iSonea™

(Formerly: KarmelSonix Ltd)

Annual Financial Report

For The Year Ended 30 June 2011

ISONEA LIMITED
ABN: 98 009 234 173
CORPORATE DIRECTORY

AUSTRALIAN COMPANY NUMBER
009 234 173

iSonead Limited (Formerly: KarmelSonix Ltd) is a Public Company Limited by shares and is domiciled in Australia.

DIRECTORS

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

COMPANY SECRETARIES
Mr Phillip Hains
Mr Brad Slade

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Chartered Accountants & Business Advisers
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PRINCIPAL PLACE OF BUSINESS
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1233 High Street
ARMADALE VIC 3143

SECURITIES QUOTED

Code:	ISN	Shares
	ISNOA	Listed options

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The financial report was authorised for issue by the Directors on 30 September 2011. The Company has the power to amend and reissue the financial report.

Through the use of the internet and other resources, we have ensured that our corporate reporting is timely, and available globally at a minimium cost to the Company. All press releases, financial reports and other information are available from the ASX, the Company's registered office or website.

Dear Shareholder,

During the financial year 2011, the Company continued to make substantial progress toward the market preparation and commercial acceptance of its novel products utilizing Acoustic Respiratory Monitoring (ARM) technology for better management and control of asthma and associated respiratory disorders. A number of significant changes in management structure and strategic vision have occurred as well, resulting in greater focus on the disciplines that will be required of the Company to achieve its business objectives.

Of particular note was the decision to change the name of the Company from KarmelSonix Limited to iSonea Limited, in order to more accurately reflect its core mission to customers and investors.

- The "i" signifies innovation;
- "Son" refers to the Latin word "Sonus," meaning sound;
- "ea" is drawn from the Latin word "apnoea," meaning without breath.

Therefore, the corporate name iSonea more appropriately conveys the Company mission of providing **innovative sound monitoring and analysis to help people with breathing disorders.**

While the new corporate brand signals the Company transition from the technological development stage to that of a strategic medical device business, perhaps the most concrete evidence of the Company's evolution is in the recruitment of a new executive management team in 2011. In September 2010, the Company began the transformation by restructuring its board and executive team, installing new board members and officers with extensive prior experience in building healthcare companies and leading them to profitability. In June 2011, this process culminated with the appointment of Michael J. Thomas as the new Chief Executive Officer.

Mr. Thomas has over 20 years of experience creating, building, and exiting venture capital-backed medical technology companies in the respiratory and breathing disorder markets – experience which relates specifically to the path ahead for iSonea. He has raised more than $50 million in funding for a pioneer in the sleep apnea diagnostic device and services field, in the process launching a new industry segment in the $5B sleep medicine market. Previously, he was instrumental in taking a healthcare technology company public on NASDAQ and in a subsequent role, in leading a large-scale initiative to acquire sleep laboratories and create the largest sleep diagnostic testing company in the USA, which resulted in that firm's acquisition by a subsidiary of GE Medical.

Other key personnel appointed to the new management team in FY2011 were:

- Stephen Tunnell, RRT – Senior Vice President of Operations: Mr. Tunnell is a registered respiratory therapist and has more than 32 years of healthcare industry experience in respiratory technology. He co-founded and led eVent Medical, a life support business. Previously he served as General Manager of the Nellcor Puritan Bennett Ventilator Systems division for Mallinckrodt. Earlier in his career, he was Technical Director of Pulmonary Services at Sharp Healthcare in California.

- David Model – Senior Vice President of Finance: Mr. Model has 32 years of business experience in biotech, biomedical, aerospace and other high technology fields. He has been a C level executive for a variety of both public and private companies, most recently as the CFO of Aduro BioTech, an immunotherapy company, and an Executive Vice President for Triton Systems, a product venturing company. Mr. Model was a founder and President of ImageMax (now DataBank IMX), a nationwide network of data imaging businesses that had an IPO on the NASDAQ in 1997. Mr. Model also founded and co-managed Airfoil Technologies, LLC, a joint venture between Teleflex (TFX: NYSE) and General Electric Aviation, which was acquired by General Electric in 2009.

- Jonathan Freudman, MD – Consulting 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 biotech and medical device companies with clinical trial design and aspects of new product commercialization. Dr. Freudman specializes in reimbursement strategies and he will play a key role over the next 12 months in helping the Company secure Category I CPT code reimbursement in the USA. He is also on faculty at the University of California San Francisco School of Medicine.

A crucial step toward the Company's transformation to a profitable commercial stage has been the aggressive re-assessment of operating costs and the reduction of expenses where feasible, to realign valuable resources with the strategies and tactics that will be necessary to successfully enter the US asthma management market. This process required reductions in headcount and found improved operating efficiencies, which has resulted in the elimination of $1.2 million in annual operating costs.

Another important milestone in the Company's evolution over the past year has been the progress made on strategic partnering collaborations. These partnerships will leverage the strengths of global Fortune 500 healthcare companies with critical mass in markets of interest to iSonea, allowing the Company to efficiently penetrate medical device diagnostic and management markets at a significantly reduced cost.

Key highlights of the past 12 months may be summarized as follows:

- Completion of an agreement with Omron Healthcare, a subsidiary of Japan-based Omron Corp., for regulatory assistance and distribution in Japan, Brazil, and Russia;
- Ongoing discussions with a Fortune 500 healthcare strategic partner for distribution in the US market;
- Outsourcing of product manufacturing activities to ensure proper scalability;
- FDA clearance in June 2010 for the WHolter™ product and in March 2011 for the wireless generation PulmoTrack® product;
- Engineering cost of goods reductions for the WheezoMeter™;
- Commercial piloting of the WheezoMeter™ into key markets via distribution partners and other channels;

- Pilot roll out of the WHolter™ service model in key markets and the validation of this model as a long-term revenue generator;
- Continued inroads with key opinion leaders in pulmonary and pediatric medicine, establishing the value proposition for Acoustic Respiratory Monitoring (ARM™) in better monitoring and management of asthma and related respiratory disorders;
- Addition of product features and enhancements, in response to customer feedback, including an ambient wheeze rate channel without rejection, a pulse oximetry option, and enhanced report generation and software;
- Addition of an Original Equipment Manufacturer (OEM) program with Sandhill Scientific Inc. to develop the WIM-GER™ hybrid monitoring device, combining wheeze and cough measurements with gastro-esophageal reflux detection;
- Peer-reviewed abstracts and submission of study manuscripts, resulting from an active clinical study program.

The successful penetration of markets and the future rate of sales growth will depend to a large degree upon the acceptance and adoption of ARM devices by the medical communities, and in particular upon the development of advocacy among key opinion leaders in asthma diagnosis and treatment. Widespread utilization of this technology for better monitoring by clinicians and patients will also depend upon the demonstration of clinical and economic benefit to third party payers who reimburse for the use and interpretation of diagnostic and monitoring procedures. The initiation, completion, and publication of key clinical outcomes studies in the USA will enable the Company to effectively lobby for the conversion of Category III CPT codes to Category I status – a vital step in gaining reimbursement coverage.

The Company has continued to demonstrate the ability to raise capital from existing and new investors. Since July 2010, the Company has raised approximately $4.5 million, before costs. Additional capital will be required to successfully execute clinical and commercialization goals over the coming 12 months. The Company also expects that increased sales of its products in existing markets should provide enhanced cash flow going forward.

The Directors would like to thank shareholders for their continued support and interest in the Company. The 2011 financial year marked significant changes that should facilitate the transformation to a commercial phase and more efficiently prepare key markets, like the USA, for the launch of ARM™ products. As the result of both shareholder loyalty and the increasing market interest in iSonea products, the Company will continue to execute its strategic plan to become a credible provider of innovative technological solutions in the multi-billion dollar market of asthma monitoring and management.

Mr Ross Haghighat
Executive Chairman
Melbourne
Dated this the 30th day of September 2011

Overview

As the leading developer, manufacturer, and marketer of Acoustic Respiratory Monitoring-based products to diagnose, monitor and assist in the treatment and management of Asthma and Respiratory Sleep Disorders ("RSD"), iSonea continues to drive adoption by Key Opinion Leaders (KOLs) of the Company's products. During this fiscal year, our operational achievements continued to demonstrate the high level of interest and need for the Company's innovative technology.

Key achievements during FY 2010/2011:

- The Company received approval from the US Centers for Medicare and Medicaid Services (CMS, or "Medicare") and the American Medical Association (AMA) for a Category III (emerging technology) code in its "Current Procedural Terminology (CPT®) . These codes enable utilization tracking for intermittent and continuous monitoring of wheeze rate, our proprietary parameter, utilizing our unique Acoustic Respiratory Monitoring (ARM™) technology.

- To augment this opportunity we have added a number of global experts and solidified strategic partnerships to assist the Company in migration of this code to a category I (standard of care) in the upcoming fiscal year. Achievement of a Category I CPT code will enable the company's products to become reimbursed by CMS and the majority of the US health insurance payers.

- The Company continued to demonstrate a core competency in achieving regulatory approvals for the its innovative technologies by receiving the European Union's "Conformité Européenne" (CE) mark as well as the Australian Therapeutic Goods Administration (TGA) approval. After having achieved regulatory clearance with the U.S. Food and Drug Administration (FDA) in early 2010 (June) for the Company's WHolter™ product, we secured another clearance from the FDA in March 2011 to market the new wireless generation PulmoTrack® product.

In response to customer and market feedback, a number of features and enhancements were added over the past fiscal year, including the addition of an ambient wheeze rate channel without rejection, pulse oximetry option, enhanced report generation and office software, and the addition of an Original Equipment Manufacturer (OEM) program with Sandhill Scientific Inc. to develop the WIM-GER™ hybrid that combines wheeze and cough measurements simultaneously with their detection of acid and non-acid gastroesophageal reflux. Based on our customer and marketing strategy, we were awarded a second Frost & Sullivan's 2010 Innovation Award for the development and market introduction of the PulmoTrack® (previously we received the F&S Innovation Award for the WheezoMeter™). We are proud that our continued commitment to innovative discovery and development in acoustic respiratory medical technology is recognized by world-renowned, independent third parties. We will continue this tradition of developing and launching innovative acoustic monitoring products as the company transitions to a more commercial (vs. R&D) entity over the next several years.

An active clinical studies program continued to yield several peer reviewed abstracts and submission of a number of manuscripts to peer reviewed medical journals. We believe these studies and ones to be initiated in the next fiscal year, will be pivotal in enabling the Company to achieve a CPT reimbursement code upgrade from Category III to Category I.

Background on iSonea Ltd

Asthma

iSonea Ltd addresses the non-invasive management of asthma. Asthma is a chronic inflammatory disease of the lung air passages (bronchi) manifesting itself by critically narrowing the airways and reducing air flow through them. Asthma can, at times, be very severe and leads to more than 150,000 deaths annually around the world. There are about 300 million asthma sufferers worldwide of which 100 million reside in developed countries. It affects 6-16% of the population, with Australia experiencing very high levels of asthma in its population. Asthma affects all strata of society and all age groups with highest prevalence seen in children with more than 40% of children having at least one wheezing episode before school age.

Today, asthma diagnosis and on-going management is based on taking history, performing physical examination by a physician, which always includes listening for wheezing by a stethoscope and by measuring the Pulmonary Function Tests (PFTs). These tests require forceful exhalation into a flow meter and as such, are only suitable for persons who can perform the test and cooperate with the instructions of the testing technician.

Approximately 30% of the asthma sufferers cannot perform PFTs either because they are too young, too old, fragile, intellectually, emotionally or physically disabled, or suffer from oral or facial malformations. For these patients, consisting of about 30 million in the developed countries, the current clinical practice does not provide any practical quantitative and objective alternative metric of the presence and the severity of the disease. This shortcoming is fully recognized by the leading clinicians in asthma management.

iSonea Ltd is an emerging medical technology company that focuses on supplying innovative, non-invasive Acoustic Respiratory Monitoring® devices and software for disease management of asthma and related pulmonary disorders. Asthma affects roughly 13% of the population in developed countries with an annual impact exceeding US$56 billion in the US alone.

Acoustic Respiratory Monitoring® is a breakthrough in asthma management for patients of all ages, including the very young, very old and others who cannot perform currently available tests. The technology, developed from extensive R&D and clinical validation in the US, Israel and Australia, facilitates accurate, consistent and frequent monitoring of patients anywhere, anytime. ARM® technology devices from iSonea have gained regulatory clearance from the US FDA, the Australian TGA, and carry the European Union CE Mark. ARM products have been designed specifically for intermittent and continuous monitoring applications in the home, school or work environment, clinic, and ICU. The company is now focusing efforts on early commercialization of its products in the North American, European, and Asian Pacific markets.

Core Technology

The Company's core technology consists of proprietary sensors, signal conditioning hardware, and extensive array of signal processing algorithms for automatic detection and quantification of wheezes, cough and respiration. The technology also includes protection of the inner-body signal against interferences from background noisy acoustic environments which is found in pulmonary function testing laboratories. The quantification of wheezes is based on their duration, namely, the percentage time a patient wheezes (e.g. 12 seconds of wheeze in a minute is equivalent to a WheezeRate™ of 20%). The WheezeRate™ correlates with the extent of airway narrowing and conventional measures of asthma. The detection of cough facilitates cough-counting and determination of cough distribution over time.

The Current Product Range

Based on its core technology, the Company is bringing to market a suite of products enabling a more advanced, cost effective, convenient method to diagnose and monitor respiratory breathing disorders, from the mild to the severe, from hospital to home, from young to old, during rest and during exercise (i.e. exercise-induced asthma) and from awake to asleep (nocturnal asthma). Below are brief descriptions of the products, their intended use and market, their current status, and the timeline for rollout. The products are listed in the order of their commercialisation onset.

