

# APPENDIX 4D

## For the Half Year Ended 31 December 2011

### Results for Announcement to the Market

Current Reporting Period - Half year ended 31 December 2011

Previous Reporting Period - Half year ended 31 December 2010

Revenues	Down	(93.84%)	to	\$13,218
Loss after tax attributable to members	Down	(12.84%)	to	(\$3,194,858)
Net loss for the period attributable to members	Down	(12.84%)	to	(\$3,194,858)

Dividends (distribution)	Amount per Security	Franked Amount per Security
Final dividend	n/a	n/a
Previous corresponding period	n/a	n/a

#### **Net Tangible Asset per Security (cents per security)**

As at 31 December 2011 0.12

As at 31 December 2010 0.17

Record date for determining entitlements to dividend

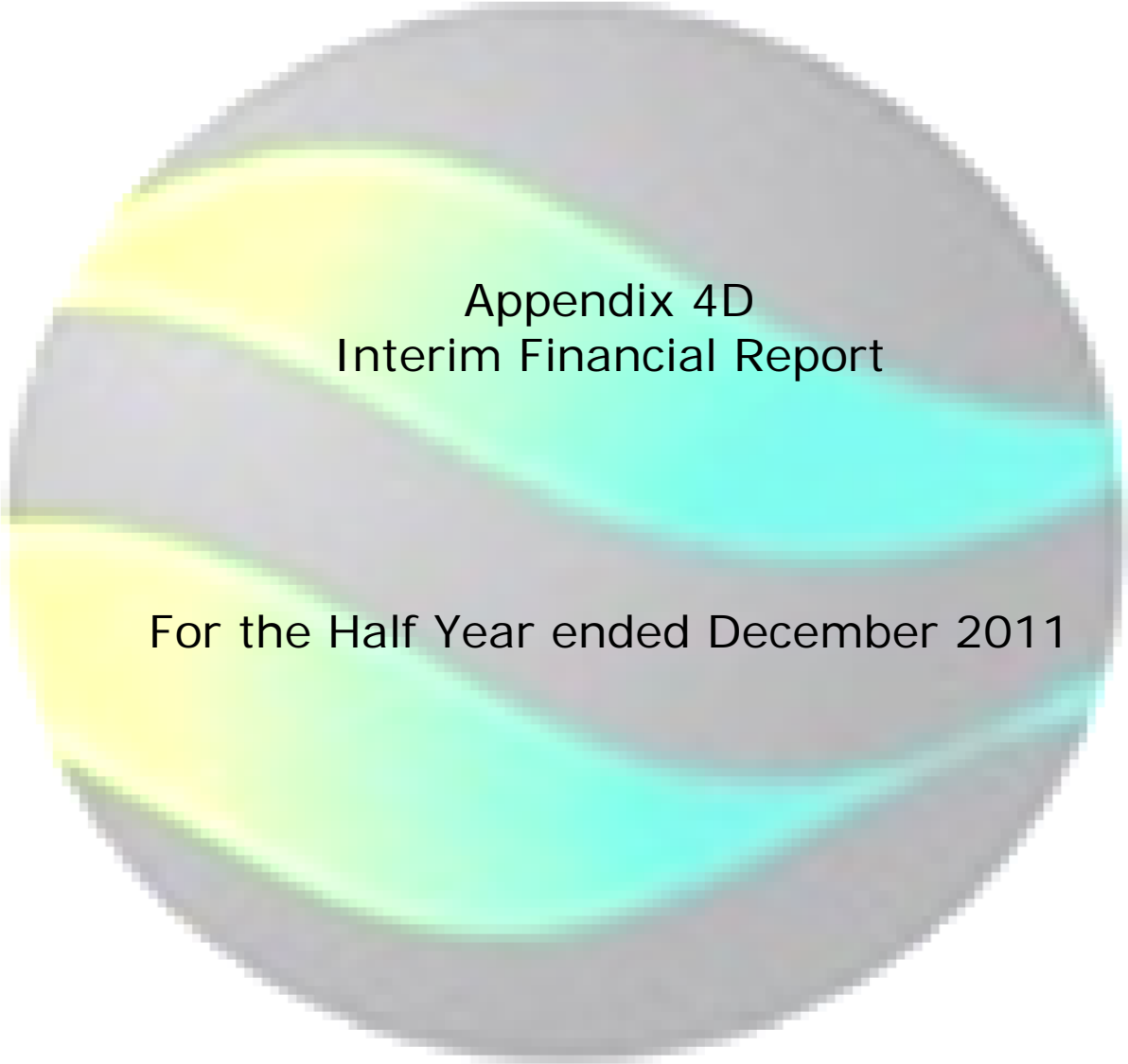
n/a

#### **Explanation of the above information:**

Refer to the Directors' Report - Review of Operations.



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### Appendix 4D Interim Financial Report

For the Half Year ended December 2011

To be read in conjunction with the 30 June 2011 Annual Report

In compliance with Listing Rule 4.2A

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# Directors' Report

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The Director's of iSonea Limited ("ISN", "iSonea" or "the Company") provide the following Report in relation to the Company for the half year ended 31 December 2011.

