
		1,276,738,819		**6,070,633**

During the Year ended 30 June 2011, the Company issued the following securities:

Date	Details	No.	Issue Price ($)	Total Value ($)
17 Dec 2010	Issued to Directors	35,686,963	0.020	705,304
17 Dec 2010	Issued to a Consultant	3,500,000	0.011	37,100
17 Dec 2010	Conversion of Convertible Notes	7,006,667	0.015	105,100
10 Jan 2011	Conversion of Convertible Notes	6,666,667	0.015	100,000
16 Feb 2011	Conversion of Partly Paid Shares to Fully Paid Ordinary Shares	750,000	0.010	7,500
16 Feb 2011	Conversion of Convertible Notes	27,333,333	0.015	410,000
10 Mar 2011	Conversion of Convertible Notes	6,999,999	0.015	105,000
10 Mar 2011	Issued to Eligible persons of the Company's ESOP plan	5,442,847	0.015	81,642
10 Mar 2011	Issued to Consultants	2,459,328	0.015	36,890
30 Mar 2011	Issued to Consultants	1,100,000	0.020	22,000
11 Apr 2011	Conversion of Partly Paid Shares to Fully Paid Ordinary Shares	19,500,000	0.010	195,000
11 Apr 2011	Conversion of Convertible Notes	18,666,667	0.015	280,000
14 Apr 2011	Capital Raising	64,600,000	0.016	1,033,600
14 Apr 2011	Issued to Consultants	6,000,000	0.001	6,996
15 Apr 2011	Conversion of Convertible Notes	15,146,119	0.015	227,192
5 May 2011	Capital Raising	8,111,315	0.016	129,781
5 May 2011	Conversion of Convertible Notes	32,000,000	0.015	480,000
5 May 2011	Conversion of Partly Paid Shares to Fully Paid Ordinary Shares	7,215,000	0.010	72,150
5 May 2011	Conversion of Redeemable Convertible Preference Shares	2,996,000	0.015	44,940
5 May 2011	Conversion of Convertible Notes	34,099,600	0.015	511,494
20 May 2011	Issued in lieu of Cash Payment of Interest on Convertible Notes	2,458,952	0.015	36,884
20 May 2011	Issued to Consultants	1,923,077	0.013	25,000
20 May 2011	Conversion of Convertible Notes	2,000,000	0.015	30,000
15 Jun 2011	Issued to Consultants	5,000,000	0.012	60,000
30 Jun 2011	Issued to Consultants	1,312,452	0.011	14,043
30 Jun 2011	Equity expensed to a Director but not yet issued	-	-	216,000
		317,974,986		**4,973,616**

Terms and Conditions of Issued Capital

Ordinary Shares: 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. 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 20 - Option Reserves

	30 June 2012		30 June 2011	
	No.	$	No.	$
Options over fully paid ordinary shares				
Balance at beginning of year	235,312,643	1,271,211	120,068,330	1,033,307
Options over ordinary shares issued during the year	558,669,019	237,317	232,063,765	189,488
Share issued from the exercise of options	-	-	(52,666,999)	-
Expense recorded over vesting period of options	-	320,365	-	48,416
Lapse of options due to nil exercise	(184,740,989)	(50,800)	(64,152,453)	-
Total Reserves	**609,240,673**	**1,778,093**	**235,312,643**	**1,271,211**

During the Year ended 30 June 2012, the Company issued the following listed options:

Date	Details	No.	Option fair value ($)	Total Value ($)
2 Sep 2011	Issue of options to Employees under Employee Share Option Plan (ESOP)	60,750,000	0.002	130,947
2 Sep 2011	Unlisted Options issued as per Res 2 of GM - 10 Aug 2011	36,355,657	0.024	-
28 Sep 2011	Issue of options to Employee under Employee Share Option Plan (ESOP)	1,500,000	0.001	1,907
29 Sep 2011	Issue of options to consultant in lieu of cash payment for services rendered	20,000,000	0.001	18,909
30 Sep 2011	Issue of options to Bergen Global Management Fund as per agreement	25,000,000	-	18,281
22 Dec 2011	Issue of 1:4 free attaching options pursuant to the Rights Issue Capital Raising	400,063,309	-	67,273
9 Jan 2012	Issue of balance of options pursuant to the Non-Renounceable Rights Issue	53	-	-
13 Jan 2012	Issue of 1:4 free-attaching options pursuant to $300K Capital Raising via Private Placement as announced to the market on 22 December 2011	15,000,000	-	-
		558,669,019		**237,317**