The Personal Wheezometer™ - The Company's flagship product is a hand-held device for home use. When placed on the neck with its sensor over the trachea, it picks up the breathing sounds and determines if wheezes are present. A thirty second determination indicates the momentary wheeze rate. Should it be high, the patient (or parent) is instructed to seek medical help. The Personal Wheezometer™ prototype was completed in June 2008 and had an initial launch at the annual conference of the American Thoracic Society (ATS) in San Diego in May 2009, and a follow-up launch of the production WheezoMeter™ at the annual Congress of the European Respiratory Society (ERS) in Vienna in September 2009. This product has received European CE Mark clearance and Australian TGA approval for sale in these jurisdictions. Today's WheezoMeter™ product line includes the Clinical WheezoMeter™, two Personal WheezoMeters™ (adult and child), and retrieval software.

The WHolter™ is a 24 hour ambulatory digital data-logger / recorder. It is intended to be used for tracking wheezing and coughing for evaluation of nocturnal asthma, occupational asthma and persistent cough and, in the patient's own allergen environment. The WHolter™ will also be incorporated as a component in the first phase of the WIM-GER™. The development work has been completed and the product had a soft launch at the ERS Conference in Vienna in September 2009. Sales of the WHolter™ to PFT labs, sleep labs and WHolter™ monitoring dispensing clinics commenced in 2010.

The Wireless PT™ is an add-on option to the PulmoTrack® to facilitate ease of use and to reduce the cost of manufacturing. This product was launched at ERS in Vienna in September 2009.

The WIM-GER™ is a combination of iSoneas WHolter™ and the ZePhir™ Impedance and pH monitor of Sandhill Scientific Inc. This joint venture collaboration resulted from a iSonea-sponsored study that revealed the two types of relationships between asthma and cough, on the one hand, and Gastro-Esophageal Reflux (GER) on the other.

The ASAM™ or Acoustic Severe Asthma Monitor is a novel continuous monitor for minute by-minute assessment of the severe asthma patient, typically in an ambulance, the Emergency Room, the Intensive Care Unit (ICU), and during recovery in the paediatric or internal medicine ward. The device combines the wheeze detection core-technology outlined above, and the advanced active acoustics technology developed by the Company.

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 recommedation 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.

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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 intefere with the Director's ability to act in the best interests of the Company and shareholders.

At present there are no Directors classified as being 'Independent' and one Director classified as "Non-Executive". The number of Non-Executive and Independent Directors on the Board will increase as the Company develops and grows, and the Board believes that it can attract appropriate Non-Executive and Independent Directors with the necessary industry experience.

The Company believes that at this stage in its development, the most appropriate person for the position of Chairman is an Executive Officer of the Company. The Executive Officer's overall expertise has been crucial to the Company's development and negates any perceived lack of independence.

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.

Shareholder's 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 has not yet established a Diversity Policy. However, the board is committed to establishing a Diversity Policy that considers all aspects of diversity in accordance with corporate governance guidelines.

In establishing a Diversity Policy, the Board will consider the benefits of diversity, ways to promote a culture of diversity, factors to be taken into account in the selection process of candidates for Board and senior management positions in the Company, education programs to develop skills and experience in preparation for Board and senior management positions, processes to include review and appointment of directors, and identify key measureable diversity performance objectives for the Board, CEO and senior management.

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 Executive Director. Due to the current composition of the full board, it is not possible to meet the recommendation to have a minimum of three Non-Executive Directors, with the majority being independent. 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 contained on pp 14.

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 consists of three Directors of the Company, with the Committee Chairman being an 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 contained on pp 14.

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 (pp 15 to pp 20). 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.

Your Directors present their report on the Company consisting of iSonea Limited and the entities it controlled at the end of, or during, the year ended 30 June 2011.

Directors

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

Mr Ross Haghighat	Executive Chairman (Appointed 20 October 2010)
Mr Fabio Pannuti	Non Executive Director (Appointed 20 October 2010)
Mr Jerry Korten	Non Executive Director (Appointed 20 October 2010)
Mr Paul Hopper	Non Executive Director (Appointed 20 October 2010)
Mr Paul Eisen	Executive Director (Resigned 29 July 2011)
Mr Peter Marks	Executive Director (Resigned 20 October 2010)
Prof Noam Gavriely	Executive Director (Resigned 20 October 2010)
Dr Henry Pinskier	Executive Director (Resigned 20 October 2010)
Mr Amir Ohad	Non Executive Director (Resigned 20 October 2010)
Prof Nathan Intrator	Non Executive Director (Resigned 20 October 2010)

Directors have been in office since the start of the financial year to the date of this report, unless otherwise stated.

Company Secretary

The names of the Company Secretaries of iSonea Limited in office at any time during or since the end of the financial year are:

Mr Phillip Hains (Joint Company Secretary)

Mr Hains has served as the Company Secretary since 21 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 Brad Slade (Joint Company Secretary)

Mr Slade was appointed as a joint Company Secretary on 31 July 2008.

Mr Slade is a qualified accountant and has an extensive accounting and compliance background working with listed and unlisted companies. He has more than 15 years of management, corporate administration, tax, finance and accounting experience and has previously held senior finance roles within high profile private practices, servicing a diverse portfolio of clients in a number of industries, including biotechnology, financial services, mining, investment and property. Mr Slade also currently holds a number of office positions in private companies.

Principal Activities

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

Review of Operations

The consolidated loss of the Company after providing for income tax amounted to $6,677,311 (2010: $5,939,761). For further detail, refer to the Review of Operations set out on pp 4 to 5.

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 2011 financial year.

Significant Changes in the State of Affairs

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

After Balance Date Events

On the 29 July 2011, iSonea Limited announced that Mr Paul Eisen would step down from the Company's Board of Directors to concentrate on his role as the Senior Vice President and Managing Director for AsiaPAC. Mr Eisen joined the Board as a casual appointment and agreed to continue in that capacity until a new permanent CEO was appointed, which has now been achieved.

On the 10 August 2011 at the General Meeting of iSonea Limited, shareholders approved the issue of up to 500,000,000 newfully paid ordinary shares, having an issue price of at least ninety percent (90%) of the average market price of the Company's shares for the five (5) day period on which sales in the Company's securities were recorded prior to the issue of those shares, to professional and sophisticated investors and clients of Australian Financial Service License holders.

Further, at the same meeting shareholders approved the prior issue of 72,711,315 fully paid ordinary shares placed professional and sophisticated investors in May 2011 and approved the proposed issue of 36,355,657 1:2 free attaching unlisted options in the capital of the Company pursuant to the investors who participated in the May 2011 placement.

As free attaching options, the unlisted options have no issue price and will be exerciseable at $0.024 each and expire on 30 April 2012.

After Balance Date Events (Continued)

In addition to the above, at the General Meeting shareholders approved the change of the Company name to "iSonea Limited", the change of name is effective from 10 August 2011, being the date that ASIC registered the change of name.

On the 31 August 2011, iSonea Limited announced that it had entered into a non binding Memorandum of Understanding with a global Fortune 500 healthcare company which wished to pursue commercialisation of the Company's technologies for the US asthma monitoring and management market.

On the 29 September 2011, the Company announced that it had signed an agreement with the New York-based Bergen Global Opportunity Fund, LP, to provide up to $10.6 million in investment over a two year period.

The funding will enable the Company to have a commercial focus on creating physician adoption and reimbursement support for iSonea's Acoustic Respiratory Monitoring (ARM) technology in USA and other key asthma markets.

The new investment is structured to provide the Company with maximum flexibility while minimizing dilution to the shareholder base. More specifically, the investment is structured into two parallel instruments consisting of a $1 million lump sum investment in an unsecured convertible instrument on the execution of the agreement, and up to $9.6 million in additional ordinary share purchases over a 24 month period. This will allow future share issuances to be made at premiums to the current price, if the Company's share price appreciates, as the conversion price of the convertible instrument and the purchase price of the additional share purchases are set based upon the Company's share price performance at around the time of the future share issuances.

For more information please refer to ASX Announcement lodged on 29 September 2011 entitled - Agreement Completed for $10.6m Investment by US Investor.

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.

Future Developments

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 on pp 4 to 5 of this Annual 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.

Information on Directors

Mr Ross Haghighat (Executive Chairman)

Appointed to the board	—	20 October 2010
Experience	—	Mr Haghighat is President and Chairman of the Board of Triton Systems Inc., a multi-disciplinary product incubation firm with a ten-year track record in spinning off companies such as SI2 Technologies Inc. (conformal electronics for military aerospace applications); FRX Polymers, LLC (halogen-free flame retardant plastics); and TBS. Mr Haghighat was a co-founder, and member of the Board of Directors for Cortek, a photonic-based firm, that was acquired by Nortel Networks in 1999. Prior to Triton Systems, he managed a high technology group at Foster Miller. Mr Haghighat has authored eight patents and over 30 technical publications. He holds graduate degrees in materials science, organometallic chemistry, and an M.B.A.
Interest in shares and options	—	61,172,529 Ordinary Shares and 5,000,000 Unlisted Options
Committees	—	Nil
Directorships held in other listed entities	—	Nil

Mr Fabio Pannuti (Non Executive Director)

Appointed to the board	—	20 October 2010
Experience	—	Mr Pannuti has served on the board of several public companies listed in Australia, the United Kingdom and North America over the last 20 years and also a number of private investment vehicles. These companies have had significant and successful involvement in diverse areas including agriculture, property development, mining/oil and gas, telecommunications, wholesale debt purchase and biotech. These have included The Van Diemen's Land Company, to recently being Chairman of Mobi Ltd, a small diverse telco. Mr Pannuti is currently Chairman of Cairngorm Leisure, a company involved in the development of a snow dome, hotel and leisure complex in Australia and also serves as the Managing Director of Helicon Group Ltd, a company that develops medical devices. As a non executive director Mr Pannuti brings international and commercialization experience to iSonea and a wide reaching contact and investor base to assist in the expedited growth of the business.
Interest in shares and options	—	1,500,000 Unlisted Options
Committees	—	Chairman of Remuneration & Nomination Committee and Member of Audit, Risk & Compliance Committee
Directorships held in other listed entities	—	Helicon Group Ltd

Mr Paul Hopper (Non Executive Director)

Appointed to the board	—	20 October 2010
Experience	—	Mr Hopper has over 20 years experience in the management and funding of biotechnology and healthcare public companies. He has been involved in over $200 million in equity and debt financings in Australia, Asia, the US and Europe. Mr Hopper's sector experience has covered a number of therapeutic areas including anti-bacterials, medical devices, antibodies, inflammation and oncology, with a particular emphasis on cancer vaccines. Mr Hopper is also a Director of Boston based pSivida Corp a drug delivery company which has completed Phase III trials for ophthalmology, Somnomed Limited (ASX:SOM) which globally manufactures and markets a dental device for sleep disorders and iSonea which manufactures and markets respiratory devices with a focus on asthma. Paul is Head of the Australia Desk and Head of the Life Sciences and Biotechnology practice at the Los Angeles merchant bank Cappello Capital where he is a partner. He also serves as a Director of the American Australian Association and is a member of the Queensland North America Biotechnology Advisory Council. Mr Hopper has served on the boards of many listed biotechnology and healthcare companies including as Executive Chairman of Bone Medical Limited, Director of Advanced Biotherapy Inc, Managing Director of Australian Cancer Technology Limited, and Director of Medaire Ltd. He was the co-founder and Managing Director of Alpha Healthcare Limited.
Interest in shares and options	—	1,500,000 Unlisted Options
Committees	—	Chairman of Audit, Risk & Compliance Committee and Member of Remuneration & Nomination Committee
Directorships held in other listed entities	—	Viralytics Ltd and Somnomed Ltd.

Mr Jerry Korten (Non Executive Director)

Appointed to the board	—	20 October 2010
Experience	—	Mr Jerome Korten is a Medical Device Company Executive with proven executive leadership skills. Product development management from strategic market planning through FDA approvals to commercial deployment and marketing. Operational responsibility for Sales and Marketing, R&D and Finance. Experience working with venture capital partners, investment bankers. Has been a director for three medical device companies. Strong clinical and engineering background. His specialties are cardio-pulmonary measurements, embedded systems, software algorithm development and instrumentation design.
Interest in shares and options	—	1,500,000 Unlisted Options
Committees	—	Member of Audit, Risk & Compliance Committee and Remuneration & Nomination Committee
Directorships held in other listed entities	—	Nil

Meetings of Directors

The number of meetings of the Company's board of Directors (including committees of Directors) held during the year ended 30 June 2011, and the number of meetings attended by each of the Directors were:

	Directors' Meetings		Committee Meetings			
			Audit, Risk and Compliance Committee		Remuneration and Nomination Committee	
Directors	Number Available to Attend	Number Attended	Number Available to Attend	Number Attended	Number Available to Attend	Number Attended
Mr Ross Haghighat	10	10	-	-	-	-
Mr Paul Hopper	10	9	4	4	12	12
Mr Fabio Pannuti	10	10	4	4	12	12
Mr Jerome Korten	10	10	4	3	12	11
Mr Peter Marks	9	9	2	2	-	-
Prof Noam Gavriely	9	6	-	-	-	-
Dr Henry Pinskier	9	7	2	1	-	-
Mr Paul Eisen	19	16	-	-	-	-
Mr Amir Ohad	9	6	-	-	-	-
Prof Nathan Intrator	9	7	2	1	-	-

REMUNERATION REPORT (AUDITED)

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

Directors

Name	Position
Mr Ross Haghighat	Executive Chairman (Appointed 20 October 2010)
Mr Fabio Pannuti	Non Executive Director (Appointed 20 October 2010)
Mr Jerry Korten	Non Executive Director (Appointed 20 October 2010)
Mr Paul Hopper	Non Executive Director (Appointed 20 October 2010)
Mr Paul Eisen	Executive Director (Resigned 29 July 2011)
Mr Peter Marks	Executive Director (Resigned 20 October 2010)
Prof Noam Gavriely	Executive Director (Resigned 20 October 2010)
Dr Henry Pinskier	Executive Director (Resigned 20 October 2010)
Mr Amir Ohad	Non Executive Director (Resigned 20 October 2010)
Prof Nathan Intrator	Non Executive Director (Resigned 20 October 2010)

Executives

Mr Michael Thomas	Chief Executive Officer (Appointed 15 June 2011)
Mr David Model	Senior VP - Finance (Appointed 1 January 2011)

The above personnel include the six highest paid executives.