## Directors

The following persons were Directors of the Company during the whole of the half-year and up to the date of this report:

Mr Ross Haghighat	Executive Chairman
Mr Fabio Pannuti	Independent Non-Executive Director
Mr Jerry Korten	Independent Non-Executive Director
Mr Paul Hopper	Independent Non-Executive Director

## Results and Review of Operations

### Results

The Company reported a loss for the half-year of \$3,194,858 (2010: \$3,665,337). The loss is after fully expensing all research and development costs.

### Review of Operations

During the six months ending 31 December 2011, the Company experienced a significant transitional phase as a new management team was put in place and commercialisation efforts were aligned to support the Company's expanded product initiatives. The new management team developed an enhanced business strategy that will better leverage the Company's core technologies and patent portfolio for Acoustic Respiratory Monitoring (ARM™) systems and analytical software.

This new strategy will incorporate iSonea technologies as smartphone based asthma management tools. These tools will be used as non-prescription monitoring devices sold directly to consumers with a lower cost to manufacture, higher gross profit margins, more efficient and scalable distribution channels, and a more expeditious path toward revenue generation.

During the last three months of the period, the Company made substantial progress toward the execution of the new business model.

The key achievements include:

### Capital Campaign Raised \$5.6 million

iSonea raised \$4.3 million by way of subscription under the renounceable rights issue that closed on 15 December 2011 with further commitments to subscribe.

The company allotted 860,253,232 shares and 215,063,309 free-attaching options as per the Prospectus in respect to the renounceable rights issue dated 18 November 2011. Australian broker Patersons Securities Limited led the management of the Rights Issue, raising \$4,301,266.

The company also received firm commitments for placement of another 59,999,996 shares and 14,999,992 free-attaching options, enabling the Company to raise another \$300,000 in January 2012 from overseas investors. The total issued shares and commitments represented 107% of the allotment offered to qualifying shareholders.

This oversubscription reaffirmed investor support for the new management team's strategic direction of the company as it moves from the cost-cutting and restructuring efforts in late 2011 to a commercialisation-ready organisation in 2012.

Earlier in Q2 FY 2012, a \$1 million investment was made by Bergen Global Opportunity Fund, LP by way of an unsecured convertible instrument.

### **Recruited New Management Team**

Remaining gaps in the senior management team were filled during 2nd Quarter FY2012. The new team has extensive experience in pioneering respiratory devices and building global medical technology companies, and includes:

- Medical Director – Jonathan Freudman, MD – an internal medicine physician with 25 years of medical practice and healthcare experience, he has helped establish disease management programs for asthma, diabetes, and heart failure for Kaiser Permanente. Dr. Freudman is a specialist in helping emerging biotech and medtech companies with the development of reimbursement strategies, clinical trial design, and new product commercialisation.
- Vice President of Marketing – Michael A. Cheney – with 25 years of strategic marketing and demand creation experience in pharmaceutical, medical device, and biotech companies, Mr. Cheney has launched market shaping brands for Wyeth, BASF/Knoll, and Cyberonics. He also has experience in the commercialisation of novel diagnostic technology in the respiratory/sleep disordered breathing segment.
- Vice President of Business Development – Jan P. Barker – Ms. Barker has depth of experience in venture capital investing and fund-raising in the medical device, systems, and information technology segments of healthcare. Key strengths include strategic planning, operations assistance, and business development; her role will be instrumental in developing potential strategic partnerships and identifying new technology candidates for licensing.

### **Corporate Restructure Focusing on US Commercialisation**

Expenses during the 2nd Quarter of FY2012 reflect a restructuring of the company with the goals of eliminating high fixed-cost resources that would not produce profitable returns and building an organisation with substantive experience and a documented track record of commercial success in the US.

Staff adjustments were made in Australia, Europe, Israel and the US to reflect this shift in strategic focus. Specifically, sales and marketing expenses to support the traditional physician promotion model, (which had not yet been scaled to a commercial level sufficient to generate a consistent revenue stream) were substantially reduced. This is in line with the Company's strategy to leverage the growing global demand for mobile health and smartphone-based products and consumer-oriented, social-media based marketing channels.

A more profitable, more scalable model of direct-to-consumer demand creation will be executed initially in the US, using lower cost, higher margin, non-prescription versions of the WheezoMeter™ personal monitoring device and AsthmaSense™ mobile health (mHealth) smartphone management apps. Reduced sales revenues for the period are a result of reductions in sales staff and promotional expenditures attributed to the Company's first generation products.

### **Preparation for Isona Trading on US OTCQX**

In December, the Financial Industry Regulatory Authority (FINRA) approved the trading of iSonea's American Depositary Receipts (ADRs) on the OTCQX under the symbol ISOAY, beginning 3 January 2012. The company has appointed Bank of New York Mellon (BNY Mellon) as its depositary bank and Principal American Liaison (PAL).

The OTC listing provides a direct market mechanism for US investors to participate in the future growth of the company, as the investment opportunity is promoted in the US. There is considerable shareholder value to be realised as 2012 milestones are met and the technology developments are introduced to the US asthma market. We believe that the involvement of US investors will bring new vitality to the Company's stock.

### **Protocol Finalised for US Wheezometer Study to Support Non-Rx Submission to FDA**

Protocol design for a US pediatric study on wheeze rate monitoring was finalised by the Company's Medical Director and the newly-appointed Medical Advisory Board. This multi-site study will involve 95 children in the asthma patient and control groups. The study is on track to begin enrollment in April and completion is expected within 3 to 4 months.