During the Year ended 30 June 2011, the Company issued the following listed options:

Date	Details	No.	Option fair value ($)	Total Value ($)
17 Dec 2010	Issued to Directors	34,500,000	0.004	144,932
17 Dec 2010	Issued to Consultants	3,000,000	0.002	6,900
17 Dec 2010	Capital Raising - Free attaching options	7,006,667	-	-
17 Dec 2010	Issued to Consultants	4,000,000	-	-
10 Jan 2011	Capital Raising - Free attaching options	6,666,667	-	-
16 Feb 2011	Exercise of $0.015 Unlisted Options	(6,666,667)	-	-
16 Feb 2011	Capital Raising - Free attaching options	6,666,667	-	-
16 Feb 2011	Capital Raising - Free attaching options	27,333,333	-	-
10 Mar 2011	Capital Raising - Free attaching options	6,999,999	-	-
10 Mar 2011	Issued to Eligible persons of the Company's ESOP plan	10,777,314	0.002	21,555
10 Mar 2011	Issued to Eligible persons of the Company's ESOP plan	2,300,000	0.007	16,100
10 Mar 2011	Exercise of $0.015 Unlisted Options	(1,000,000)	-	-
10 Mar 2011	Capital Raising - Free attaching options	1,000,000	-	-

Date	Details	No.	Option fair value ($)	Total Value ($)
17 Mar 2011	Exercise of $0.015 Unlisted Options	(21,333,333)	-	-
17 Mar 2011	Capital Raising - Free attaching options	21,333,333	-	-
30 Mar 2011	Exercise of $0.015 Unlisted Options	(6,666,666)	-	-
30 Mar 2011	Capital Raising - Free attaching options	6,666,666	-	-
11 Apr 2011	Capital Raising - Free attaching options	18,666,667	-	-
14 Apr 2011	Issued to Consultants	6,000,000	-	-
15 Apr 2011	Capital Raising - Free attaching options	15,146,119	-	-
5 May 2011	Capital Raising - Free attaching options	32,000,000	-	-
5 May 2011	Exercise of $0.015 Unlisted Options	(17,000,333)	-	-
5 May 2011	Capital Raising - Free attaching options	17,000,333	-	-
15 Jun 2011	Issued to Consultants	5,000,000	-	-
		179,396,766		**189,487**

Note 21 - Capital and Leasing Commitments

a) Operating Lease Commitments

	30 June 2012 $	30 June 2011 $
Non-cancellable operating leases contracted for but not capitalised in the financial statements:		
Minimum lease payments payable		
- not later than 12 months	78,985	136,114
- between 12 months and 5 years	17,314	159,997
	96,299	**296,111**

<u>Haifa, Israel</u>

The new 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 270m^2 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 will take place from the beginning of December 2012.

b) Other commitments

<u>Accounting & Management Fees</u>
The CFO Solution provides accounting and administrative support at a rate of $7,500 per month plus GST. The commitment may be terminated with 3 months written notice by either party.

Note 22 - Contingent Liabilities

Chief Scientist

In 2000 Karmel Medical Acoustic Technologies Ltd (KMAT Ltd), which has sold its intellectual property, received a grant of NIS 1,844,100 (USD $540,000) plus accumulated interest, from the Chief Scientist, and in return was committed to transfer royalties valued at 3.5% to the Chief Scientist, including interest, from the sales of its products.

While founding the Company, all existing rights and liabilities of the know-how at that time of KMAT Ltd were transferred to the Company, as well as all exiting rights and liabilities toward the Chief Scientist, at that time, who gave his approval to that effect on 16th October 2006. Therefore an appropriate provision, based on the present value of the payment to the chief scientist has been recorded.

The Company has obtained from the Chief Scientist of the State of Israel grants for participation in research and development and, in return, the Company is obligated to pay royalties amounting to 3.5% from sales. The grant is linked to the exchange rate of the dollar and bears interest of Libor rate per annum.

Through 30th June 2012, the Company finished two projects (Vistech-ASAM 1.2) for which the total grants obtained amounted to NIS 1,048,565 (USD $307,047)

BIRD Foundation

In December 2008, the company signed a grant agreement with the BIRD Foundation (Binational Industrial Research and Development Foundation) and the American Company Sandhill.