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. Accordinly no dividends have been paid during the year, or in respect of the 2011 financial year.

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)
Net Loss for financial year 2007	($5,123,912)

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 2011

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	
		Cash, Salary & Fees	Cash Bonus	Non-Monetary	Super-annuation	Equity	Total
2011		$	$	$	$	$	$
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
Executives							
Mr Michael Thomas	11	25,781	-	-	-	-	25,781
Mr David Model	11	54,141	-	-	-	-	54,141
		690,287	14,285	51,092	17,400	804,508	1,577,572
Paid by KarmelSonix Ltd		305,457	-	-	-	804,508	1,109,965
Paid by KarmelSonix (Israel) Ltd		191,497	-	51,092	-	-	242,589
Paid by PulmoSonix Pty Ltd		193,333	14,285	-	17,400	-	225,018
		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
Exercise Price: i) $0.03
ii) $0.04
Stock Price: $0.022
Years to Expiry: i) 0.95 years
ii) 1.95 years

Volatility: 50.0%
Risk-free Interest Rate: 5.09%
Dividend Yield: 0%
Option Fair Value: i) $0.0023
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
Exercise Price: $0.030
Stock Price: $0.022
Years to Expiry: 1.6 years

Volatility: 50.00%
Risk-free Interest Rate: 5.09%
Dividend Yield: 0.00%
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
Exercise Price: i) $0.02
ii) $0.03
iii) $0.04
Stock Price: $0.022
Years to Expiry: i) 1.0 year
ii) 1.95 years
iii) 3.0 years

Volatility: 50.00%
Risk-free Interest Rate: 5.09%
Dividend Yield: 0.00%
Option Fair Value: i) $0.0057
ii) $0.0045
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		Volatility:	50.00%
Exercise Price:	$0.020	Risk-free Interest Rate:	5.09%
Stock Price:	$0.022	Dividend Yield:	0.00%
Years to Expiry:	1.6 years	Option Fair Value:	$0.0070

10. In recognition of his past services as Directors 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, respresent 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, respresent 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 sharesholders at the Company's 2010 Annual General Meeting held on 30 November 2010.

		Short-Term Employment Benefits			Post Employment Benefits	Share-Based Payments	
		Cash, Salary & Fees	Cash Bonus	Non-Monetary Benefits	Super-annuation	Equity	Total
2010		$	$	$	$	$	$
Directors							
Mr Peter Marks		160,000	-	-	-	-	160,000
Prof Noam Gavriely	1	208,430	-	19,300	-	-	227,730
Dr Henry Pinskier		197,000	-	-	-	19,509	216,509
Prof Nathan Intrator		57,352	-	-	-	21,295	78,647
Mr Paul Eisen	2,3,4	155,100	10,000	-	16,329	94,414	275,843
Mr Amir Ohad	1	86,400	-	10,800	-	-	97,200
		864,282	10,000	30,100	16,329	135,218	1,055,929
Paid by iSonea Ltd		332,710	-	-	-	110,218	442,928
Paid by KarmelSonix (Israel) Ltd		249,472	-	30,100	-	-	279,572
Paid by PulmoSonix Pty Ltd		282,100	10,000	-	16,329	25,000	333,429
		864,282	10,000	30,100	16,329	135,218	1,055,929

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

2. 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.

3. Mr Paul Eisen under his employment contract, has received 10,000,000 unlisted options in 5 parcels of 2,000,000 each. Of the 10,000,000 options, 4,000,000 were subject to the achivement of certain performance milestones as at 31 December 2009 and 30 June 2010, which were not achieved and therefore 4,000,000 options were forfeited by Mr Eisen during the year. 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:

Grant Date: 7 August 2009			Volatility: 50.0%		
Exercise Price:	i)	$0.05	Risk-free Interest Rate: 5.39%		
	ii)	$0.15	Dividend Yield: 0%		
	iii)	$0.20	Option Fair Value:	i)	$0.025
Stock Price: $0.05				ii)	$0.010
Years to Expiry: 5.02 years				iii)	$0.007

4. The 500,000 ordinary shares issued to Mr Paul Eisen, under his employment contract, were fair valued at the ASX market price on the date approval was received at 5 cents per share. The fair value of this grant was $25,000 and has been expensed in the parent entity.

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	
	2011	2010	2011	2010	2011	2010
Directors						
Mr Ross Haghighat	100%	-	-	-	-	-
Mr Fabio Pannuti	100%	-	-	-	-	-
Mr Jerry Korten	100%	-	-	-	-	-
Mr Paul Hopper	100%	-	-	-	-	-
Mr Paul Eisen	83%	62%	4%	4%	13%	34%
Mr Peter Marks	100%	100%	-	-	-	-
Prof Noam Gavriely	100%	100%	-	-	-	-
Dr Henry Pinskier	100%	91%	-	-	-	9%
Prof Nathan Intrator	100%	73%	-	-	-	27%
Mr Amir Ohad	100%	100%	-	-	-	-
Executives						
Mr Michael Thomas	100%	-	-	-	-	-
Mr David Model	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. At 30 June 2011 equity had been issued to 1 previous Director, 38 employees and 17 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
21 November 2008	20 October 2011	15 December 2015	$0.05	N/A	Yes	$0.0090
30 November 2010	17 December 2010	15 December 2011	$0.02	N/A	Yes	$0.0057
30 November 2010	17 December 2010	31 July 2012	$0.03	N/A	Yes	$0.0038
30 November 2010	17 December 2010	31 July 2012	$0.02	N/A	Yes	$0.0070
30 November 2010	17 December 2010	15 December 2012	$0.03	N/A	Yes	$0.0045
30 November 2010	17 December 2010	15 December 2013	$0.04	N/A	Yes	$0.0044
30 November 2010	17 December 2010	30 November 2011	$0.03	N/A	Yes	$0.0023
30 November 2010	17 December 2010	30 November 2012	$0.04	N/A	Yes	$0.0027

Options granted under the plan carry no dividend or voting rights.

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 KarmelSonix Limited and each of the Key Management Personnel of the parent entity and Group 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	
Directors		2011	2010	2011	2010	2011	2010
Directors							
Mr Ross Haghighat	1	5,000,000	-	-	-	5,000,000	-
Mr Fabio Pannuti	1	1,500,000	-	-	-	1,500,000	-
Mr Jerry Korten	1	1,500,000	-	-	-	1,500,000	-
Mr Paul Hopper	1	1,500,000	-	-	-	1,500,000	-
Mr Paul Eisen	1,2	8,500,000	10,000,000	-	4,000,000	12,500,000	2,000,000
Mr Peter Marks	1	5,000,000	-	-	-	5,000,000	-
Prof Noam Gavriely	1	6,500,000	-	-	-	6,500,000	-
Dr Henry Pinskier		-	-	-	-	3,000,000	2,000,000
Prof Nathan Intrator	1	2,500,000	-	-	-	5,500,000	2,500,000
Mr Amir Ohad	1	2,500,000	-	-	-	2,500,000	-
Executives							
Mr Michael Thomas		-	-	-	-	-	-
Mr David Model		-	-	-	-	-	-
		34,500,000	10,000,000	-	4,000,000	44,500,000	6,500,000

1. The fair value of options granted to Directors for the year ended 30 June 2011 was $144,932, the total amount has been recognised as an expense in the current year. The expense recognised for each Director was, Mr Ross Haghiaght $12,300; Mr Fabio Pannuti $5,700; Mr Jerry Korten $5,700; Mr Paul Hopper $5,700; Mr Paul Eisen $46,700; Mr Peter Marks $19,000, Prof Noam Gavriely $39,000; Prof Nathan Intrator $9,500 and Mr Amir Ohad $9,500. Further details in relation to these options is disclosed on pp 16 - 17.

2. The fair value of options granted to Mr Paul Eisen for the year ended 30 June 2010 was $84,000. Due to vesting conditions an amount of $14,586 has been recognised as an expense in the current year (2010: $69,414). Further details in relation to these options is disclosed on pp 16 - 17.

3. The fair value of options granted to Dr Henry Pinskier for the year ended 30 June 2009 was $54,312. Due to vesting conditions an amount of $8,161 (2010: $19,609) has been recognised as an expense in the current year. The fair value of otions granted to Prof Nathan Intrator for the year ended 30 June 2009 was $63,364. Due to vesting conditions an amount of $8,161 (2010: $21,295) has been recognised as an expense in the current year.

4. There were no options provided as remuneration to any Director of iSonea Limited or Key Management Personnel of the parent entity and Group, which were vested and lapsed during the current year or previous year.

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

		Number of Shares Granted During the Year	
		2011	2010
Directors			
Mr Ross Haghighat	3	-	-
Mr Fabio Pannuti		-	-
Mr Jerry Korten		-	-
Mr Paul Hopper		-	-
Mr Paul Eisen	1	2,500,000	500,000
Mr Peter Marks	1	5,000,000	-
Prof Noam Gavriely	1	4,000,000	-
Dr Henry Pinskier	1	5,000,000	-
Prof Nathan Intrator	4	3,500,000	-
Mr Amir Ohad	1	2,500,000	-
Executives			
Mr Michael Thomas		-	-
Mr David Model		-	-
		22,500,000	500,000

1. Further details in relation to these shares is disclosed on pp 16 - 17.

2. There were no ordinary shares provided as a result of the exercise of remuneration options to any Director of iSonea Limited or Key Management Personnel of the parent entity and Group during the current year or previous year.

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

4. Prof Nathan Intrator received 3,000,000 ordinary fully paid ordinary shares in lieu of cash payment for directors fees owed to him by the Company as approved by shareholders at the Company's 2010 Annual General Meeting held on 30 November 2010.

Employment Contracts of Directors and Key Management Personnel

Directors	Duration	Notice Requirements	Termination
Mr Paul Eisen	Until termination by either party Signed 7 August 2009	For Good Reason Mr Eisen may terminate immediately	Pay Mr Eisen on termination an amount equal to 3 months, or part there of, of the annual remuneration at the time notice is given, which corresponds to the period for which notice is not given.
		Without Good Reason Mr Eisen may terminate with 90 days notice	As above
		With Cause the Company may terminate immediately	As above
		Without Cause the Company may terminate with 90 days notice	As above
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 ther 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.

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.

Share Options on Issue at 30 June 2011

The unissued ordinary shares of iSonea Limited under issued options at the following dates were:

Date of Expiry	Exercise Price $	Number Under Option at 30 June 2011	Number Under Option at 30 June 2010*
30 June 2010	$0.050	-	10,600,000
15 December 2010	$0.050	-	3,000,000
31 July 2011	$0.050	10,683,333	10,683,333
31 July 2011	$0.070	62,035,000	58,035,000
31 October 2011	$0.023	52,666,999	-
30 November 2011	$0.030	6,000,000	-
15 December 2011	$0.020	2,000,000	-
30 April 2012	$0.024	11,000,000	-
30 June 2012	$0.050	29,737,497	29,737,497
31 July 2012	$0.020	6,500,000	-
31 July 2012	$0.030	14,500,000	-
30 November 2012	$0.040	2,000,000	-
15 December 2012	$0.015	2,300,000	-
15 December 2012	$0.030	12,777,314	-
15 December 2013	$0.040	4,500,000	-
15 December 2013	$0.050	3,812,500	3,812,500
15 December 2014	$0.130	900,000	900,000
15 June 2015	$0.130	900,000	900,000
15 December 2015	$0.050	13,000,000	13,000,000
		235,312,643	130,668,330

* The 10,600,000 unlisted options expiring on or before 30 June 2010 expired unexcised, and were removed from the share register on the 1 July 2010.

Shares Issued as a Result of the Exercise of Options

During the year ended 30 June 2011 the following ordinary shares of iSonea Limited were issued as a result of the exercise of options.

Date of Issue	Exercise Price $	Number Under Option at 30 June 2011
16 February 2011	$0.015	6,666,667
10 March 2011	$0.015	1,000,000
17 March 2011	$0.015	21,333,333
30 March 2011	$0.015	6,666,666
5 May 2011	$0.015	17,000,333

During the year ended 30 June 2010 no ordinary shares of iSonea Limited were issued as a result of the exercise of options.

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 2011 the Company did not engage the external auditor to provide non-audit services.

Auditor's Independence Declaration

The lead auditor's independence declaration as required under section 307C of the Corporations Act 2001 for the year ended 30 June 2011 has been received and can be found on pp 22 of the annual report.

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

Mr Ross Haghighat
Executive Chairman
Dated this the 30th day of September 2011

PKF

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 year

I declare to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit, and

- no contraventions of any applicable code of professional conduct in relation to the audit.

David Garvey

David Garvey
Partner
PKF

30 September 2011
Melbourne

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ISONEA LIMITED
ABN: 98 009 234 173
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011

	Note	Consolidated Entity 2011	Consolidated Entity 2010
		$	$
Revenue	3	332,087	348,493
Cost of goods sold		(239,770)	(269,886)
Gross Profit		92,317	78,607
Other income	3	126,690	184,568
Amortisation expenses	4	173,801	177,299
Consulting, employee and director expenses	4	2,372,038	1,895,903
Corporate administration expenses		830,278	820,600
Depreciation expenses	4	49,247	77,613
Marketing and promotion expenses		1,651,273	1,289,638
Research and development expenses	4	1,404,785	1,450,373
Travel and entertainment expenses		414,896	491,510
Loss before income tax		(6,677,311)	(5,939,761)
Income tax expense	5	-	-
Loss for the year		(6,677,311)	(5,939,761)
Other Comprehensive Income			
Exchange differences on translation of foreign operations		100,034	(59,019)
Total Comprehensive Income for the Year		**(6,577,277)**	**(5,998,780)**
Loss for the year attributable to the members of the parent entity		(6,677,311)	(5,939,761)
Comprehensive income for the year attributable to the members of the parent entity		(6,577,277)	(5,998,780)
Overall Operations			
Basic loss per share (cents per share)	8a	(0.85)	(0.92)
Diluted loss per share (cents per share)	8b	(0.85)	(0.92)

The accompanying notes form part of these financial statements.