The objectives of the study are to:

- a) establish equivalence of wheeze rate monitoring to spirometry measurements, and
- b) to support FDA submission of a non-prescription wheeze monitoring device.

Ultimately, this study will also form part of the package for pursuit of reimbursement via the attainment of a Category I CPT code for in-office testing by physicians and other US healthcare professionals.

### **US Healthcare Trends Impact Product Development Direction**

Significant trends in the US healthcare arena provide the context for the direction iSonea is taking in penetrating that market. In addition to the proliferation of consumer health-based apps, record numbers of physicians are also using smartphones and tablet devices in the hospital and in their office practices, which has led to surging development of diagnostic and disease management software. The revolutionary level of communication and social networking that is taking place on the internet is also beginning to have an impact on healthcare, as trends show more doctors communicating with each other and with their patients via these routes.

Why does this matter? With healthcare accounting for approximately 20% of the US economy, and with 75% of healthcare spend in the US linked to consequences of chronic conditions, greater economic emphasis is being placed on physician-demonstrated outcomes and the concept of delivering clinical value. Industry analysts recognise that this trend is also changing the perception of patients from passive recipients of physicians' care to active drivers in that care. In short, patients make decisions that will ultimately affect outcomes and the economy of healthcare.

Central to this fundamental shift is the need for more effective and immediate communication between physicians and patients, to influence behavior and decisions that will shape the outcomes and management of chronic conditions. In the case of asthma, the goals of improved communication would be to help patients adhere to medication plans, increasing their awareness of environmental or activity triggers, remembering to monitor their breathing symptoms regularly, and participating with their physician in the adjustment of their asthma action plan.

Technology pioneers such as iSonea have the potential to replace inefficient and expensive communication methods with more cost effective and immediate mobile health platforms, increasing the connectivity between providers and patients – providing real-time relevant information to both the patient and the physician that can shape decisions that will impact the outcomes and the cost of treatment decisions.

### **New Product Development Pipeline**

- WheezoMeter™ - Inherent limitations of the existing WheezoMeter platform, as far as a scalable, profitable product launch in the US, include its FDA clearance as a prescription-only device and its high manufacturing cost of goods, due to current components. These factors inhibit the ability to sell the WheezoMeter profitably at an attractive price to US customers, especially with no reimbursement established for the device (i.e., no approved Category I CPT codes). The new strategic path for the commercialisation of this product is to submit to the FDA an application for clearance as a non-prescription device, then to re-engineer and re-design the hardware using less costly, contemporary components, in order to achieve a lower consumer price point and a higher gross profit margin.
- The 510(k) application for a non-prescription WheezoMeter will be submitted to the FDA in Q4 FY2012, with clearance anticipated by the end of Q1 FY2013.
- Gen2 WheezoMeter - A second generation WheezoMeter, using lower cost and more advanced components, is expected to reach the market in Q4 FY 2013.

- To address the market needs of asthma consumers without smartphones, the Gen 2 WheezoMeter will also integrate with the Qualcomm 2net™ Hub for automatic data collection and transmission to the cloud based portal. Availability is expected in Q2 FY2013.
- AsthmaSense™ smartphone apps – A series of four smartphone apps are currently in development and design phases, with programming that will conform to iPhone, Android, and ultimately Blackberry platforms. Early versions of the app will provide consumers with the easiest way to monitor and trend their symptoms, triggers, breathing measurements, and medication adherence, with active reminders and alerts. Subsequent versions will include interactive management of the asthma action plan between patient, family, and physician. Version 2.0 will be integrated with wheeze probe sensors to automatically incorporate WheezeRate™ measurement into the app function.
- AirSonea™ - Also in development is an innovative personal wheeze monitor, the AirSonea™, which will be integrated with version 2.0 of the AsthmaSense smartphone app, to automatically log and analyse real-time wheeze data and to transmit this data to iSonea's cloud portal for physician or family access to personalised reports. Target date for commercial availability of the AirSonea is Q4 FY 2013.
- Rapid daytime test for the diagnosis of Obstructive Sleep Apnea (OSA) – The Company is currently exploring several options to license, acquire, develop and commercialise technologies that will leverage the iSonea ARM™ smartphone platform. One of the targets is a technology that will enable iSonea smartphone apps to diagnose OSA during a 15-20 minute daytime test while the patient is awake.

### **Mobile Health Product Development Initiated**

A major component of the new strategy for iSonea is the integration of our proprietary Acoustic Respiratory Monitoring sensory technology and diagnostic algorithms into smartphone platforms. The universal availability of iPhones and Android-based smartphones provides an ideal platform for asthma monitoring. Over 500 million of these devices were sold in 2011 (with over 1 billion expected to be sold in 2015). These devices are perpetually present with their owners, meaning that the hardware needed for regular daily monitoring will already be conveniently in our customers' hands.

Harnessing the mobile health (mHealth) platform also provides lower cost product development, a more efficient market penetration model (than traditional physician promotion), and a quicker path to revenue generation for the company. Specification development for the function and design of the AsthmaSense™ v1.0 asthma management app was completed in December 2011; user interface design and programming are currently underway in 2012.