The part designated to the Company is NIS 1,570,900 (AUD $452,778), out of which three instalments of NIS 314,180 (AUD $90,556) and one of NIS 366,303 (AUD $105,579) were paid by the date of the reports. The final instalment is due based on the companies expenses on the project.

The maximum repayment to Bird Foundation is 100%, 113%, 125%, 138% and 150% if the repayment occurs in the first, second, third, fourth or fifth year accordingly, following the original date of termination of the project.

On 4th May 2010, the Company received confirmation for the extension of the project until 31st January 2011, based on which the dates for the future instalments were changed accordingly.

Through to 30th June 2012, the total grants obtained amount to NIS 1,308,843 (AUD $361,850).
(Less paid royalties in a total amount of AUD $15,399)

Note 23 - 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 2012	----- Medical Devices ----- Australia $	Israel $	USA $	Corporate $	Total $
Segment Revenue					
External sales	-	12,968	-	-	12,968
Interest revenue	-	-	-	54,724	54,724
Unallocated revenue	-	-	-	544,864	544,864
Total Segment Revenue	**-**	**12,968**	**-**	**599,588**	**612,556**
Segment Expenses					
Segment Expenses	(543,066)	(2,845,744)	(983,972)	(1,824,946)	(6,197,728)
Total Segment Expense	**(543,066)**	**(2,845,744)**	**(983,972)**	**(1,824,946)**	**(6,197,728)**
Income Tax Expense	-	-	-	-	-
Net Result	**(543,066)**	**(2,832,776)**	**(983,972)**	**(1,225,358)**	**(5,585,172)**
Assets					
Segment assets	624,229	1,129,680	66,225	1,292,696	3,112,830
Total Assets	**624,229**	**1,129,680**	**66,225**	**1,292,696**	**3,112,830**
Liabilities					
Segment liabilities	17,369	681,847	135,195	163,980	998,391
Total Liabilities	**17,369**	**681,847**	**135,195**	**163,980**	**998,391**

30 June 2011	----- Medical Devices ----- Australia $	Israel $	USA $	Corporate $	Total $
Segment Revenue					
External sales	89,565	245,509	67,652	1,005	403,731
Interest Revenue	-	-	-	55,046	55,046
Total Segment Revenue	**89,565**	**245,509**	**67,652**	**56,051**	**458,777**
Segment Expenses					
Segment Expenses	(874,589)	(3,037,223)	(698,995)	(2,525,281)	(7,136,088)
Total Segment Expense	**(874,589)**	**(3,037,223)**	**(698,995)**	**(2,525,281)**	**(7,136,088)**
Income Tax Expense	-	-	-	-	-
Net Loss	**(785,024)**	**(2,791,714)**	**(631,343)**	**(2,469,230)**	**(6,677,311)**
Assets					
Segment assets	269,421	1,831,100	48,768	1,204,229	3,353,518
Total Assets	**269,421**	**1,831,100**	**48,768**	**1,204,229**	**3,353,518**
Liabilities					
Segment liabilities	37,423	917,539	29,420	259,340	1,243,722
Total Liabilities	**37,423**	**917,539**	**29,420**	**259,340**	**1,243,722**

Note 24 - Cash Flow Information

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

	30 Jun 2012 $	30 Jun 2011 $
Net Loss for the year	**(5,585,172)**	**(6,677,311)**
Add back depreciation expense	34,639	49,247
Add back amortisation expense	231,220	173,801
Add back equity issued for nil consideration	855,394	1,292,351
Add back profit or loss on sale of asset	83,942	-
Add back foreign exchange adjustments	(19,605)	21,831
(Increases)/Decreases in Accounts Receivable	(352,204)	105,954
(Increases)/Decreases in Other Current Assets	216,135	(84,281)
Increases/(Decreases) in Accounts Payable	(324,868)	(216,696)
Increases/(Decreases) in Other Current Liabilities	(19,458)	(18,859)
Net cash flows used in operating activities	**(4,879,977)**	**(5,353,963)**

b) Non-Cash financing and investing activities

See Note 19 and 20 for details regarding to the issue of equity for no cash consideration.