ISONEA LIMITED
ABN: 98 009 234 173
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011

	Note	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Assets			
Current Assets			
Cash and cash equivalents	9	1,312,065	2,299,686
Trade and other receivables	10	276,548	382,502
Inventories	11	386,423	242,230
Other	15	38,722	98,634
Total Current Assets		2,013,758	3,023,052
Non-Current Assets			
Plant and equipment	13	195,074	215,993
Intangible assets	14	1,134,116	1,342,077
Other	15	10,570	13,970
Total Non-Current Assets		1,339,760	1,572,040
Total Assets		**3,353,518**	**4,595,092**
Liabilities			
Current Liabilities			
Trade and other payables	16	716,852	933,548
Other financial liabilities	17	-	44,940
Provisions	18	22,354	31,745
Total Current Liabilities		739,206	1,010,233
Non-Current Liabilities			
Other financial liabilities	17	504,516	708,667
Provisions	18	-	9,468
Total Non-Current Liabilities		504,516	718,135
Total Liabilities		**1,243,722**	**1,728,368**
Net Assets		**2,109,796**	**2,866,724**
Equity			
Issued capital	19	67,479,141	61,896,696
Reserves		1,139,314	4,429,392
Accumulated losses		(66,508,659)	(63,459,364)
Total Equity		**2,109,796**	**2,866,724**

The accompanying notes form part of these financial statements.

ISONEA LIMITED
ABN: 98 009 234 173
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2011

Consolidated Entity

	Note	Issued Capital	Option Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
		$	$	$	$	$
Balance at 01 July 2009	19,20	56,571,097	4,446,056	(172,912)	(57,519,603)	3,324,638
Total Comprehensive Income for the Year				(59,019)	(5,939,761)	(5,998,780)
Transactions with equity holders in their capacity as equity holders:						
Shares issued	19	5,931,630	-	-	-	5,931,630
Capital raising costs	19	(606,031)	-	-	-	(606,031)
Options issued	20	-	215,267	-	-	215,267
Balance 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	19	4,918,687	-	-	-	4,918,687
Capital raising costs	19	(126,247)	-	-	-	(126,247)
Options exercised net of costs	19	790,005	-	-	-	790,005
Options issued	20	-	237,904	-	-	237,904
Transfers to/from reserves	20	-	(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**

The accompanying notes form part of these financial statements.

ISONEA LIMITED
ABN: 98 009 234 173
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011

	Note	Consolidated Entity 2011 $	2010 $
Cash Flows Related To Operating Activities			
Receipts from customers		425,085	317,866
Payments to suppliers and employees		(5,889,797)	(5,557,744)
Interest received		55,046	118,343
Interest and other costs of finance paid		(30,899)	-
Receipt of R&D tax refund		86,602	-
Net Cash Flows Used In Operating Activities	24a	**(5,353,963)**	**(5,121,535)**
Cash Flows Related To Investing Activities			
Proceeds from sales of plant and equipment		-	2,138
Payment for purchases of plant and equipment		(26,002)	(164,104)
Payment for security deposits		-	(1,070)
Proceeds from rental deposits		2,938	-
Net Cash Flows Used In Investing Activities		**(23,064)**	**(163,036)**
Cash Flows Related To Financing Activities			
Proceeds from issues of equity securities		2,173,106	5,054,600
Proceeds from issues of debt securities		2,248,786	-
Capital raising costs		(116,324)	(530,281)
R&D Grants Received in Israel		88,124	98,274
Net Cash Flows From Financing Activities		**4,393,692**	**4,622,593**
Net Decrease In Cash And Cash Equivalents		(983,335)	(661,978)
Cash and cash equivalents at the beginning of the year	9	2,299,687	2,959,130
Effects of exchange rate changes on cash and cash equivalents		(4,287)	2,534
Cash And Cash Equivalents At The End Of The Year	9	**1,312,065**	**2,299,686**

The accompanying notes form part of these financial statements.

Note 1 Statement of Significant Accounting Policies

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.

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 Company's principal activities are research, development and commercialisation of medical devices.

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).

The financial report was authorised for issue by the Directors on the date the Director's Declaration was signed.

Basis of Preparation

The financial report has been prepared on the basis of historical cost, 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.

New, revised or amending Standards and Interpretations

The consolidated entity has adopted all of the new, revised or amending Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant and effective for the current reporting period.

The adoption of these Standards and Interpretations did not have any impact on the financial performance or position of the consolidated entity. The following Standards and Interpretations are most relevant to the consolidated entity:

Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments

The consolidated entity has applied Interpretation 19 from 1 July 2010. The interpretation clarified that equity instruments issued to a creditor to extinguish a financial liability qualifies as consideration paid. The equity instruments issued are measured at their fair value, or if not reliably measurable, at the fair value of the liability extinguished, with any gain or loss recognised in profit or loss.

AASB 2009-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project

The consolidated entity has applied AASB 2009-5 amendments from 1 July 2010. The amendments result in some accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes had no or minimal effect on accounting. The main changes were:

- AASB 101 'Presentation of Financial Statements' - classification is not affected by the terms of a liability that could be settled by the issuance of equity instruments at the option of the counterparty;
- AASB 107 'Statement of Cash Flows' - only expenditure that results in a recognised asset can be classified as a cash flow from investing activities;
- AASB 117 'Leases' - removal of specific guidance on classifying land as an operating or finance lease;
- AASB 118 'Revenue' - provides additional guidance to determine whether an entity is acting as a principal or agent; and
- AASB 136 'Impairment of Assets' - clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in AASB 8 'Operating Segments' before aggregation for reporting purposes.

AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project

The consolidated entity has applied AASB 2010-3 amendments from 1 July 2010. The amendments result in some accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes had no or minimal effect on accounting. The main changes were:

AASB 127 'Consolidated and Separate Financial Statements' and AASB 3 Business Combinations - clarifies that contingent consideration from a business combination that occurred before the effective date of revised AASB 3 is not restated; the scope of the measurement choices of non-controlling interest is limited to when the rights acquired include entitlement to a proportionate share of net assets in the event of liquidation; requires an entity in a business combination to account for the replacement of acquiree's share-based payment transactions, unreplaced and voluntarily replaced, by splitting between consideration and post combination expenses.

Critical Accounting Estimates and Judgements

In the preparation of these financial statements the Directors 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

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.

As at June 30 2011, the consolidated entity incurred an operating loss of $6,677,311 (2010: $5,939,761), and had net consolidated cash outflows from operations of $5,353,963 (2010: $5,121,535). The consolidated entity's cash position has decreased to $1,312,065 from $2,299,686 at June 30 2010, and the consolidated entity's net asset position at 30 June 2011 was $2,109,796 (2010: $2,866,724). 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 believe that the going concern basis of preparation is appropriate given the consolidated entity's cash position, in addition:

- On August 31, 2011 the Company announced a Memorandum of Understanding with a Fortune 500 Healthcare Company to fast track commercialization of the Company's flagship product, among other things;
- On 29 September 2011, ISN entered into an agreement with New York based Bergen Asset Management to provide a $10,680,000 investment in ISN. The investment is structured into 2 parallel instruments consisting of an immediate investment of cash funds by $1,000,000 ($1,120,000 face value) unsecured convertible notes and a $9,600,000 share purchase facility. Under the share purchase facility ISonea will have the right to commence an optional monthly placement of shares starting three months after the date of the execution of the agreement of an amount of $200,000 per month which can be varied up to $400,000 per month requiring mutual consent; *(refer to further disclosure in note 26 – Events Subsequent to Balance Date)*
- In parallel, the Company continues to pursue raising additional funds through alternative funding structures;
- Notwithstanding the Company has the ability to scale down its operations and priorities its activities should the need arise.

Based on the successful execution of the above the Directors are satisfied that the consolidated entity has access to sufficient cash flow to meet commitments over the next twelve months , and for that reason the financial statements have been prepared on the basis that the consolidated entity is a going concern, which contemplates the continuity of normal business activity, realization of assets and the settlement of liabilities in the normal course of business.

Should the consolidated entity be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the consolidated entity not continue as a going concern.

Impairment

The Group assesses impairment at each reporting date, in accordance with the accounting policy stated in Note 1(f). Impairment is assessed by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates as disclosed in the notes where applicable.

Share-Based Payment Transactions

The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black Scholes Model. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity (see Note 1(j) and 25).

Useful-Life of Intellectual Property

As detailed at Note 14, intellectual property is amortised over its expected useful life of 10 years. The estimate of a useful life of 10 years is a critical estimate impacting the amortisation expense of intellectual property.

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 amd 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.

Depreciation

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%
Fitout assets	16.66%

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

Recognition

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

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

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the 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.

Financial Liabilities

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 feasibilty 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 asset is reviewed at least at the end of each reporting period. If the expected useful life of the asset is different from the pervious 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.

(q) Business Combinations (continued)

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.

(s) New Accounting Standards and Interpretations

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 2011.

AASB 2009-12 Amendments to Australian Accounting Standards

These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments make numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, which have no major impact on the requirements of the amended pronouncements. The main amendment is to AASB 8 'Operating Segments' and requires an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are onsidered a single customer for the purposes of certain operating segment disclosures. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and 2010-7 Amendments to Australian Accounting Standards arising from AASB 9

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. To be classified and measured at amortised cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognised in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any ‘recycling’ of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity’s own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The consolidated entity will adopt this standard from 1 July 2013 but the impact of its adoption is yet to be assessed.

AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project

These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments are a consequence of the annual improvements project and make numerous non-urgent but necessary amendments to a range of Australian Accounting Standards and Interpretations. The amendments provide clarification of disclosures in AASB 7 'Financial Instruments: Disclosures', in particular emphasis of the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instrument; clarifies that an entity can present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes in accordance with AASB 101 'Presentation of Financial Statements'; and provides guidance on the disclosure of significant events and transactions in AASB 134 'Interim Financial Statements Reporting'. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

AASB 2010-5 Amendments to Australian Accounting Standards

These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the International Accounting Standards Board. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

AASB 2010-6 Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets

These amendments are applicable to annual reporting periods beginning on or after 1 July 2011. These amendments add and amend disclosure requirements in AASB 7 about transfer of financial assets, including the nature of the financial assets involved and the risks associated with them. The adoption of these amendments from 1 July 2011 will increase the disclosure requirements on the consolidated entity when an asset is transferred but is not derecognised and new disclosure required when assets are derecognised but the consolidated entity continues to have a continuing exposure to the asset after the sale.

(s) New Accounting Standards and Interpretations (continued)

AASB 124 Related Party Disclosures (December 2009)

This revised standard is applicable to annual reporting periods beginning on or after 1 January 2011. This revised standard simplifies the definition of a related party by clarifying its intended meaning and eliminating inconsistencies from the definition. The definition now identifies a subsidiary and an associate with the same investor as related parties of each other; 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; and 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. This revised standard introduces a partial exemption of disclosure requirement for government-related entities. The adoption of this standard from 1 July 2011 will not have a material impact on the consolidated entity.

AASB 127 Separate Financial Statements (Revised)
AASB 128 Investments in Associates and Joint Ventures (Reissued)

These standards are applicable to annual reporting periods beginning on or after 1 January 2013. They have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12. The adoption of these revised standards from 1 July 2013 will not have a material impact on the consolidated entity.