The first version of the AsthmaSense app will become available in Q4 of FY 2012. Subsequent versions with planned feature upgrades for additional alerts and interactive action plan management will follow in Q2 and Q4 FY 2013.

### **US Asthma Consumer Quantitative Research**

In December 2011, iSonea completed its first quantitative research with asthma patients and caregivers in the US (n=369), in order to develop a better understanding of the needs of asthma consumers. The research focused on current asthma monitoring practices and usage of asthma smartphone apps, to inform the company's strategy for marketing the mHealth and OTC wheeze monitoring products. Results confirm a high level of interest and adoption intent by current asthma patients for both the AsthmaSense app products and the WheezoMeter based consumer wheeze monitoring device.

The AsthmaSense™ apps and the new monitoring products in development will be beta tested by asthma consumers as part of the market preparation phase, to ensure that development meets consumer needs and to build awareness and anticipation for these products through internet channels.

iSonea will begin quantitative market research with US target physician segments in Q1 FY 2013.

### **Milestone Progress**

At the AGM in November and the Australian investor presentations in December 2011, we defined the critical steps and milestones for the remainder of CY 2011 and the beginning of CY 2012. As of December 2011, the company achieved all of those milestones except for the consummation of an agreement with a Fortune 500 strategic partner.

Discussions and negotiations on strategic collaboration are ongoing with several companies. One such collaboration with Qualcomm Life, a division of Qualcomm Inc., a Fortune 500 company, was announced in February 2012 for a technology development initiative to combine iSonea's proprietary Acoustic Respiratory Monitoring (ARM)<sup>™</sup> devices and mobile health asthma management systems with Qualcomm Life's 2net<sup>™</sup> platform. The integration will automatically and securely link patient asthma symptom and trend monitoring data to a cloud-based portal for physicians and caregivers which will enable them to improve the quality of their asthma management services and achieve better patient outcomes.

The new strategic direction offers attractive potential for partnering with pharmaceutical and respiratory device companies. We are scrutinising all options with the intent to maximise long term shareholder interests and will promptly announce any material news to the market.

### **Key Milestones: Balance of current year to 30 June 2013**

<b>Milestone</b>	<b>Development Stage</b>	<b>Target Date</b>
SoundAsthma.com - Internet Consumer Educational & Promotional Initiatives	Social media channels launched, website in development	Q3 FY 2012
AsthmaSense <sup>™</sup> v1.0 Asthma App	Design & Implementation	Q4 FY 2012
US WheezoMeter Pediatric Study	Protocol approved, sites selected, to enrol in Q4 FY 2012	Q1 FY 2013
FDA Submission – OTC WheezoMeter <sup>™</sup>	Regulatory Review	Q1 FY 2013
AsthmaSense <sup>™</sup> v1.1 Asthma App	Research	Q2 FY 2013
FDA Submission – Gen 2 Wheeze Monitor	Design & Implementation	Q2 FY 2013
AsthmaHome <sup>™</sup> 2net <sup>™</sup> Hub	Design & Implementation	Q2 FY 2013

We believe that achievement of each milestone will provide a substantial and measurable increase in shareholder value.

### **iSonea Core Competencies**

1. Develop, manage, and grow a broad, deep, and innovative patent portfolio centered on respiratory disorders and sound analysis.
2. Develop and commercialise medical software applications for smartphones that enable diagnosis and remote patient monitoring of chronic respiratory diseases.
3. Develop, license, and acquire innovative, proprietary algorithms that act as the “brains” of the smartphone software applications.
4. Develop and implement clinical trials that facilitate government regulatory approvals (such as the US Food and Drug Administration or the Australian TGA) for direct to consumer usage of the Company's products.
5. Develop and implement robust, innovative, and cost effective commercialisation campaigns to generate profitable, sustainable revenue.



2012 will be an inflection point year for iSonea as the Company moves beyond the traditional path of a prescription medical device manufacturer to that of a user-driven mobile health and monitoring pioneer.

- We believe that the universal proliferation of the smartphone platform provides iSonea with the ideal route to a scalable, profitable asthma monitoring business with recurring revenue.
- We believe that Acoustic Respiratory Monitoring (ARM™) tools that can be delivered through more efficient and cost effective channels, to help asthma and respiratory disease patients better manage their health.
- We will leverage these proprietary products and communication channels to generate recurring revenue streams in our quest to become a profitable leader in global respiratory disease management.

We want to personally thank our shareholders for your continued support and loyalty during this upcoming year.

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### **Auditor's Independence Declaration**

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

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



Mr Ross Haghighat  
**Executive Chairman**  
Melbourne



Mr Michael Thomas  
**Chief Executive Officer**

Dated: 28<sup>th</sup> Day of February 2012

# Auditor's Independence Declaration



Chartered Accountants  
& Business Advisers

## LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To: **The Directors**  
**iSonea Limited and the entities it controlled during the half-year ended 31 December 2011**

I declare to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2011 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review, and
- no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink, appearing to read 'J A Mooney'.