Note 25 - Share-based Payments

At the General Meeting held on 24 May 2007, Shareholders approved the establishment of the 2007 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, the Plan has been established to benefit personnel in both Australia and Israel.

As at 30 June 2012, 2 Directors, 6 former Directors, 24 employees and 13 consultants held equity which had been issued to them under the ESOP.

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

	No. of Shares	
	30 Jun 2012	30 Jun 2011
Total granted at the beginning of the year	21,794,175	13,892,000
Granted	7,746,889	7,902,175
Forfeited	-	-
From the exercised of options	-	-
Total granted at end of the year	**29,541,064**	**21,794,175**

Shares issued to employees and consultants were valued at the market price of the shares at grant date and is equal to the value of services provided under an agreement / invoice. See Note 19 for further details.

The weighted average fair value of the shares granted during the year was $0.013 (2011: $0.015). For the year ended 30 June 2012 $102,274 (2011: $118,532) has been expensed in the Statement of Comprehensive Income.

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

	30 Jun 2012		30 Jun 2011	
	No. of Options	Weighted Average Exercise Price $	No. of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the year	23,289,814	0.02	21,212,500	0.05
Granted	82,250,000	0.02	13,077,314	0.03
Forfeited	(1,012,500)	-	(400,000)	0.05
Exercised	-	-	-	-
Expired/lapsed	(12,000,000)	0.00	(10,600,000)	-
Outstanding at year-end	**92,527,314**	**0.02**	**23,289,814**	**0.02**
Exercisable at year-end	92,527,314	0.02	23,289,814	0.02

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

The options outstanding at 30 June 2012 had a weighted average exercise price of $0.024 and a weighted average remaining contractual life of 2 years. Exercise prices range from $0.012 to $0.05 in respect of options outstanding at 30 June 2012.

The weighted average fair value of the options granted during the year was $0.02.

Ref	Issue Date	Quantity	Expiry Date	Exercise Price ($)	Value Attributed at Grant Date ($)	Expensed During the Current Year ($)	Balance to be Expensed over Life ($)
1	2 Sep 2011	750,000	31 Jul 2012	0.012	7,575	7,575	-
2	2 Sep 2011	28,000,000	31 Jul 2016	0.013	459,200	97,702	361,498
3	2 Sep 2011	4,000,000	31 Dec 2011	0.015	25,600	25,600	-
4	2 Sep 2011	4,000,000	31 Dec 2012	0.020	19,400	12,125	7,275
5	2 Sep 2011	4,000,000	31 Dec 2012	0.020	33,600	33,600	-
6	2 Sep 2011	4,000,000	31 Dec 2012	0.020	38,800	24,250	14,550
7	2 Sep 2011	8,000,000	31 Dec 2013	0.020	21,600	7,714	13,886
8	2 Sep 2011	8,000,000	31 Dec 2013	0.020	84,000	30,000	54,000
9	28 Sep 2011	1,500,000	1 Jul 2013	0.015	13,350	5,721	7,629
10	30 Sep 2011	20,000,000	1 Jul 2014	0.030	208,000	56,727	151,273

* Refer to the below table on page 68 for valuation of the above securities issued under the ESOP.

Included under Consultants, Employees and Directors expense in the Statement of Comprehensive Income is $301,014 (2011: $156,187), that relates, in full, to equity-settled share-based payment transactions. There is a remaining balance to be expensed in future periods of $610,111 (2011: $9,776).