AASB 1054 Australian Additional Disclosures

This Standard is applicable to annual reporting periods beginning on or after 1 July 2011. The standard sets out the Australian-specific disclosures, which are in addition to International Financial Reporting Standards, for entities that have adopted Australian Accounting Standards. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project

The amendments are applicable to annual reporting periods beginning on or after 1 July 2011. They make changes to a range of Australian Accounting Standards and Interpretations for the purpose of closer alignment to IFRSs and harmonisation between Australian and New Zealand Standards. The amendments remove certain guidance and definitions from Australian Accounting Standards for conformity of drafting with International Financial Reporting Standards but without any intention to change requirements. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

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	
	2011	2010
	$	$
Statement of Financial Position		
Assets		
Current Assets	1,211,850	2,192,702
Non-current Assets	766,411	987,639
Total Assets	1,978,261	3,180,341
Liabilities		
Current Liabilities	259,340	283,276
Non-current Liabilities	-	-
Total Liabilities	259,340	283,276
Net Assets	1,718,921	2,897,065
Equity		
Issued Capital	67,479,141	61,896,696
Reserves	1,271,213	4,661,326
Accumulated losses	(67,031,433)	(63,660,957)
Total Equity	1,718,921	2,897,065
Statement of Comprehensive Income		
Total profit/(loss)	(6,998,490)	(6,574,307)
Total comprehensive income	(6,998,490)	(6,574,307)

Note 3 Revenue

	Consolidated Entity	
	2011	2010
	$	$
Sales		
— PulmoTrack	74,039	49,213
— WheezoMeter	158,392	299,280
— Wholter	99,656	-
Total operating revenue	332,087	348,493
Interest received	55,046	118,343
Other income		
— R & D tax refunds	71,644	66,225
— Grant income	-	-
Total other income	71,644	66,225
Total non-operating revenue	126,690	184,568
Total Income	458,777	533,061

Note 4 Loss from Ordinary Activities

	Consolidated Entity	
	2011	2010
	$	$
Expenses		
Amortisation and depreciation expenses		
— Cost of Goods Sold	173,801	177,299
— Depreciation	49,247	77,613
Amortisation and depreciation expenses	223,048	254,912
Consulting, employee and director expenses		
— Consulting expenses	536,735	654,126
— Employee expenses	585,410	692,623
— Director expenses	1,222,462	534,700
— Defined contribution superannuation	27,431	14,454
Consulting, employee and director expenses	2,372,038	1,895,903

Note 4 Loss from Ordinary Activities (continued)

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Research and development expenses		
— Consulting expenses	31,261	107,684
— Employee expenses	888,199	862,825
— Patent and regulatory expenses	303,616	237,597
— Other research and development	181,709	242,267
Research and development expenses	1,404,785	1,450,373
Other expenses		
Office rental under operating lease	131,273	125,884
Foreign exchange loss	(1,529)	1,114
Total other expenses	129,744	126,998

Note 5 Income Tax Expense

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
(a) Income Tax Recognised in Profit or Loss		
The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:		
Loss before income tax	(6,677,311)	(5,939,761)
Income tax benefit calculated at 30% (2010: 30%)	(2,003,193)	(1,781,928)
Tax effect of amounts which are not deductible in calculating taxable income:		
— impairment expense and amortisation	52,140	53,190
— share-based payments	387,705	152,784
— other costs not deductible	4,916	4,332
Tax benefit associated with R&D rebate	(17,870)	(19,124)
Other deductible items	(104,791)	(97,216)
Reversal of deferred tax assets not recognised in prior years	(36,079)	(5,490)
Deferred tax assets relating to tax losses not recognised	1,717,172	1,693,452
Income Tax Recognised in Profit or Loss	-	-
(b) Unrecognised Deferred Tax Assets and Liabilities		
Deferred tax assets and liabilities are attributable to the following:		
Tax losses	7,541,640	5,842,874
Accruals	6,706	11,400
Employee provisions	11,700	12,364
Net deferred tax assets not recognised	7,560,046	5,866,638
(c) Components of Tax		
The components of tax expense comprise:		
Current tax	-	-
Deferred tax	-	-
	-	-

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

Included in deferred tax assets attributable to tax losses not recognised are tax losses in relation to operations in Israel, USA and Australia. Tax losses realised in Australia of $9,099,395 relate to losses generated from 22 November 2006 to 30 June 2011. The ongoing availability of these tax losses are subject to further review by the Company to ensure the compliance with the relevant provisions of Australian Income Tax Law.

iSonea Limited (head entity) and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime on 22 November 2006.

Note 6 Key Management Personnel Compensation

Key Management Personnel includes:

(a) Directors

Names and positions of Directors of iSonea Limited in office at any time during or since the financial year are:

Name	Position
Mr Ross Haghighat	Executive Chairman (Appointed 20 October 2010)
Mr Fabio Pannuti	Non Executive Director (Appointed 20 October 2010)
Mr Jerry Korten	Non Executive Director (Appointed 20 October 2010)
Mr Paul Hopper	Non Executive Director (Appointed 20 October 2010)
Mr Paul Eisen	Executive Director (Resigned 29 July 2011)
Mr Peter Marks	Executive Director (Resigned 20 October 2010)
Prof Noam Gavriely	Executive Director (Resigned 20 October 2010)
Dr Henry Pinskier	Executive Director (Resigned 20 October 2010)
Mr Amir Ohad	Non Executive Director (Resigned 20 October 2010)
Prof Nathan Intrator	Non Executive Director (Resigned 20 October 2010)

Directors have been in office since the start of the financial year to the date of this report, unless otherwise stated.

(b) Executives

The following persons, employed by iSonea Limited, also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly during the financial year:

Name	Position
Mr Michael Thomas	Chief Executive Officer (Appointed 15 June 2011)
Mr David Model	Senior VP - Finance (Appointed 1 January 2011)

(c) Key Management Personnel Compensation

The aggregate compensation made to key management personnel of the Company and the Group is set out below:

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Short-term employee benefits	755,664	904,382
Post-employment benefits	17,400	16,329
Long-term benefits	-	-
Termination benefits	-	-
Share-based payments	804,508	135,218
	1,577,572	1,055,929

Additional disclosures as required per AASB 124 can be found in the Remuneration Report on pages 15 to 20.

(d) Options and Rights Holdings

The number of options over ordinary shares in the Company held during the financial year by each Director of iSonea Limited and other key management personnel of the Group, including their personally related parties, are set out below:

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 Fabio Pannuti	-	1,500,000	-	-	1,500,000	1,500,000	-
Mr Jerry Korten	-	1,500,000	-	-	1,500,000	1,500,000	-
Mr Paul Hopper	-	1,500,000	-	-	1,500,000	1,500,000	-
Mr Paul Eisen	6,000,000	8,500,000	-	-	14,500,000	12,500,000	
Mr Peter Marks	-	5,000,000	-	(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)	-	3,000,000	-
Mr Amir Ohad	-	2,500,000	-	(2,500,000)	-	2,500,000	-
Prof Nathan Intrator	7,000,000	2,500,000	-	(9,500,000)	-	5,500,000	-
Executives							
Mr Michael Thomas	-	-	-	-	-	-	-
Mr David Model	-	-	-	-	-	-	-
	19,000,000	34,500,000	-	(23,000,000)	30,500,000	44,500,000	-

* Please refer to Note 20(m) for further details in relation to issues in 2011 and Note 20(k) for details of issues in 2010, including terms.

^ 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 he held at this date have been included under the heading Net Change Other 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.

(d) Options and Rights Holdings (continued)

2010	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	-	-	-	-	-	-	-
Mr Fabio Pannuti	-	-	-	-	-	-	-
Mr Jerry Korten	-	-	-	-	-	-	-
Mr Paul Hopper	-	-	-	-	-	-	-
Mr Paul Eisen	-	10,000,000	-	(4,000,000)	6,000,000	2,000,000	4,000,000
Mr Peter Marks	-	-	-	-	-	-	-
Prof Noam Gavriely	-	-	-	-	-	-	-
Dr Henry Pinskier	6,000,000	-	-	-	6,000,000	3,000,000	3,000,000
Mr Amir Ohad	-	-	-	-	-	-	-
Prof Nathan Intrator	7,000,000	-	-	-	7,000,000	4,000,000	3,000,000
Executives							
Mr Michael Thomas	-	-	-	-	-	-	-
Mr David Model	-	-	-	-	-	-	-
	13,000,000	10,000,000	-	(4,000,000)	19,000,000	9,000,000	10,000,000

* Please refer to Note 20(k) for further details in relation to issues in 2010, including terms.

In 2010, Mr Paul Eisen was issued 10,000,000 unlisted options. However, 4,000,000 of these unlisted options were forfeited. Additional information can be found in the Remuneration Report on pages 16 & 17.

(e) Shareholdings

The number of shares in the Company held during the financial year by each Director of iSonea Limited and other key management personnel of the Group, including their personally related parties, are set out below.

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

(i) During the year, Mr Marks, Dr Pinskier, Mr Ohad and Prof Intrator resigned as Directors of the Company on 20 October 2010, the shares held at this date have been included under the heading Net Change Other above. Prof Gavriely resigned as a Director on the same date but remained a member of the key management personnel and therefore the shares he held at that date have not been removed from the table above.

(ii) The movement included under Net Change Other, for these Directors, refers to shares purchased or sold during the financial year.

(iii) On 30 November 2010, these Directors received non cash remuneration in the form of shares in accordance with the resolutions approved by shareholders at the Company's Annual General Meeting. The shares were fair valued at the ASX market price on the date the shares were issued.

(iv) 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).

(e) Shareholdings (continued)

2010		Balance at the Start of the Year	Received as Compensation	Options Exercised	Net Change Other	Balance at the End of the Year
Directors						
Mr Ross Haghighat		-	-	-	-	-
Mr Fabio Pannuti		-	-	-	-	-
Mr Jerry Korten		-	-	-	-	-
Mr Paul Hopper		-	-	-	-	-
Mr Paul Eisen	(i) (ii) (iii)	-	500,000	-	485,000	985,000
Mr Peter Marks	(i)	9,930,000	-	-	(230,000)	9,700,000
Prof Noam Gavriely	(i)	82,730,808	-	-	240,000	82,970,808
Dr Henry Pinskier	(i)	10,535,426	-	-	600,000	11,135,426
Mr Amir Ohad		-	-	-	-	-
Prof Nathan Intrator	(i)	14,104,508	-	-	1,500,000	15,604,508
Executives						
Mr Michael Thomas		-	-	-	-	-
Mr David Model		-	-	-	-	-
		117,300,742	500,000	-	2,595,000	120,395,742

(i) The movement included under Net Change Other, for these Directors, refers to shares purchased or sold during the financial year.

(ii) Mr Eisen was appointed as a Director of the Company on 11 February 2010, the number of shares he held at this date was 675,000, which included the 500,000 ordinary shares recorded as compensation above, the balance of 175,000 has been included under the heading Net Change Other above.

(iii) On 21 August 2009, Mr Paul Eisen received non cash remuneration in the form of shares in accordance with his employment contract, which was signed on the 7 August 2009 and was prior to his appointment as a Director. The shares were fair valued at the ASX market price on the date the shares were issued.

Note 7 Auditors' Remuneration

	Note	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Remuneration of the auditor of the parent entity for:			
— auditing or reviewing the financial report		47,950	48,260
— taxation services		-	-
		47,950	48,260
Remuneration of other auditors of subsidiaries for:			
— auditing or reviewing the financial report of subsidiaries	(i)	18,215	25,743
		18,215	25,743

(i) Audit fees paid by subsidiaries above were to Ernst and Young and relates to the auditing or review of the financial reports of Karmel Sonix (Israel) Ltd.

Note 8 Loss per Share

		2011 cents	2010 cents
(a)	**Basic loss per share**		
	From overall operations	(0.85)	(0.92)
(b)	**Diluted earnings/loss per share**		
	From overall operations	(0.85)	(0.92)

		2011 $	2010 $
(c)	**Reconciliation of loss per share to net loss**		
	Net Loss	(6,677,311)	(5,939,761)
	Loss used to calculate basic loss per share	(6,677,311)	(5,939,761)
	Loss used to calculate diluted loss per share	(6,677,311)	(5,939,761)
(d)	**Reconciliation of loss per share to net loss from continuing operations**		
	Net Loss	(6,677,311)	(5,939,761)
	Loss used to calculate basic loss per share	(6,677,311)	(5,939,761)
	Loss used to calculate diluted loss per share	(6,677,311)	(5,939,761)
(e)	**Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS**	No. 783,705,779	No. 644,604,711

(f) Potential ordinary shares, including options and convertible redeemable preference shares, are excluded from the weighted average number of ordinary 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 decrease the basic loss per share.

Where dilutive, potential ordinary shares are included in the calculation of diluted loss per share.

Note 9 Cash and Cash Equivalents

	Consolidated Entity 2011 $	2010 $
Cash at bank and in hand	204,215	266,834
Short-term bank deposits	1,107,850	2,032,852
	1,312,065	2,299,686

Reconciliation of cash

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to items in the Statement of Financial Position as follows:

Cash and cash equivalents	1,312,065	2,299,686
	1,312,065	2,299,686

Note 10 Trade and Other Receivables

	Consolidated Entity 2011 $	2010 $
Current		
Trade receivables^	276,548	382,502
	276,548	382,502

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

Note 11 Inventories

	Consolidated Entity 2011 $	2010 $
Current		
At cost		
Raw materials and stores	54,706	3,515
Work in progress	93,919	-
Finished goods	237,798	238,715
	386,423	242,230

Note 12 Controlled Entities

(a) Controlled Entities Consolidated

		Country of Incorporation	Percentage Owned (%)* 2011	2010
Parent Entity:				
iSonea Limited		Australia		
Subsidiaries of iSonea Limited:				
PulmoSonix Pty Ltd	12(b)	Australia	100	100
Karmel Sonix (Israel) Limited	12(b)	Israel	100	100
KarmelSonix USA		United States	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 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 (2010: $96,133) in the profit and loss. The parent entity has treated this amount as an addition to its investment in the subsidiary.

Note 13 Property, Plant and Equipment

	Consolidated Entity 2011 $	2010 $
Plant & Equipment		
Furniture & Fittings		
At cost	32,731	33,968
Accumulated depreciation	(8,753)	(7,000)
	23,979	26,968
Computer Equipment & Software		
At cost	358,448	343,196
Accumulated depreciation	(296,993)	(283,375)
	61,455	59,821
Medical Equipment		
At cost	130,884	128,266
Accumulated amortisation	(44,270)	(26,250)
Total Leasehold Improvements	86,614	102,016
Fitout Assets		
At cost	46,468	43,232
Accumulated depreciation	(23,442)	(16,044)
	23,026	27,188
Total Plant and Equipment	195,074	215,993

(a) Movements 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.

2011	Furniture & Fittings $	Computer Equipment & Software $	Medical Equipment $	Fitout Assets $	Total $
Consolidated Entity:					
Balance at the beginning of year	26,968	59,821	102,016	27,188	215,993
Additions	1,629	33,730	12,267	4,937	52,563
Depreciation expense*	(2,342)	(29,327)	(19,399)	(8,091)	(59,159)
Disposals of assets	-	-	-	-	-
Exchange adjustment	(2,276)	(2,769)	(8,271)	(1,008)	(14,324)
Carrying amount at the end of year	23,979	61,455	86,614	23,026	195,074

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

(a) Movements in Carrying Amounts (continued)

2010	Furniture & Fittings $	Computer Equipment & Software $	Medical Equipment $	Fitout Assets $	Total $
Consolidated Entity:					
Balance at the beginning of year	27,703	73,646	20,859	20,861	143,069
Additions	3,012	53,538	94,694	12,860	164,104
Depreciation expense	(2,441)	(62,107)	(12,841)	(6,058)	(83,447)
Disposals of assets	-	(2,138)	-	-	(2,138)
Exchange adjustment	(1,306)	(3,118)	(696)	(475)	(5,595)
Carrying amount at the end of year	26,968	59,821	102,016	27,188	215,993

*For the year ended 30 June 2010, depreciation has been disclosed in cost of goods sold of $5,834 and $77,613 at depreciation.