**J A Mooney**  
**Partner**  
**PKF**

28 February 2012  
Melbourne

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# Statement of Comprehensive Income

## For the Half Year Ended 31 December 2011

	Note	31 December 2011 \$AUD	31 December 2010 \$AUD
<b><u>Revenue</u></b>			
Total operating revenue		1,627	187,141
Total non-operating revenue		11,591	27,385
<b>Total Revenue</b>		<b>13,218</b>	<b>214,526</b>
Cost of goods sold		(25,769)	107,764
<b>Gross profit</b>		<b>38,987</b>	<b>106,762</b>
Other income		71,835	12,079
<b><u>Expenses</u></b>			
Amortisation Expenses		(84,931)	(86,955)
Consulting, Employee and Director Expenses		(1,155,920)	(1,700,149)
Corporate administration expenses		(595,190)	(424,443)
Finance Costs		(174,438)	-
Depreciation Expenses		(26,180)	(24,064)
Marketing and promotion expenses		(469,485)	(563,022)
Research and Development expenses		(668,008)	(746,578)
Travel and entertainment expenses		(131,528)	(238,967)
<b>Profit/(loss) before tax</b>		<b>(3,194,858)</b>	<b>(3,665,337)</b>
Income tax expense		-	-
<b>Profit/(loss) for the year</b>		<b>(3,194,858)</b>	<b>(3,665,337)</b>
<b><u>Other comprehensive income:</u></b>			
Exchange differences on translation of foreign operations		(191,924)	16,788
<b>Total comprehensive income / (expense) for the year</b>		<b>(3,386,782)</b>	<b>(3,648,549)</b>
Profit/(loss) attributable to owners of the parent entity		(3,194,858)	(3,665,337)
Total comprehensive income /(expense) attributable to members of the parent entity		(3,386,782)	(3,648,549)

Basic earnings per share (cents per share)	7	(0.28)	(0.51)
Diluted earnings per share (cents per share)	7	(0.28)	(0.51)

The accompanying notes form part of these financial statements.

# Statement of Financial Position

## As at 31 December 2011

	Note	31 December 2011 \$ AUD	30 June 2011 \$ AUD
<b>ASSETS</b>			
<b><u>Current Assets</u></b>			
Cash and cash equivalents		3,451,564	1,312,065
Trade and other receivables		248,865	276,548
Inventories		474,333	386,423
Other		37,990	38,722
<b>Total Current Assets</b>		<b>4,212,752</b>	<b>2,013,758</b>
<b><u>Non-Current Assets</u></b>			
Property, plant and equipment		153,726	195,074
Other intangible assets		1,019,107	1,134,116
Other		9,967	10,570
<b>Total Non-Current Assets</b>		<b>1,182,800</b>	<b>1,339,760</b>
<b>TOTAL ASSETS</b>		<b>5,395,552</b>	<b>3,353,518</b>
<b><u>LIABILITIES</u></b>			
<b><u>Current Liabilities</u></b>			
Trade and other payables		717,968	716,852
Borrowings		326,686	-
Provisions		37,272	22,354
<b>Total Current Liabilities</b>		<b>1,081,926</b>	<b>739,206</b>
<b><u>Non-Current Liabilities</u></b>			
Other financial liabilities		571,865	504,516
Provisions		3,608	-
<b>Total Non-Current Liabilities</b>		<b>575,473</b>	<b>504,516</b>
<b>TOTAL LIABILITIES</b>		<b>1,657,399</b>	<b>1,243,722</b>
<b>NET ASSETS</b>		<b>3,738,153</b>	<b>2,109,796</b>
<b>EQUITY</b>			
Issued capital	5	72,256,962	67,479,141
Reserves	6	1,133,906	1,139,314
Accumulated Losses		(69,652,715)	(66,508,659)
<b>TOTAL EQUITY</b>		<b>3,738,153</b>	<b>2,109,796</b>

The accompanying notes form part of these financial statements.

# Statement of Changes in Equity

## For the Half Year Ended 31 December 2011

	Share capital	Option Reserve	Consolidated Foreign Currency Translation Reserve	Accumulated Losses	Total
	\$	\$	\$	\$	\$
<b>Balance as at 30 June 2010</b>	<b>61,896,696</b>	<b>4,661,323</b>	<b>(231,931)</b>	<b>(63,459,364)</b>	<b>2,866,724</b>
<b>Total comprehensive income for the year:</b>	<b>-</b>	<b>-</b>	<b>16,788</b>	<b>(3,665,337)</b>	<b>(3,648,549)</b>
<i>Transactions with Equity holders in their capacity as equity holders:</i>					
Shares issued	3,111,191	-	-	-	3,111,191
Capital raising costs	(58,662)	-	-	-	(58,662)
Options issued	-	186,994	-	-	186,994
<b>Balance at 31 December 2010</b>	<b>64,949,225</b>	<b>4,848,317</b>	<b>(215,143)</b>	<b>(67,124,701)</b>	<b>2,457,698</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>83,246</b>	<b>(3,011,974)</b>	<b>(2,928,728)</b>
<i>Transactions with Equity holders in their capacity as equity holders:</i>					
Shares issued	1,807,496	-	-	-	1,807,496
Capital raising costs	(67,585)	-	-	-	(67,585)
Options exercised net of costs	790,005	-	-	-	790,005
Options issued	-	50,910	-	-	50,910
Transfers to/from reserves *	-	(3,628,016)	-	3,628,016	-
<b>Balance at 30 June 2011</b>	<b>67,479,141</b>	<b>1,271,211</b>	<b>(131,897)</b>	<b>(66,508,659)</b>	<b>2,109,796</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(191,926)</b>	<b>(3,194,858)</b>	<b>(3,386,784)</b>
<i>Transactions with Equity holders in their capacity as equity holders:</i>					
Shares issued	5,421,232	-	-	-	5,421,232
Capital raising costs	(643,410)	-	-	-	(643,410)
Options issued	-	237,318	-	-	237,318
Transfers to/from reserves *	-	(50,800)	-	50,800	-
<b>Balance at 31 December 2011</b>	<b>72,256,962</b>	<b>1,457,729</b>	<b>(323,823)</b>	<b>(69,652,717)</b>	<b>3,738,151</b>

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

The accompanying notes form part of these financial statements.