Reference	1	2	3	4	5	6	7	8	9	10
Issue Date	2/09/2011	2/09/2011	2/09/2011	2/09/2011	2/09/2011	2/09/2011	2/09/2011	2/09/2011	28/09/2011	30/09/2011
Grant Date	2/09/2011	2/09/2011	2/09/2011	2/09/2011	2/09/2011	2/09/2011	2/09/2011	2/09/2011	28/09/2011	30/09/2011
Vesting Date	2/09/2011	Qtrly Over 4Yrs	Milestone	Milestone	Milestone	Milestone	Milestone	Milestone	28/09/2011	30/09/2011
Share Price	$ 0.0190	$ 0.0190	$ 0.0190	$ 0.0190	$ 0.0190	$ 0.0190	$ 0.0190	$ 0.0190	$ 0.0160	$ 0.0150
Exercise Price	$ 0.0120	$ 0.0130	$ 0.0150	$ 0.0200	$ 0.0200	$ 0.0200	$ 0.0200	$ 0.0200	$ 0.0150	$ 0.0300
Implied Volatility	102.40%	119.00%	104.00%	120.10%	120.10%	120.10%	101.70%	97.60%	107.20%	143.80%
Expiry Date	31/07/2012	31/07/2016	31/12/2011	31/12/2012	31/12/2012	31/12/2012	31/12/2013	31/12/2013	1/07/2013	1/07/2014
Option Life (Years)	0.91	4.92	0.33	1.33	1.33	1.33	2.33	2.33	1.76	2.75
Risk Free Rate	3.78%	3.99%	3.78%	3.78%	3.78%	3.78%	3.78%	3.78%	3.78%	3.78%
Escrow Expiry Date	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Hoadley Valuation	$ 0.0101	$ 0.0164	$ 0.0064	$ 0.0097	$ 0.0097	$ 0.0097	$ 0.0108	$ 0.0105	$ 0.0089	$ 0.0140
Quantity of Options	750,000	28,000,000	4,000,000	4,000,000	4,000,000	4,000,000	8,000,000	8,000,000	1,500,000	20,000,000
Hoadley Valuation	$ 7,575	$ 459,200	$ 25,600	$ 38,800	$ 38,800	$ 38,800	$ 86,400	$ 84,000	$ 13,350	$208,000
Probability of Achievement	100%	100%	100%	50%	0%	100%	25%	100%	100%	100%
Adjusted Valuation	$ 7,575	$ 459,200	$ 25,600	$ 19,400	$ -	$ 38,800	$ 21,600	$ 84,000	$ 13,350	$ 208,000

c) The following shares were issued outside of the ESOP

	No. of Shares	
	30 Jun 2012	30 Jun 2011
Total granted at the beginning of the year	56,200,668	37,365,139
Granted	60,238,698	18,835,529
Forfeited	-	-
From the exercised of options	-	-
Total granted at end of the year	**116,439,366**	**56,200,668**

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 19 for further details.

The weighted average fair value of the shares granted during the year was $0.008 (2011: $0.01). For the year ended 30 June 2012 $181,093 (2011: $165,139) has been expensed in the Statement of Comprehensive Income.

d) The following options were issued outside of the ESOP

	30 Jun 2012		30 Jun 2011	
	No. of Options	Weighted Average Exercise Price $	No. of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the year	32,000,000	0.04	21,000,000	0.10
Granted	61,355,657	0.01	14,000,000	0.02
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired/lapsed	-	-	(3,000,000)	-
Outstanding at year-end	**93,355,657**	**0.02**	**32,000,000**	**0.04**
Exercisable at year-end	93,355,657	0.02	32,000,000	0.02

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

The options outstanding at 30 June 2012 had a weighted average exercise price of $0.01 and a weighted average remaining contractual life of 1.75 years. Exercise prices range from $0.001 to $0.024 in respect of options outstanding at 30 June 2012.

Note 26 - Events Subsequent to Balance Date

27th July 2012 – The Company held a General Meeting of the Company where members considered and subsequently approved:

- The appointment of Directors Dr David Dantzker MD, Mr Ross MacDonald, and Dr Stewart Washer; and
- The ratification of prior pre-consolidated issues of securities totalling 77,701,020 fully paid ordinary shares, and 15,000,000 listed options exercisable at $0.007 per option on or before 30 June 2014;
- The consolidation of the Company's share capital on a one (1) for twenty (20) basis which was subsequently enacted by the Company on 13th August 2012.

– The Company announced that Dr Stewart Washer would take over as Chairman of the Company with Ross Haghighat to continue on as an Executive Director in a new role of Vice Chairman.

8th August 2012 – iSonea announced the release of an updated Smartphone App for the Global Market AsthmaSense™.

31st August 2012 – iSonea announces private placement of 17.5 million shares at $0.06 raising $1.05 million to major cornerstone investor Bruce Mathieson.

27th September 2012 – Isonea announces 3:5 fully underwritten renounceable Rights Issue to raise $4 million before costs.