Note 14 Intangible Assets

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Intellectual Property - Acquired		
Cost	1,756,123	1,798,707
Less accumulated amortisation	(622,007)	(456,630)
Net carrying value	1,134,116	1,342,077
Total intangibles	1,134,116	1,342,077

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

Consolidated Entity	Acquired Intellectual Property $	Total $
Year ended 30 June 2011		
Balance at the beginning of year	1,342,077	1,342,077
Additions	70	70
Effect of movements in exchange rates	(34,230)	(34,230)
Amortisation	(173,801)	(173,801)
Impairment losses	-	-
Closing carrying value at 30 June 2011	1,134,116	1,134,116
Year ended 30 June 2010		
Balance at the beginning of year	1,536,960	1,536,960
Additions	5,325	5,325
Effect of movements in exchange rates	(20,813)	(20,813)
Amortisation	(179,395)	(179,395)
Closing carrying value at 30 June 2010	1,342,077	1,342,077

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 6.5 years.

Note 15 Other Assets

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Current		
Prepayments	38,722	98,334
FBT Installments	-	300
	38,722	98,634
Non-Current		
Security Deposit	1,070	1,070
Rental Deposits	-	2,938
Car Leases	9,500	9,962
	10,570	13,970

Note 16 Trade and Other Payables

	Note	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Current			
Unsecured liabilities			
Trade payables	(a)	491,468	733,406
Sundry payables and accrued expenses		225,384	200,142
		716,852	933,548

(a) At balance date there were unhedged foreign currency payables of $ILS1,498,632 (2010: $ILS2,073,325, Israeli New Shekel) or $AUD413,023 (2010:$AUD624,070) payable by the economic entity.

Note 17 Other Financial Liabilities

	Note	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Current			
Redeemable convertible preference shares	(a)	-	44,940
		-	44,940
Non-Current			
R&D Grants Received in Israel	(b)	504,516	708,667
		504,516	708,667

(a) In 2009, the Company issued 14,946,000 redeemable convertible preference shares at $0.07, with an entitlement to the payment of a fixed dividend of $0.008 for each redeemable convertible preference share held, paid in arrears until redemption occurs, on each six (6) monthly interval from the date the holder paid the subscription amount. The redeemable convertible preference shares are redeemable by the Company at its sole discretion for $0.07, plus any outstanding dividend, or automatically without notice on earlier of:

o KSX producing 2,000 units of its Personal WheezoMeter and/or achieving confirmed order book of 5,000 units;

o any sale, transfer or creation of any charge, mortgage, pledge, lien, or other dealing of whatsoever nature over the Company's wholly owned subsidiary, Karmel Sonix Israel (the owner of the Personal WheezoMeter™) and including its assets, and not limited to the Personal WheezeoMeter™, its patents, related technology and intellectual property; and/or

o 24 months from the date of the subscription agreement.

The shares are convertible into ordinary shares at a price per ordinary share equal to the 5 day VWAP price less a 10% discount at any time up to 24 months from the date of issue of the shares.

Under AASB 132, the redeemable convertible preference shares are classified as a Financial Liability, as opposed to Issued Capital, as a result of the ability of the Company to issue a variable number of ordinary shares on redemption of the redeemable convertible preference shares.

As at 30 June 2011, all redeemable convertible preference shares have been converted into ordinary shares in iSonea Limited.

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

Note 18 Provisions

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Current		
Annual leave	22,354	31,745
	22,354	31,745
Non-Current		
Long service leave	-	9,468
	-	9,468

Provision for Employee Entitlements

A provision has been recognised for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits has been included in Note 1 to this report.

Note 19 Issued Capital

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

	Note	Consolidated Entity 2011 $	2010 $
Fully Paid Ordinary shares (2011: 687,276,239) (2010: 524,896,573)	19a	67,479,141	61,841,766
Partly Paid Ordinary Shares (2011: 27,465,000) (2010: 36,915,000)	19b	-	54,930
Fully Paid G class shares (2011: Nil) (2010: 12,500,000)	19c	-	-
Fully Paid H class shares (2011: Nil) (2010: 12,500,000)	19d	-	-
		67,479,141	61,896,696

(a) Ordinary Shares

	Note	2011 No.	2011 $	2010 No.	2010 $
At the beginning of reporting period		687,276,239	61,841,766	524,896,573	56,497,267
Shares issued during year	(i)	317,974,986	4,973,616	162,379,666	5,950,530
Exercise of options	(ii)	52,666,999	790,005	-	-
Transaction costs relating to share issues			(126,246)		(606,031)
At reporting date		1,057,918,224	67,479,141	687,276,239	61,841,766

(i) 2011	Details	Number	Issue Price $	$
17-Dec-10	Issued to Directors*	35,686,963	0.020	705,304
17-Dec-10	Issued to a Consultant^	3,500,000	0.011	37,100
17-Dec-10	Conversion of Convertible Notes	7,006,667	0.015	105,100
10-Jan-11	Conversion of Convertible Notes	6,666,667	0.015	100,000
16-Feb-11	Conversion of Partly Paid Shares to Fully Paid Ordinary Shares	750,000	0.010	7,500
16-Feb-11	Conversion of Convertible Notes	27,333,333	0.015	410,000
10-Mar-11	Conversion of Convertible Notes	6,999,999	0.015	105,000
10-Mar-11	Issued to Eligible persons of the Company's ESOP plan	5,442,847	0.015	81,642
10-Mar-11	Issued to Consultants^	2,459,328	0.015	36,890
30-Mar-11	Issued to Consultants^	1,100,000	0.020	22,000
11-Apr-11	Conversion of Partly Paid Shares to Fully Paid Ordinary Shares	19,500,000	0.010	195,000
11-Apr-11	Conversion of Convertible Notes	18,666,667	0.015	280,000
14-Apr-11	Capital Raising	64,600,000	0.016	1,033,600
14-Apr-11	Issued to Consultants^	6,000,000	0.001	6,996
15-Apr-11	Conversion of Convertible Notes	15,146,119	0.015	227,192
05-May-11	Capital Raising	8,111,315	0.016	129,781
05-May-11	Conversion of Convertible Notes	32,000,000	0.015	480,000
05-May-11	Conversion of Partly Paid Shares to Fully Paid Ordinary Shares	7,215,000	0.010	72,150
05-May-11	Conversion of Redeemable Convertible Preference Shares	2,996,000	0.015	44,940
05-May-11	Conversion of Convertible Notes	34,099,600	0.015	511,494
20-May-11	Issued in lieu of Cash Payment of Interest on Convertible Notes	2,458,952	0.015	36,884
20-May-11	Issued to Consultants^	1,923,077	0.013	25,000
20-May-11	Conversion of Convertible Notes	2,000,000	0.015	30,000
15-Jun-11	Issued to Consultants^	5,000,000	0.012	60,000
30-Jun-11	Issued to Consultants^	1,312,452	0.011	14,043
30-Jun-11	Equity expensed to a Director but not yet issued*	-	-	216,000
		317,974,986		4,973,616

*Further details in relation to these shares is disclosed in the Remuneration Report on pp 16 -17.
^The market value of shares issued to consultants are equivalent to the invoiced services.

(a) Ordinary Shares (continued)

2010	Details	Number	Issue Price $	$
21-Aug-09	Capital Raising	11,666,666	0.030	350,000
21-Aug-09	Conversion of Partly Paid Shares to Fully Paid Ordinary Shares	9,450,000	0.010	94,500
21-Aug-09	Conversion of Redeemable Convertible Preference Shares	7,728,000	0.035	270,480
21-Aug-09	Issued to a Director*	500,000	0.050	25,000
21-Aug-09	Issued to Consultants^	750,000	0.044	33,000
07-Oct-09	Issued to Consultants^	1,875,000	0.044	82,500
07-Oct-09	Issued to Consultants^	2,000,000	0.033	65,000
07-Oct-09	Conversion of Redeemable Convertible Preference Shares	240,000	0.035	8,400
07-Oct-09	Capital Raising	1,700,000	0.030	51,000
17-Dec-09	Capital Raising	116,070,000	0.040	4,642,800
17-Dec-09	Issued to Consultants^	2,000,000	0.037	74,250
14-Apr-10	Issued to Consultants^	2,200,000	0.030	66,000
16-Apr-10	Issued to Consultants^	3,000,000	0.040	120,000
16-Apr-10	Issued to Consultants^	2,000,000	0.021	42,000
16-Apr-10	Issued to Employee+	200,000	0.028	5,600
11-Jun-10	Issued to Consultants^	333,333	0.020	6,666
11-Jun-10	Issued to Consultants^	333,333	0.020	6,667
11-Jun-10	Issued to Consultants^	333,334	0.020	6,667
		162,379,666		5,950,530

^The market value of shares issued to consultants are equivalent to the invoiced services.
*Further details in relation to these shares is disclosed in the Remuneration Report on pp 16 - 17.
+On 16 April 2010, Mr Paul McWilliam was issued 200,000 ordinary shares in accordance with his employment contract. The shares were fair valued at the ASX market price on the date the shares were issued at $0.028.

(ii) 2011	Details	Number	Issue Price $	$
16-Feb-11	Exercise of Unlisted Options	6,666,667	0.015	100,000
10-Mar-11	Exercise of Unlisted Options	1,000,000	0.015	15,000
17-Mar-11	Exercise of Unlisted Options	21,333,333	0.015	320,000
30-Mar-11	Exercise of Unlisted Options	6,666,666	0.015	100,000
05-May-11	Exercise of Unlisted Options	17,000,333	0.015	255,005
		52,666,999		790,005

(b) Partly Paid Ordinary Shares

	Note	2011 No.	2011 $	2010 No.	2010 $
At the beginning of the reporting period		27,465,000	54,930	36,915,000	73,830
Shares converted during year	(i)	(27,465,000)	(54,930)	(9,450,000)	(18,900)
At reporting date		-	-	27,465,000	54,930

(i) 2011	Details	Number	Issue Price $	$
16-Feb-11	Discretionary Payment of unpaid $0.008 call	-	0.008	6,000
16-Feb-11	Conversion of Partly Paid Shares to Fully Paid Ordinary Shares	(750,000)	0.010	(7,500)
11-Apr-11	Discretionary Payment of unpaid $0.008 call	-	0.008	156,000
11-Apr-11	Conversion of Partly Paid Shares to Fully Paid Ordinary Shares	(19,500,000)	0.010	(195,000)
05-May-11	Discretionary Payment of unpaid $0.008 call	-	0.008	57,720
05-May-11	Conversion of Partly Paid Shares to Fully Paid Ordinary Shares	(7,215,000)	0.010	(72,150)
		(27,465,000)		(54,930)

2010	Details	Number	Issue Price $	$
23-Jun-09	Discretionary Payment of unpaid $0.008 call	-	0.008	75,600
23-Jun-09	Conversion of Partly Paid Shares to Fully Paid Ordinary Shares	(9,450,000)	0.010	(94,500)
		(9,450,000)		(18,900)

In 2009, the Company issued 37,365,000 unlisted partly paid ordinary shares, paid to 0.2 cents (A$0.002) with 0.8 cents (A$0.008) unpaid. The unpaid portion of the shares will be called by the Company at its sole discretion for any amount up to the unpaid portion of A$0.008 by providing 30 days written notice, or automatically without notice 24 months from the date of the Subscription agreement. The unpaid portion of the shares can be paid up at any time without being called by the Company at the sole discretion of the shareholder.

As at 30 June 2011, all outstanding amounts on the partly paid ordinary shares have been fully paid and the shares have been converted into fully paid ordinary shares in iSonea Limited.

(c) G Class Shares

	Note	2011 No.	2011 $	2010 No.	2010 $
At the beginning of reporting period		-	-	12,500,000	-
Shares redeemed during year	(i)	-	-	(12,500,000)	-
At reporting date		-	-	-	-

(i) 2010	Details	Number	Issue Price $	$
17-Dec-09	Redemption of G Class performance shares	(12,500,000)	-	-
		(12,500,000)		-

(d) H Class Shares

	Note	2011 No.	2011 $	2010 No.	2010 $
At the beginning of reporting period		-	-	12,500,000	-
Shares redeemed during year	(i)	-	-	(12,500,000)	-
At reporting date		-	-	-	-

(i) 2010	Details	Number	Issue Price $	$
17-Dec-09	Redemption of H Class performance shares	(12,500,000)	-	-
		(12,500,000)		-

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

The option reserve recognises the proceeds from the issue of options over ordinary shares. Upon exercise of these options, amounts recorded in the option reserve are transferred to contributed equity.

		Consolidated Entity 2011	Consolidated Entity 2010
	Note	$	$
Listed options over shares (2011: Nil) (2010: Nil)	20a	-	373,560
Listed options over shares (2011: 62,035,000) (2010: 58,035,000)	20b	-	-
Unlisted options over shares (2011: Nil) (2010: 10,600,000)	20c	-	2,281,400
Unlisted options over shares (2011: Nil) (2010: Nil)	20d	-	773,056
Unlisted options over shares (2011: 33,549,997) (2010: 33,549,997)	20e	502,224	502,224
Unlisted options over shares (2011: Nil) (2010: Nil)	20f	-	200,000
Unlisted options over shares (2011: 1,800,000) (2010: 1,800,000)	20g	329,351	321,682
Unlisted options over shares (2011: 13,000,000) (2010: 13,000,000)	20h	117,676	101,354
Unlisted options over shares (2011: Nil) (2010: 3,000,000)	20i	-	-
Unlisted options over shares (2011: Nil) (2010: Nil)	20j	40,192	38,521
Unlisted options over shares (2011: Nil) (2010: Nil)	20k	92,280	69,526
Unlisted options over shares (2011: 10,683,333) (2010: 10,683,333)	20l	-	-
Unlisted options over shares (2011: 114,244,313) (2010: Nil)	20m	189,488	-
		1,271,211	4,661,323

(a) Listed Options Over Fully Paid Ordinary Shares

These options are listed options and expired on 30 June 2008, the exercise price was 10 cents per option.

