



KarmelSonix Limited

Quarterly Report For The 3 Months Ended 31 December 2008

As reported previously, the deterioration in global financial markets and with its inability to access fresh capital, has necessitated a continuing “scaling down” of operations in the final quarter of 2008. Despite this, the Company has continued to move ahead and make significant progress on several fronts. Progress can be reported in the following key areas:

- i) PulmoTrack the first released product of the company has continued to receive significant interest in the US and select parts of Europe where additional regional distributors have been appointed. Whilst there is a lag between appointment of the distributor and sales, strong interest has been shown by a broad cross section of clinicians, hospital and specialist respiratory clinics;
- ii) Development work on the WHolter – the 24 hour respiratory monitor has continued and there has been considerable interest shown in relation to this product. In tandem with this, clinical assessments are now underway at hospitals in Australia and the USA looking at nocturnal asthma as one of the differential diagnoses for people complaining of sleep disturbance
- iii) As announced on 13th January 2009 the Personal Wheezometer passed the European Union Regulatory audit process – the CE Audit. This is a significant milestone for the Company as it enables it to sell the Personal Wheezometer (PW) throughout the countries of European Union. Australian regulatory approval is to be submitted shortly,
- iv) Clinical testing of the Acoustic Severe Asthma Monitor - ASAM - is to commence at the Royal Children’s Hospital in Melbourne in February.
- v) As previously mentioned, the ability to capitalise fully on the commercial potential of the PW is conditional on being able to raise additional capital to finalise the product, commence initial production and establish a broad distribution network;
- vi) Discussions are continuing with several potential investors regarding new investment into the Company to ensure that it can continue with the development plans as outlined above. It is anticipated that the Company will be in a position to announce the outcome of the fundraising discussions in the next 1 – 2 weeks. In the meantime, the Company has continued to monitor closely all levels of expenditure, reduce staff numbers and overheads in an effort to conserve existing funds, including funds received from Vistech and BIRD Foundation. Despite continuing difficult operating environments and the state of equity markets for raising additional capital, the Company has continued to make progress with its product development and sales activities and looks forward to bringing shareholders further updates in the short to medium term.

+ See chapter 19 for defined terms.

Appendix 4C – 2nd Quarter

Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001

Name of entity

KarmelSonix Limited (ASX:KSX)

ABN

98 009 234 173

Quarter ended ("current quarter")

31st December, 2008

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from customers	13	28
1.2 Payments for		
(a) staff costs	(444)	(988)
(b) advertising and marketing	(108)	(307)
(c) research and development	(384)	(820)
(d) leased assets	(63)	(125)
(e) other working capital	(269)	(691)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	11	37
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (R&D Tax Refund)	175	175
Net operating cash flows	(1,069)	(2,691)

+ See chapter 19 for defined terms.

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

	Current quarter \$A'000	Year to date (6 months) \$A'000
1.8 Net operating cash flows (carried forward)	(1,069)	(2,691)
Cash flows related to investing activities		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other (provide details if material)	(2)	(2)
Net investing cash flows	-	-
1.14 Total operating and investing cash flows	(1,071)	(2,693)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	-	-
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	-	-
Trf Transfer	-	-
1.18 Repayment of borrowings	-	-
1.19 Dividends paid	-	-
1.20 Other – (Capital Raising Costs)	-	(168)
Net financing cash flows	-	(168)
Net increase (decrease) in cash held	(1,071)	(2,861)
1.21 Cash at beginning of quarter/year to date	1,836	3,370
1.22 Exchange rate adjustments to item 1.21	63	319
1.23 Cash at end of quarter	828	828

+ See chapter 19 for defined terms.

Payments to directors of the entity and associates of the directors

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

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	76
1.25	Aggregate amount of loans to the parties included in item 1.11	
1.26	Explanation necessary for an understanding of the transactions <div>Salaries, directors' fees and consulting fees at normal commercial rates.</div>	

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material affect on consolidated Assets and liabilities but did not involve cash flows
- During the period the following equity was issued:

 - 457,143 shares were issued to consultants in lieu of cash payment for services rendered.
 - 471,429 shares were issued to consultants in lieu of cash payment for services rendered.
- 2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest
-

Financing facilities available

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

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	1,000	-
3.2 Credit standby arrangements	6,200	-

The Company has entered into a three-year ongoing funding arrangement with Trafalgar Capital Specialised Investment Fund.

The total facility of A\$7.2 million consists of two components and may be drawdown as follows:

- A standby equity drawdown facility of up to A\$7.2 million; or
- A loan facility for up to A\$1.0 million and a standby equity drawdown facility of up to A\$6.2 million.

The facilities have been put in place as a working capital funding arrangement and to be used on a standby basis.

+ See chapter 19 for defined terms.

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter \$A'000	Previous quarter \$A'000
4.1	Cash on hand and at bank	828	1,836
4.2	Deposits at call	-	-
4.3	Bank overdraft	-	-
4.4	Other (provide details)	-	-
Total: cash at end of quarter (item 1.23)		828	1,836

Acquisitions and disposals of business entities

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

Compliance statement

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

Sign here: 

Company Secretary

Date: 30th January, 2008

Print name: Brad Slade

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
 - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
 - 9.2 - itemised disclosure relating to acquisitions
 - 9.4 - itemised disclosure relating to disposals
 - 12.1(a) - policy for classification of cash items
 - 12.3 - disclosure of restrictions on use of cash
 - 13.1 - comparative information
3. **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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