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 27 - Related Party Transactions

		30 Jun 2012 $	30 Jun 2011 $
a)	**Transactions with Key Management Personnel**		
	(i) Key Management Personnel compensation		
	Details of key management personnel compensation are disclosed in Note 6 and the Remuneration Report within the Directors Report.	-	-
	(ii) Key Management Personnel equity holdings		
	Details of key management personnel equity holdings are disclosed in Note 6 and the Remuneration Report within the Directors Report.	-	-
b)	**Equity Interests in related parties**		
	Details of interests in subsidiaries are disclosed in Note 12.	-	-
c)	**Other Related Parties**		
	(i) Director Related Entities		
	Consulting fees paid to Peregrine Corporate Ltd a company of which Peter Marks is a Director	-	54,600
	Consulting fees paid to Lampam Pty Ltd a company of which Peter Marks is a Director	-	20,000
	Consulting fees paid to Karmel Medical Acoustic Technologies Ltd a company of which Noam Gavriely is a Director	-	42,000
	Rent paid to Medi-Admin Pty Ltd a company of which Henry Pinskier is a Director	-	136,017
	Rent and facilities management fees paid to KMAT Ltd a company of which Noam Gavriely is a Director	-	66,650

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 7.40% (2010: 5.75%) per annum, As at 30 June 2012, the balance outstanding from subsidiaries was $25,223,291 (2011: $21,278,433) and the interest charged for the financial year was $1,648,156 (2011: 1,080,241). An accumulated provision for impairment of $24,265,147 (2011: $20,515,147) has been recognised by iSonea Limited against these loans. In the current period the parent recognised an impairment expense of $3,750,000 (2011: $4,752,581) on the loans to subsidiaries. All loans and interest are eliminated on consolidation.

Note 28 - 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 and Israeli shekel. 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 Jun 2012 $	30 Jun 2011 $
Cash and trade receivables		
- ISL	32,919	91,836
- USD	27,165	47,617
- EUR	7,559	47,077
Trade and other payables		
- ISL	(78,336)	(413,023)
- USD	(135,195)	(29,420)
	(145,888)	**(255,913)**

Sensitivity Analysis

The Group currently has material exposures to the Israeli New Shekel (ISL) 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/ISL exchange rate over the past 5 years based on the year-end spot rates, being 2.4%.

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 Jun 2012	(Higher) / Lower 30 Jun 2011
Cash and trade receivables:		
AUD/ISL: 2012: +2.00% (2011: +2.40%)	658	2,204
AUD/ISL: 2012: -2.00% (2011: -2.40%)	(658)	(2,204)
AUD/USD: 2012: +2.00% (2011: +2.40%)	543	1,143
AUD/USD: 2012: -2.00% (2011: -2.40%)	(543)	(1,143)
AUD/EUR: 2012: +2.00% (2011: +2.40%)	151	1,130
AUD/EUR: 2012: -2.00% (2011: -2.40%)	(151)	(1,130)

	(Higher) / Lower 30 Jun 2012	(Higher) / Lower 30 Jun 2011
Trade and other payables:		
AUD/ISL: 2012: +2.00% (2011: +2.40%)	(1,567)	(9,913)
AUD/ISL: 2012: -2.00% (2011: -2.40%)	1,567	9,913
AUD/USD: 2012: +2.00% (2011: +2.40%)	(2,704)	(706)
AUD/USD: 2012: -2.00% (2011: -2.40%)	2,704	706

(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 2012	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate within Year	Fixed Interest Rate 1 to 5 years	Fixed Interest Rate over 5 Years	Non-Interest Bearing	Total
	%	$	$	$	$	$	$
Financial Assets							
Cash and trade receivables	3.50%	1,331,165	-	-	-	-	1,331,165
Trade and other receivables	-	-	-	-	-	628,752	628,752
Total Financial Assets		**1,331,165**	**-**	**-**	**-**	**628,752**	**1,959,917**
Financial Liabilities							
Trade and other payables	-	-	-	-	-	391,984	391,984
Borrowings	7.74%	-	2,896	-	-	-	2,896
Total Financial Liabilities		**-**	**2,896**	**-**	**-**	**391,984**	**394,880**

30 June 2011	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate within Year	Fixed Interest Rate 1 to 5 years	Fixed Interest Rate over 5 Years	Non-Interest Bearing	Total
	%	$	$	$	$	$	$
Financial Assets							
Cash and trade receivables	4.04%	1,312,065	-	-	-	-	1,312,065
Trade and other receivables	-	-	-	-	-	276,548	276,548
Total Financial Assets		**1,312,065**	**-**	**-**	**-**	**276,548**	**1,588,613**
Financial Liabilities							
Trade and other payables	-	-	-	-	-	716,852	716,852
Provisions	-	-	-	-	-	22,354	22,354
Total Financial Liabilities		**-**	**-**	**-**	**-**	**739,206**	**739,206**