	2011 No.	2011 $	2010 No.	2010 $
At the beginning of reporting period	-	373,560	-	373,560
Transfer to retained losses		(373,560)		-
At reporting date	-	-	-	373,560

(b) Listed Options Over Fully Paid Ordinary Shares

These options are listed options and expired on 31 July 2011, the exercise price was 7 cents per option.

		2011 No.	2011 $	2010 No.	2010 $
At the beginning of reporting period		58,035,000	-	-	-
Options issued during year	(i)	4,000,000	-	58,035,000	-
At reporting date		62,035,000	-	58,035,000	-

(i) 2011		Details	Number	Issue Price $	$
17-Dec-10	1	Issued to Consultants, free attaching	4,000,000	-	-
			4,000,000	-	-

2010	Details	Number	Issue Price $	$
17-Dec-09	Capital Raising, free attaching	58,035,000	-	-
		58,035,000	-	-

1 These options were free attaching options to shares issued and the relevant expense is recorded in Note 19(a).

2 All these options expired on the 31 July 2011, unexcercised.

(c) Unlisted Options Over Fully Paid Ordinary Shares

These unlisted options expired on 30 June 2010 unexercised, the exercise price was 5 cents per option.

	2011 No.	2011 $	2010 No.	2010 $
At the beginning of reporting period	10,600,000	2,281,400	10,600,000	2,257,923
Expiration of options	(10,600,000)	-	-	-
Expense recorded over vesting period of options	-	-	-	23,477
Transfer to retained losses	-	(2,281,400)	-	-
At reporting date	-	-	10,600,000	2,281,400

(d) Unlisted Options Over Fully Paid Ordinary Shares

These options are unlisted options and expired on 31 July 2009 unexercised, the exercise price was 5 cents per option.

		2011 No.	2011 $	2010 No.	2010 $
At the beginning of reporting period		-	773,056	56,575,572	773,056
Expiration of options	(i)	-	-	(56,575,572)	-
Transfer to retained losses		-	(773,056)	-	-
At reporting date		-	-	-	773,056

(e) Unlisted Options over fully paid ordinary shares

These options are unlisted options and expire on various dates, the exercise price is 5 cents per option.

		2011		2010	
		No.	$	No.	$
At the beginning of reporting period		33,549,997	502,224	28,549,997	459,069
Options issued during year	(i)	-	-	5,000,000	-
Expense recorded over vesting period of options		-		-	43,155
At reporting date		33,549,997	502,224	33,549,997	502,224

(i) 2010		Details	Number	Issue Price $	$
07-Oct-09	1,2	Issued to Consultants, free attaching	5,000,000	-	-
			5,000,000	-	-

1 Unlisted options exercisable at $0.05 on or before 15 December 2013.
2 These options were free attaching options to shares issued and the relevant expense is recorded in Note 19(a).

(f) Unlisted Options over fully paid ordinary shares

These options were unlisted options and expired on 30 October 2009 unexercised, the exercise price is 25 cents per option.

	2011		2010	
	No.	$	No.	$
At the beginning of reporting period	-	200,000	10,000,000	200,000
Expiration of options	-	-	(10,000,000)	-
Transfer to retained losses	-	(200,000)	-	-
At reporting date	-	-	-	200,000

(g) Unlisted Options over fully paid ordinary shares

These options are unlisted options and expire on various dates, the exercise price is 13 cents per option.

	2011		2010	
	No.	$	No.	$
At the beginning of reporting period	1,800,000	321,682	1,800,000	289,568
Expense recorded over vesting period of options	-	7,669	-	32,114
At reporting date	1,800,000	329,351	1,800,000	321,682

(h) Unlisted Options over fully paid ordinary shares

These options are unlisted options and expire on 15 December 2015, the exercise price is 5 cents per option.

		2011		2010	
		No.	$	No.	$
At the beginning of reporting period		13,000,000	101,354	13,000,000	60,550
Options issued during year	(i)	-	-	-	-
Expense recorded over vesting period of options		-	16,322	-	40,804
At reporting date		13,000,000	117,676	13,000,000	101,354

(i) Unlisted Options over fully paid ordinary shares

These options are unlisted options and expired on 15 December 2010, the exercise price is 5 cents per option.

		2011		2010	
		No.	$	No.	$
At the beginning of reporting period		3,000,000	-	-	-
Options issued during year	(i)	-	-	3,000,000	-
Expiration of options		(3,000,000)	-	-	-
At reporting date		-	-	3,000,000	-

(i) 2010		Details	Number	Option Fair Value $	$
17-Dec-09	1	Issued to consultants, free attaching	3,000,000	-	-
			3,000,000	-	-

1 These options were free attaching options to shares issued and the relevant expense is recorded in Note 19(a).

(j) Unlisted Options over fully paid ordinary shares

These options are unlisted options and expire on 10 July 2013, the exercise price is 12 cents per option.

	2011		2010	
	No.	$	No.	$
At the beginning of reporting period	-	38,521	-	32,330
Expense recorded over vesting period of options	-	1,671	-	6,191
At reporting date*	-	40,192	-	38,521

* These options have been granted but not issued.

(k) Unlisted Options over fully paid ordinary shares

These options are unlisted options and expire on 15 August 2014, the exercise price range from 5 cents to 20 cents per option.

	2011 No.	2011 $	2010 No.	2010 $
At the beginning of reporting period	-	69,526	-	-
Expense recorded over vesting period of options	-	22,754	-	69,526
At reporting date*	-	92,280	-	69,526

* These options have been granted but not issued.

(l) Unlisted Options over fully paid ordinary shares

These options are unlisted options and expire on 31 July 2011, the exercise price is 5 cents per option.

		2011 No.	2011 $	2010 No.	2010 $
At the beginning of reporting period		10,683,333	-	-	-
Options issued during year	(i)	-	-	10,683,333	-
At reporting date		10,683,333	-	10,683,333	-

(i) 2010	Details	Number	Option Fair	$
17-Dec-09	Capital Raising, free attaching	10,683,333	-	-
		10,683,333	-	-

(m) Unlisted Options over fully paid ordinary shares

		2011 No.	2011 $	2010 No.	2010 $
At the beginning of reporting period		-	-	-	-
Options issued during year	(i)	175,396,766	189,487	-	-
Expiration of options		(61,152,453)	-	-	-
At reporting date		114,244,313	189,487	-	-

(i) 2011		Details	Number	Option Fair	$
17-Dec-10		Issued to Directors*	34,500,000	0.004	144,932
17-Dec-10		Issued to Consultants^	3,000,000	0.002	6,900
17-Dec-10	1	Capital Raising - Free attaching options	7,006,667	-	-
10-Jan-11	1	Capital Raising - Free attaching options	6,666,667	-	-
16-Feb-11		Exercise of $0.015 Unlisted Options	(6,666,667)	-	-
16-Feb-11	2	Capital Raising - Free attaching options	6,666,667	-	-
16-Feb-11	1	Capital Raising - Free attaching options	27,333,333	-	-
10-Mar-11	1	Capital Raising - Free attaching options	6,999,999	-	-
10-Mar-11	3	Issued to Eligible persons of the Company's ESOP plan	10,777,314	0.002	21,555
10-Mar-11	4	Issued to Eligible persons of the Company's ESOP plan	2,300,000	0.007	16,100
10-Mar-11		Exercise of $0.015 Unlisted Options	(1,000,000)	-	-
10-Mar-11	2	Capital Raising - Free attaching options	1,000,000	-	-
17-Mar-11		Exercise of $0.015 Unlisted Options	(21,333,333)	-	-
17-Mar-11	2	Capital Raising - Free attaching options	21,333,333	-	-
30-Mar-11		Exercise of $0.015 Unlisted Options	(6,666,666)	-	-
30-Mar-11	2	Capital Raising - Free attaching options	6,666,666	-	-
11-Apr-11	1	Capital Raising - Free attaching options	18,666,667	-	-
14-Apr-11		Issued to Consultants[+]	6,000,000	-	-
15-Apr-11	1	Capital Raising - Free attaching options	15,146,119	-	-
05-May-11	1	Capital Raising - Free attaching options	32,000,000	-	-
05-May-11		Exercise of $0.015 Unlisted Options	(17,000,333)	-	-
05-May-11	2	Capital Raising - Free attaching options	17,000,333	-	-
15-Jun-11		Issued to Consultants^ (Gary Bonaccorso)	5,000,000	-	-
			175,396,766		189,487

1 Unlisted options exercisable at $0.015 on or before 30 April 2011.
2 Unlisted options exercisable at $0.023 on or before 31 October 2011.
3 Unlisted options exercisable at $0.03 on or before 15 December 2012.
4 Unlisted options exercisable at $0.015 on or before 15 December 2012.

*Further details in relation to these shares is disclosed in the Remuneration Report on pp 16 -17.
^The market value of shares issued to consultants are equivalent to the invoiced services.
[+]These options were free attaching options to shares issued and the relevant expense is recorded in Note 19(a).

Note 21 Capital and Leasing Commitments

(a) Operating Lease Commitments

	Note	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Non-cancellable operating leases contracted for but not capitalised in the financial statements			
Payable — minimum lease payments			
— not later than 12 months		136,114	149,062
— between 12 months and 5 years		159,997	310,364
		296,111	459,426

Baulkham Hills, Australia

This property lease is a non-cancellable lease with a two-year term, with rent payable monthly in advance. There are contingent rental provisions within the lease agreement which link the lease payments to be increased by the greater of CPI or 3% of the rental payments on an annual basis. An option exists to renew the lease at the end of the two-year term for two additional terms of two years. On renewal, there is a provision within the lease agreement to increase the rental payments to market value at the start of each new term. The lease allows for subletting of all lease areas.

Haifa, Israel

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 270m² of the lease.

(b) Other

Management Fees

(i) The CFO Solution provides administrative support at a rate of $7,500 per month plus GST. This commitment may be terminated with 3 months notice from either party.

Consultant Fees

(i) On the 1 October 2006, an agreement for consultation between the Company and Karmel Medical Acoustic Technologies Ltd came into effect, the key person being Prof. Noam Gavriely. According to the agreement, the key person will render consulting services of the following nature:

- commercialisation of the Company's products, general business development activities and identifying suitable business venues for the Company and its business.

The Company will pay a maximum amount of $USD5,561 per month at the applicable representative $ISL/$USD exchange rate but not less than a rate of $ILS4.33 per $USD, for consulting services rendered. The Company will add to each payment applicable value added tax (V.A.T.).

On the 1 October 2009 the Board of Directors approved an amendment to the above agreement, which limited the total cost to the Group at $USD11,908 per month, including salary and car expenses paid to Prof Gavriely.

These consultants fees are included as part of Director's remuneration and disclosed in the Remuneration Report on pp 15 to 20.

(ii) On the 1 October 2008, a consultancy agreement was signed for Sales and Marketing services in the US for $US150,000 per year, payable monthly. The consultant is also entitled to two bonuses of $US12,500 each upon achievement of specified milestones, no milestones have been achieved at the date of this report.

These fees were not related to key management personnel.

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 US$540,000 from the Chief Scientist, and in return committed to transfer royalties valued at 3.5% to the Chief Scientist, including interest, from the sale of its products.

The Company has an obligation as part of its acquisition of Karmel Sonix (Israel) Ltd to pay the Chief Scientist royalties on the sale of its products once sales commence. All existing rights and liabilities of the knowhow of KMAT Ltd were transferred to the Company on acquisition, as well as all existing rights and liabilities toward the Chief Scientist, at that time, who approved the acquisition by KarmelSonix Ltd on 16 October 2006.

Up to the date of this report, the Company finished two projects for which it obtained from the Chief Scientist of the State of Israel grants of US$307,047, for the participation in research and development. The Company has an obligation to pay royalities amounting to 3.5% from sales to the Chief Scientist.

BIRD Foundation

In December 2008, KarmelSonix (Israel) Ltd signed a grant agreement with the Binational Industrial Research and Development Foundation (BIRD Foundation) and American Company Sandhill. The grant receivable is US$460,000 of which US$383,263 has been received during the current and previous financial years. The maximium repayment to the BIRD Foundation is 100%, if the repayment occurs in the first year, 113%: year two, 125%: year three, 138%: year four and 150% if the repayment occurs in the fifth year accordingly.

In May 2010, KarmelSonix (Israel) Ltd received confirmation that the project has been extended until 31 January 2011, as a result the dates for future installments were changed accordingly.

Legal Claim

(i) A contingent liability which was reported by the company in its last annual report, relating to a past employee matter, is no longer considered material.

(ii) In December 2008, KarmelSonix (Israel) Ltd (the "Subsidiary") vacated the office space which it had rented for two years and moved to a new location. The offices were rented as a sublease from an associated party, which was the main tenant. Following the evacuation of the offices, the owner of the premises claimed damages in the sum of NIS 400,000 (AUD$110,240). The claim was rejected by the main tenant. The Subsidiary has filed for an injunction against the owner, in order to prevent the owner from realising the guarantee provided by the Subsidiary with regard to renting the offices. The court has granted the injunction, and following the court's decision the owner has filed an appeal which was rejected.

The Subsidiary and the main tenant have also filed a claim for damages against the owner of NIS 500,000 (AUD$137,800), to which the owner responded by filing a counter claim for a total amount of over NIS 1,000,000 (AUD$275,600) against all parties. The Subsidiary and its legal advisors have assessed the risk due at an amount of NIS 200,000 (AUD$55,120), which has been included in the Group financial reports as a provision to cover the potential loss.