# Statement of Cash Flows

## For the Half Year Ended 31 December 2011

	31 December 2011 \$ AUD	31 December 2010 \$ AUD
<b><u>Cash flows from operating activities</u></b>		
Receipts from customers	1,627	267,301
Payments to suppliers and employees	(2,655,353)	(3,218,899)
Interest received	11,591	27,386
Receipt of R&D tax refund	-	86,602
Receipt of insurance refunds	-	3,989
<b>Net cash flows used in operating activities</b>	<b>(2,642,135)</b>	<b>(2,833,621)</b>
<b><u>Cash flows related to investing activities</u></b>		
Payment for purchases of plant and equipment	(2,324)	(28,969)
Proceeds from security deposit	-	2,938
<b>Net cash flows used in investing activities</b>	<b>(2,324)</b>	<b>(26,031)</b>
<b><u>Cash flows related to financing activities</u></b>		
Proceeds from issues of securities	4,301,266	2,293,686
Capital raising costs	(516,337)	(58,662)
Proceeds from borrowings	1,000,000	-
<b>Net cash flows from financing activities</b>	<b>4,784,929</b>	<b>2,235,024</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2,140,470</b>	<b>(624,628)</b>
Cash and cash equivalents at the beginning of the year	1,312,639	2,299,686
Effects of exchange rate changes on cash and cash equivalents	(1,545)	6,488
<b>Cash and cash equivalents at the end of the year</b>	<b>3,451,564</b>	<b>1,681,546</b>

The accompanying notes form part of these financial statements.

## **Note 1 - Basis of Preparation**

The general purpose financial report for the interim half-year reporting period ended 31 December 2011 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This half-year financial report does not include all notes of the type normally included in an Annual Report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Company as the Annual Report.

Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2011 and any public announcements made by iSonea Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

### Accounting Policies

All amended Accounting Standards have been adopted from 1 July 2011. The adoption of these Standards did not have any effect on the financial position or performance of the Company. All other accounting policies adopted by the Company are consistent with the most recent Annual Report for the year ended 30 June 2011.

### Going Concern

Some of the risks inherent in the development of medical device products 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 clinical trial or regulatory authority approvals.

A particular device may fail the research and clinical development processes through lack of efficacy or safety, or maybe stopped or abandoned due to strategic imperatives including an assessment that the projects will not deliver a sufficient return on investment or have been superseded by newer competitive products or technologies. There is the risk that the Company will be unable to find suitable development or commercial partners for its projects, and that these arrangements may not generate a material return for the Company.

The cash forecast shows that the Company believes that it has sufficient funding to carry out its planned activities until the end of the February 2013.

The ability of the Company to continue as a going concern beyond February 2013 is depended upon the Company successfully accessing additional capital, and the amount of the additional funds required is dependent on the outcome of its product development programs, and if/and when it out-licenses or partners any of products to third parties and on what commercial terms, and on the state of capital markets and the appetite for speculative investment in a company such as iSonea.

## **Note 2 - Dividends**

No dividends have been declared for the period ended 31 December 2011.

## Note 3 - Segment Information

### Primary Reporting Format – Business Segments

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

The executive management team considers the business from both a product and a geographic perspective and has identified three reportable segments. Medical devices consists of research and development, commercialisation and sale of a suite of medical devices being developed by the company and its 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.

### Operating Segments

#### – Medical Devices

- Israel
- Australia
- USA

#### - Corporate

	----- Medical Devices -----				
	Australia \$	Israel \$	USA \$	Corporate \$	Total \$
<b>31 December 2011</b>					
<b>Segment Revenue</b>					
External sales	-	724	903	-	1,627
Interest revenue	-	-	-	11,591	11,591
Unallocated revenue	70,422	-	-	1,413	71,835
<b>Total Segment Revenue</b>	<b>70,422</b>	<b>724</b>	<b>903</b>	<b>13,004</b>	<b>85,053</b>
<b>Segment Expenses</b>					
Segment Expenses	(328,159)	(1,343,482)	(212,976)	-	(1,884,617)
Unallocated Expenses	-	-	-	(1,395,294)	(1,395,294)
<b>Total Segment Expense</b>	<b>(328,159)</b>	<b>(1,343,482)</b>	<b>(212,976)</b>	<b>(1,395,294)</b>	<b>(3,279,911)</b>
Income Tax Expense	-	-	-	-	-
<b>Net Segment Result</b>	<b>(257,737)</b>	<b>(1,342,758)</b>	<b>(212,073)</b>	<b>(1,382,290)</b>	<b>(3,194,858)</b>
<b>Assets</b>					
Segment assets	184,740	796,412	161,881	4,252,517	5,395,550
<b>Total Assets</b>	<b>184,740</b>	<b>796,412</b>	<b>161,881</b>	<b>4,252,517</b>	<b>5,395,550</b>
<b>Liabilities</b>					
Segment liabilities	49,785	757,716	50,146	799,752	1,657,399
<b>Total Liabilities</b>	<b>49,785</b>	<b>757,716</b>	<b>50,146</b>	<b>799,752</b>	<b>1,657,399</b>