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 +/- 2.00% (2011: 1.75%), being reflective of the movement of the weighted average interest rates from financial years 2011 to 2012, and all other variables had remained constant, would impact the consolidated entity's loss after tax and equity as follows:

	30 Jun 2012 $	30 Jun 2011 $
+2.00% (200 basis points)	26,623	22,961
-2.00% (200 basis points)	(26,623)	(22,961)

b) Credit Risk

Credit risk refers to the risk that a counterparty 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 $
2012 Trade and other receivables	42,572	586,180	-	-
2011 Trade and other receivables	235,160	-	-	41,388

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 $
2012 Trade and other payables	373,064	18,920	-	-
2011 Trade and other payables	667,957	17,456	13,867	17,572

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 19 and 20. 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 29 - 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

Director's 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 35 to 74, and the remuneration disclosures that are contained within the Remuneration report within the Directors' report, set out on pages 18 to 24, are in accordance with the Corporations Act 2001 and:
    a. comply with Accounting Standards and the Corporations Regulations 2001; and
    b. give a true and fair view of the financial position as at 30 June 2012 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 2011 for the financial year ended 30 June 2012.

For and on behalf of the Company;

Dr. Stewart Washer
Non-Executive Chairman

Mr Ross Haghighat
Executive Vice-Chairman

Melbourne

Dated: 28th Day of September 2012

Tel: +61 3 9603 1700
Fax: +61 3 9602 3870
www.bdo.com.au

Level 14, 140 William St
Melbourne VIC 3000
GPO Box 5099 Melbourne VIC 3001
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 statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a statement 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.

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 2012 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.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 "Going Concern Basis" in the financial report, which indicates that the consolidated entity incurred a net loss of $5,585,172 and had net cash outflows from operating activities of $4,879,977 for the year ended 30 June 2012. These conditions, along with other matters as set forth in Note 1 "Going Concern Basis", indicate the existence of a material uncertainty that may cast significant doubt about the ability of the consolidated entity to continue as a going concern, and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 18 to 24 of the directors' report for the year ended 30 June 2012. 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 2012 complies with section 300A of the *Corporations Act 2001*.

BDO East Coast Partnership

BDO

James Mooney

Partner

Melbourne, 28 September 2012

As at 27th September 2012

NUMBER OF HOLDERS OF EQUITY SECURITIES

Ordinary Shares

134,541,909 fully paid ordinary shares are held by 3,969 individual shareholders.

All ordinary shares carry one vote per share.

Options

Listed Options

20,752,642 (ASX: ISNOA) listed options exercisable at $0.14 on or before 30/06/14, are held by 583 individual shareholders.

Unlisted Options

190,625 (ASX: ISNAM) unlisted options exercisable at $1.00 on or before 15/12/2013, are held by 2 individual shareholders.

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

45,000 (ASX: ISNAZ) unlisted options exercisable at $2.60 on or before 15/12/2014, are held by 3 individual shareholders.

45,000 (ASX: ISNAZ) unlisted options exercisable at $2.60 on or before 15/12/2015, are held by 2 individual shareholders.

6,203,865 (ASX: ISNAW) unlisted options exercisable at various prices on or before various dates, are held by 28 individual shareholders.

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	2,025	226
1,001 - 5,000	644	153
5,001 - 10,000	283	61
10,001 - 100,000	770	115
100,001 +	247	28
Total number of shareholders	**3,969**	**583**
Unmarketable parcels	2,832	-