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

	----- Medical Devices -----				
	Australia \$	Israel \$	USA \$	Corporate \$	Total \$
<b>31 December 2010</b>					
<b>Revenue</b>					
External sales	3,989	138,686	44,465	-	187,140
Interest Revenue	-	-	-	27,386	27,386
<b>Total Segment Revenue</b>	<b>3,989</b>	<b>138,686</b>	<b>44,465</b>	<b>27,386</b>	<b>214,526</b>
<b>Segment Expenses</b>					
Segment Expenses	(537,087)	(1,591,283)	(273,039)	-	(2,401,409)
Unallocated Result	-	-	-	(1,478,454)	(1,478,454)
<b>Total Segment Expense</b>	<b>(537,087)</b>	<b>(1,591,283)</b>	<b>(273,039)</b>	<b>(1,478,454)</b>	<b>(3,879,863)</b>
Income Tax Expense	-	-	-	-	-
<b>Net Segment Result</b>	<b>(533,098)</b>	<b>(1,452,597)</b>	<b>(228,574)</b>	<b>(1,451,068)</b>	<b>(3,665,337)</b>
<b>Assets</b>					
Segment assets	183,850	2,037,897	62,966	1,621,064	3,905,777
Intersegment eliminations	-	-	-	-	-
<b>Total Assets</b>	<b>183,850</b>	<b>2,037,897</b>	<b>62,966</b>	<b>1,621,064</b>	<b>3,905,777</b>
<b>Liabilities</b>					
Segment liabilities	75,432	1,121,213	21,425	230,009	1,448,079
<b>Total Liabilities</b>	<b>75,432</b>	<b>1,121,213</b>	<b>21,425</b>	<b>230,009</b>	<b>1,448,079</b>

### Note 4 - Contingent Liabilities and Assets

There has been no change in contingent liabilities and assets since the last annual reporting date.

## Note 5 - Contributed Equity

	31 December 2011		30 June 2011	
	No.	\$	No.	\$
<u>Fully Paid Ordinary Shares</u>				
Opening Balance	1,057,918,224	67,479,141	687,276,239	61,841,766
Share issued during the period	927,537,799	4,553,231	317,974,986	4,973,616
Share issued in lieu of convertible notes	209,000,000	802,000	52,666,999	790,005
Share to be issued	-	66,000	-	-
Transaction costs relating to issues		(643,410)		(126,246)
<b>Total Issued Capital</b>	<b>2,194,456,023</b>	<b>72,256,962</b>	<b>1,057,918,224</b>	<b>67,479,141</b>

*During the Half Year ended 31 December 2011, the Company issued the following securities:*

<u>Fully Paid Ordinary Shares</u>		<u>Quantity</u>
2 September 2011	Issue of shares pursuant to Resolution 3 approved by members at General Meeting of members on 10 Aug 2011	1,339,196
2 September 2011	Issue of shares pursuant to Resolution 3 approved by members at General Meeting of members on 10 Aug 2011	18,000,000
2 September 2011	Issue of shares in accordance with the Employee Share and Option Plan (ESOP)	3,246,889
30 September 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
30 September 2011	Issue of shares to Mike Thomas (CEO) as second instalment of sign-on fee	1,500,000
30 September 2011	Issue of shares to Consultants in lieu of cash payment for services - ESOP	3,000,000
21 October 2011	Issue of shares for conversion of \$250K of convertible note as per agreement (Bergen)	25,000,000
21 November 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
22 December 2011	Issue of new securities pursuant to Non-Renounceable Rights Issue	860,253,232
22 December 2011	Issue of shares pursuant to Resolution 9 approved by members at the 2011 Annual General Meeting on 17 Nov 2011	3,198,482
22 December 2011	Issue of shares for conversion of \$171K of convertible note as per agreement (Bergen)	57,000,000
22 December 2011	Issue of shares for conversion of \$111K of convertible note as per agreement (Bergen)	37,000,000
30 December 2011	Issue of shares for conversion of \$270K of convertible note as per agreement (Bergen)	90,000,000
		<b><u>1,136,537,799</u></b>

## Note 6 – Reserves

	31 December 2011		30 June 2011	
	No.	\$	No.	\$
Opening balance	235,312,643	1,139,314	235,312,643	1,271,211
Issue of listed options over shares	400,063,309	67,273	-	-
Issue of unlisted options over shares	143,605,657	170,044	-	-
Lapsed options	(137,385,332)	(50,800)	-	-
Foreign currency translation reserve		(191,926)		(131,897)
<b>Total Reserves</b>	<b>641,596,277</b>	<b>1,133,905</b>	<b>235,312,643</b>	<b>1,139,314</b>

*During the Half Year ended 31 December 2011, the following security movements occurred:*

### Options over Fully Paid Ordinary Shares

31 July 2011	Lapse of options due to expiry without exercise	(62,035,000)
	Lapse of options due to expiry without exercise	(10,683,333)
2 September 2011	Issue of options to Employees under Employee Share Option Plan (ESOP)	97,105,657
	Lapse of options due to expiry without exercise	(4,000,000)
28 September 2011	Issue of options to Employee under Employee Share Option Plan (ESOP)	1,500,000
30 September 2011	Issue of options to Bergen Global Management Fund as per agreement	25,000,000
29 September 2011	Issue of options to consultant in lieu of cash payment for services rendered	20,000,000
31 October 2011	Lapse of options due to expiry without exercise	(52,666,999)
30 November 2011	Lapse of options due to expiry without exercise	(6,000,000)
15 December 2011	Lapse of options due to expiry without exercise	(2,000,000)
22 December 2011	Issue of 1:4 free attaching options pursuant to the Rights Issue Capital Raising	215,063,309
22 December 2011	Issue of free options to underwriters of the Rights Issue Capital Raising as per underwriting agreement	185,000,000
		<b>406,283,634</b>

## Note 7 - Loss per Share

	31 December 2011	31 December 2010
Basic loss per share (cents)	(0.28)	(0.51)
Diluted loss per share (cents)	(0.28)	(0.51)
a) Net loss used in the calculation of basic and diluted loss per share	(\$3,194,858)	(\$3,665,337)
b) Weighted average number of ordinary shares outstanding during the period used in the calculation of basic and diluted loss per share	1,145,188,145	713,677,176

## Note 8 - Net Tangible Assets

	31 December 2011	31 December 2010
Net Tangible Assets	\$2,719,046	\$1,234,029
Shares (No.)	2,194,456,023	733,469,869
Net Tangible Assets (Cents)	0.12	0.17

## Note 9 - Events Subsequent to Reporting Date

The follow events have taken placed since 31 December 2011 all of which have been announced:

- 3<sup>rd</sup> January 2012 - iSonea Limited commenced trading the Company's American Depositary Receipts (ARDs) on the OTCQX® International marketplace in the United States under the symbol ISOAY.
- 9<sup>th</sup> January 2012 - iSonea Limited issued 62,500,000 new fully paid ordinary shares to Bergen Global Management Fund being for the conversion of the final tranche of the Convertible Note Agreement equal to \$318,000 extinguishing the remaining liability.
- 13<sup>th</sup> January 2012 - iSonea issued the following securities:
  - 60 million new fully paid ordinary shares and 15 million 1:2 free attaching options raising \$300,000 via a private placement.
  - 13.3 million new fully paid ordinary shares to parties in lieu of payment for professional services rendered.

No matters or circumstances have arisen since the end of the reporting period, not otherwise disclosed in this report, which significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

# Director's Declaration

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The Directors' of the Company declare that;

1. The financial statements and notes, as set out on pages 11 to 20, are in accordance with the Corporations Act 2001 and,:
  - a. complying with Accounting Standard AASB134 and the Corporations Regulations 2001; and
  - b. giving a true and fair view of the Company's financial position as at 31 December 2011 and of its performance for the half year ended on that date; and
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 is made in accordance with a resolution of the Board of Directors.



Mr. Ross Haghighat  
**Executive Chairman**



Mr Michael Thomas  
**Chief Executive Officer (CEO)**

Melbourne

Dated: 28<sup>th</sup> Day of February 2012

# Auditors Review Report



Chartered Accountants  
& Business Advisers

## INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF ISONEA LIMITED

### Report on the Half-Year Financial Report

We have reviewed the accompanying consolidated half-year financial report of iSonea Limited which comprises the statement of financial position as at 31 December 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity. The consolidated entity comprises iSonea Limited (the company) and the entities it controlled at 31 December 2011 or from time to time during the half-year ended on that date.

#### *Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of iSonea Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### **Independence**

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

#### **Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of iSonea Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

PKF

28 February 2012  
Melbourne

J A Mooney  
Partner

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# Corporate Directory

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**AUSTRALIAN COMPANY NUMBER (ACN)**  
009 234 173

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

## **DIRECTORS**

Mr. Ross Haghighat  
Mr. Fabio Pannuti  
Mr. Jerry Korten  
Mr. Paul Hopper

Executive Director & Chairman  
Independent Non-Executive Director  
Independent Non-Executive Director  
Independent Non-Executive Director

**CHIEF EXECUTIVE OFFICER (CEO)**  
Mr. Michael Thomas

**COMPANY SECRETARIES**  
Mr. Phillip Hains  
Mr. Peter Vaughan

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**AUDITORS**  
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8 Exhibition Street  
Melbourne, Victoria, 3000

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

**WEBSITE**  
[www.isoneamed.com](http://www.isoneamed.com)

## **SECURITIES QUOTED**

Australian Securities Exchange

- Ordinary Fully Paid Shares (Code: ISN)
- Listed Options over Ordinary Fully Paid Shares (Code: ISNOA)  
exercisable at \$0.024 per option on or before 30 April 2012.
- Listed Options over Ordinary Fully Paid Shares (Code: ISNOB)  
exercisable at \$0.007 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 = 500 ordinary shares  
Symbol: ISOAY