TWENTY LARGEST HOLDERS OF QUOTED SECURITIES

	Shareholders	Number	%
1	Inv Holdings Pty Ltd	17,500,000	13.01
2	Renlyn Bell Inv Pty Ltd	3,509,939	2.61
3	John W King Nominees Pty Ltd	2,644,981	1.97
4	Michael Joseph Thomas	2,579,713	1.92
5	Maple Management Limited	2,058,890	1.53
6	CFO Solution Team Pty Ltd	2,049,585	1.52
7	Ingrid Hills	1,740,069	1.29
8	Sarah Cameron	1,725,000	1.28
9	Triton Systems Inc	1,386,515	1.03
10	G & D Bonaccorso	1,350,000	1.00
11	Peter J Klasen	1,161,619	0.86
12	HSBC Custody Nominees Australia Pty Ltd	1,149,106	0.85
13	JR Props Pty Ltd	1,131,691	0.84
14	Chris & Susie Retzos	1,115,944	0.83
15	Nathan Conrad Hamley	1,100,000	0.82
16	Tanglo Holdings Pty Ltd	924,000	0.69
17	Carldem Pty Ltd	918,650	0.68
18	Mars Const Pty Ltd	875,000	0.65
19	Atlantis Investigations Pty Ltd	764,329	0.57
20	MND Australia Pty Ltd	739,166	0.55
	Total	**46,424,197**	**34.50**

	Optionholders	Number	%
1	Farmer Fincl Pty Ltd	1,680,785	8.10
2	Emily Kate Muschol	1,300,000	6.26
3	Riveck Nominees Pty Ltd	1,250,000	6.02
4	Coronet Bay Pty Ltd	1,193,380	5.75
5	Nutsville Pty Ltd	1,056,293	5.09
6	CFO Solution Team Pty Ltd <Team A/C>	1,012,396	4.88
7	Ardroy Securities Pty Ltd	853,147	4.11
8	Dov Panth	750,000	3.61
9	CFO Solution Team Pty Ltd	750,000	3.61
10	International Business Network SV	674,783	3.25
11	Chris & Susie Retzos	653,986	3.15
12	Paul Craig Starkie	450,000	2.17
13	John W King Nominees Pty Ltd	410,042	1.98
14	Michael Joseph Thomas	399,667	1.93
15	Wise Plan Pty Ltd	352,097	1.70
16	Advance Publicity Pty Ltd	352,097	1.70
17	William Henry Hernstadt	352,097	1.70
18	Goffacan Pty Ltd	300,000	1.45
19	Ingrid Hills	275,721	1.33
20	Bin Liu	208,781	1.01
	Total	**14,275,272**	**68.80**

SUBSTANTIAL SHAREHOLDERS

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

	No. of Shares
Investment Holding Pty Ltd	17,500,000
Renlyn Bell Investments Pty Ltd	5,666,796
Total No. of shares held by Substantial Shareholders	**23,166,796**

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 statement are issued at the end of each month that 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

Dr. Stewart Washer	Independent Non-Executive Chairman
Mr. Ross Haghighat	Executive Director and Vice-Chairman
Mr. Jerry Korten	Independent Non-Executive Director
Dr. David Dantzker MD	Independent Non-Executive Director
Mr. Ross MacDonald	Independent Non-Executive Director

CHEIF EXECUITVE OFFICER (CEO)
Mr. Michael Thomas

COMPANY SECRETARIES
Mr. Phillip Hains
Mr. Peter Vaughan

CHEIF FINANCIAL OFFICER (CFO)
Mr. David Model

PRINCIPAL PLACE OF BUSINESS
Suite 1, 1233 High Street
Armadale, Victoria, 3143
Australia
Telephone: + 61 (0)3 9824 5254
Fax: + 61 (0)3 9822 7735

REGISTERED OFFICE
Suite 1, 1233 High Street
Armadale, Victoria, 3143
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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Rialto Towers
525 Collins Street
Melbourne, Victoria, 3000
Australia

Hopgood Ganim Lawyers Pty Ltd
Level 8, Waterfront Place,
1 Eagle Street,
Brisbane, Queensland, 4000
Australia

AUDITORS
BDO East Coast Partnership
Level 14, 140 William Street
Melbourne, Victoria, 3000
Australia

WEBSITE
www.isoneamed.com

BANKERS
National Australia Bank (NAB)
330 Collins Street,
Melbourne, Victoria, 3000
Australia

SECURITIES QUOTED

Australian Securities Exchange
- Ordinary Fully Paid Shares (Code: ISN)
- Listed Options over Ordinary Fully Paid Shares (Code: ISNOB) exercisable at $0.14 per option on or before 30 June 2014.

American Depository Receipts (ADR)
Level 2 ADR Program, ADRs are traded in the US over-the-counter (OTC) market.
Ratio: 1 ADR = 25 ordinary shares
Symbol: ISOAY