This amount has been disclosed in Trade and Other Payables in the Statement of Financial Position. The Company expect this matter to be settled over the next 12 months.

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 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.

	----- Medical Devices -----				
	Israel $	Australia $	USA $	Corporate $	Total $
			30 June 2011		
Revenue					
External sales	245,509	89,565	67,652	1,005	403,731
Interest revenue	-	-	-	55,046	55,046
Total segment revenue/income	245,509	89,565	67,652	56,051	458,777
Adjusted EBITDA	(2,996,268)	(800,995)	(633,237)	(2,562,866)	(6,993,366)
Depreciation and amortisation	204,554	15,971	1,894	629	223,048
Finance costs	-	-	-	93,007	93,007
Profit/(loss) before income tax	(2,791,714)	(785,024)	(631,343)	(2,469,230)	(6,677,311)
Income Tax Expense	-	-	-	-	-
Net Loss	(2,791,714)	(785,024)	(631,343)	(2,469,230)	(6,677,311)
Assets					
Segment assets	1,831,100	269,421	48,768	1,204,229	3,353,518
Liabilities					
Segment liabilities	917,539	37,423	29,420	259,340	1,243,722
			30 June 2010		
Revenue					
External sales	320,578	70,006	21,657	2,477	414,718
Interest Revenue	-	-	-	118,343	118,343
Total segment revenue/income	320,578	70,006	21,657	120,820	533,061
Adjusted EBITDA	(3,600,748)	(876,018)	(217,518)	(1,505,525)	(6,199,809)
Depreciation and amortisation	239,947	10,852	2,745	1,368	254,912
Finance costs	-	-	-	5,136	5,136
Profit/(loss) before income tax	(3,360,801)	(865,166)	(214,773)	(1,499,021)	(5,939,761)
Income Tax Expense	-	-	-	-	-
Net Loss	(3,360,801)	(865,166)	(214,773)	(1,499,021)	(5,939,761)
Assets					
Segment assets	2,008,701	335,260	68,069	2,183,062	4,595,092
Liabilities					
Segment liabilities	1,332,737	92,196	20,159	283,276	1,728,368

Note 24 Cash Flow Information

(a) Reconciliation of Loss for the Period to Net Cash Flows from Operating Activities

	Consolidated Entity 2011 $	2010 $
Net Cash Flows from operating activities		
Loss for the period	(6,677,311)	(5,939,761)
Add back depreciation expense	49,247	77,613
Add back amortisation expense	173,801	177,299
Add back equity issued to settle expenses	1,292,351	707,670
(Increases)/Decreases in accounts receivable	105,954	(161,032)
(Increases)/Decreases in inventories	(144,193)	(165,331)
(Increases)/Decreases in other current assets	59,912	46,445
Increases/(Decreases) in accounts payable	(216,696)	105,058
Increases/(Decreases) in provisions	(18,859)	19,954
Foreign exchange rate movements	21,831	10,550
Cash flow used in operations	(5,353,963)	(5,121,535)

(b) Non-cash Financing and Investing Activities

See note 19 and 20 for equity issued for no cash consideration.

Note 25 Share-based Payments

Employee, Directors' and Consultants' Share and Option Plan

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. At 30 June 2011 equity had been issued to 1 previous Director, 38 employees and 17 consultants.

The following shares were issued to eligible persons under the Company's Employees' Directors' and Consultants Share and Option Plan:

Shares	Consolidated Entity 2011 Number of Shares	2010 Number of Shares
Total granted at the beginning of the year	13,892,000	8,567,000
Granted	7,902,175	5,325,000
Forfeited	-	-
Exercised Options	-	-
Total granted at year end	21,794,175	13,892,000

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 $0.015 (2010: $0.04). For the year ended 30 June 2011 $118,532 (2010: $211,100) has been expensed in the Statement of Comprehensive Income.

Employee, Directors' and Consultants' Share and Option Plan (continued)

The following options were issued to eligible persons under the Company's Employees' Directors' and Consultants Share and Option Plan:

	Consolidated Entity			
	2011		2010	
Options	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the year	21,212,500	0.05	16,212,500	0.04
Granted	13,077,314	0.03	5,000,000	0.05
Forfeited	(400,000)	0.05	-	-
Exercised	-	-	-	-
Expired	(10,600,000)	-	-	-
Outstanding at year-end	23,289,814	0.02	21,212,500	0.05
Exercisable at year-end	23,289,814	0.02	20,795,833	0.05

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

The options oustanding at 30 June 2011 had a weighted average exercise price of $0.018 and a weighted average remaining contractual life of 2 years. Exercise prices range from $0.015 to $0.13 in respect of options outstanding at 30 June 2011.

The weighted average fair value of the options granted during the year was $0.016.

Date of Issue	Quantity	Expiry Date	Exercise Price $	Value Attributable at Grant date	ASX Code
10 March 2011	10,777,314	15 December 2012	0.030	21,555	KSXAW
10 March 2011	2,300,000	15 December 2012	0.015	16,100	KSXAW
	13,077,314				

Included under Consultants, Employees and Directors expense in the Statement of Comprehensive Income is $156,187 (2010: $145,853), that relates, in full, to equity-settled share-based payment transactions. There is a remaining balance to be expensed in future periods of $9,776 (2010: $9,776).

Share Based Payments outside of Employees', Directors' and Consultants' Share and Option Plan

The following shares were issued to consultants outside of the Employees' Directors' and Consultants Share and Option Plan:

	Consolidated Entity	
	2011	2010
Shares	Number of	Number of
Outstanding at the beginning of the year	37,365,139	27,165,139
Granted	18,835,529	10,200,000
Forfeited	-	-
Exercised Options	-	-
Expired	-	-
Outstanding at year end	56,200,668	37,365,139

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 $0.01 (2010: $0.03). For the year ended 30 June 2011 $165,139 (2010: $322,250) has been expensed in the Statement of Comprehensive Income.

The following options were issued to consultants outside of the Employees' Directors' and Consultants Share and Option Plan:

	Consolidated Entity			
	2011		2010	
Options	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the year	21,000,000	0.10	84,575,572	0.10
Granted	14,000,000	0.02	3,000,000	0.05
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	(3,000,000)	-	(66,575,572)	-
Outstanding at year-end	32,000,000	0.04	21,000,000	0.05
Exercisable at year-end	32,000,000	0.04	21,000,000	0.05

There no were options exercised during the year ended 30 June 2011 (2010: Nil).

The options outstanding at 30 June 2011 had a weighted average exercise price of $0.04 and a weighted average remaining contractual life of 2.30 year. The exercise price ranges from $0.015 to $0.05 in respect of options outstanding at 30 June 2011.

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

Date of Issue	Quantity	Expiry Date	Exercise Price $	Value Attributable at Grant date	ASX Code
17 December 2009	3,000,000	15 December 2010	0.05	-	KSXAK
	3,000,000				

Options issued to employees and consultants were valued at the market price of the option at grant date and is equal to the value of services provided under an agreement/invoice. For the year ended 30 June 2011 $6,900 (2010: $40,804) has been expensed in the Statement of Comprehensive Income, which relate to options issued in a previous year. There is a remaining balance to be expensed in future periods is $Nil (2010: $16,322).

Note 26 Events After the Balance Date

On the 29 July 2011, iSonea Limited announced that Mr Paul Eisen would step down from the Company's Board of Directors to concentrate on his role as the Senior Vice President and Managing Director for AsiaPAC. Mr Eisen joined the Board as a casual appointment and agreed to continue in that capacity until a new permanent CEO was appointed, which has now been achieved.

On the 10 August 2011 at the General Meeting of iSonea Limited, shareholders approved the issue of up to 500,000,000 new fully paid ordinary shares, having an issue price of at least ninety percent (90%) of the average market price of the Company's shares for the five (5) day period on which sales in the Company's securities were recorded prior to the issue of those shares, to professional and sophisticated investors and clients of Australian Financial Service License holders.

Further, at the same meeting shareholders approved the prior issue of 72,711,315 fully paid ordinary shares placed professional and sophisticated investors in May 2011 and approved the proposed issue of 36,355,657 1:2 free attaching unlisted options in the capital of the Company pursuant to the investors who participated in the May 2011 placement.

As free attaching options, the unlisted options have no issue price and will be exerciseable at $0.024 each and expire on 30 April 2012.

In addition to the above, at the General Meeting shareholders approved the change of the Company name to "iSonea Limited", the change of name is effective from 10 August 2011, being the date that ASIC registered the change of name.

On the 31 August 2011, iSonea Limited announced that it had entered into a non binding Memorandum of Understanding with a global Fortune 500 healthcare company which wished to pursue commercialisation of the Company's technologies for the US asthma monitoring and management market.

On the 29 September 2011, the Company announced that it had signed an agreement with the New York-based Bergen Global Opportunity Fund, LP, to provide up to $10.6 million in investment over a two year period.

The funding will enable the Company to have a commercial focus on creating physician adoption and reimbursement support for iSonea's Acoustic Respiratory Monitoring (ARM) technology in USA and other key asthma markets.

The new investment is structured to provide the Company with maximum flexibility while minimizing dilution to the shareholder base. More specifically, the investment is structured into two parallel instruments consisting of a $1 million lump sum investment in an unsecured convertible instrument on the execution of the agreement, and up to $9.6 million in additional ordinary share purchases over a 24 month period. This will allow future share issuances to be made at premiums to the current price, if the Company's share price appreciates, as the conversion price of the convertible instrument and the purchase price of the additional share purchases are set based upon the Company's share price performance at around the time of the future share issuances.

For more information please refer to ASX Announcement lodged on 29 September 2011 entitled - Agreement Completed for $10.6m Investment by US Investor.

Note 26 Events After the Balance Date (Continued)

No matters or circumstances, other than the above, 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 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

	Consolidated Entity 2011	Consolidated Entity 2010
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. Transactions with related parties:		
(a) Ultimate Parent Company		
KarmelSonix Limited is the Ultimate Parent Entity		
(b) Controlled Entities		
Loan - PulmoSonix Pty Ltd	3,077,889	2,138,276
Less Provision for Impaiment of Loan	(2,845,891)	(1,885,744)
Recoverable Amount of Loan	231,998	252,532
Loan - Karmel Sonix (Israel) Ltd	17,318,692	13,677,083
Less Provision for Impaiment of Loan	(16,806,752)	(13,677,083)
Recoverable Amount of Loan	511,940	-
Loan - Karmel Sonix USA	881,852	265,320
Less Provision for Impaiment of Loan	(862,504)	(199,739)
Recoverable Amount of Loan	19,348	65,581
Impairment of Loan - PulmoSonix Pty Ltd	(960,147)	(919,757)
Impairment of Loan - Karmel Sonix (Israel) Ltd	(3,129,669)	(4,190,267)
Impairment of Loan - Karmel Sonix USA	(662,765)	(199,739)
Interest Received - PulmoSonix Pty Ltd	148,428	137,284
Interest Received - Karmel Sonix (Israel) Ltd	900,087	1,097,457
Interest Received - Karmel Sonix USA	31,726	4,886
Share Based Payments (Directors & Employees) - Karmel Sonix (Israel) Ltd	188,077	96,134
Details of the ordinary shares held in subsidiaries are disclosed in Note 12 to the financial statements.		
(c) 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		
Disclosed in Note 6.		
(d) Equity Interests in related parties		
Details of interests in subsidiaries are disclosed in Note 12.		
(e) Other Related Parties		
Director Related Entities		
Consulting fees paid to Peregrine Corporate Ltd a company of which Peter Marks is a Director	54,600	111,040
Consulting fees paid to Lampam Pty Ltd a company of which Peter Marks is a Director	20,000	60,000
Consulting fees paid to Meadsview Pty Ltd a company of which Henry Pinskier is a Director	42,000	-
Consulting fees paid to Karmel Medical Acoustic Technologies Ltd a company of which Noam Gavriely is a Director	136,017	140,015
Salary paid to Alon Gavriely an Application Specialist of which Noam Gavriely is a Relative	66,650	60,656
Rent paid to Medi-Admin Pty Ltd a company of which Henry Pinskier is a Director	-	35,250
Rent and facilities management fees paid to KMAT Ltd a company of which Noam Gavriely is a Director	-	18,930

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 currency cash reserves and only makes minor foreign currency payments. The Group does not make use of deriviative 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:

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Financial assets - Israel (cash and receivables)	91,836	206,238
Financial assets - US (cash and receivables)	47,617	58,662
Financial assets - EUR (cash and receivables)	47,077	30,282
Financial liabilities - Israel (accounts payable)	(413,023)	(624,070)
Financial liabilities - US (accounts payable)	(29,420)	(20,159)
Financial liabilities - EUR (accounts payable)	-	-
	(255,913)	(349,047)

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 by 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.

Increase/(Decrease) in financial assets	Consolidated Entity 2011 $	Consolidated Entity 2010 $
AUD/ISL + 2.4% (2010: 2.0%)	(2,258)	(4,209)
AUD/USD + 2.4% (2010: 2.0%)	(1,171)	(1,197)
AUD/ISL - 2.4% (2010: 2.0%)	2,152	4,044
AUD/USD - 2.4% (2010: 2.0%)	1,116	1,150

Increase/(Decrease) in financial liabilities	Consolidated Entity 2011 $	Consolidated Entity 2010 $
AUD/ISL + 2.4% (2010: 2.0%)	10,156	12,736
AUD/USD + 2.4% (2010: 2.0%)	723	411
AUD/ISL - 2.4% (2010: 2.0%)	(9,680)	(12,237)
AUD/USD - 2.4% (2010: 2.0%)	(690)	(395)

(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.

2011

Consolidated Entity	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 cash equivalents	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

2010

Consolidated Entity	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 cash equivalents	4.26%	2,299,687	-	-	-	-	2,299,687
Trade and other receivables		-	-	-	-	382,502	382,502
Total Financial Assets		2,299,687	-	-	-	382,502	2,682,189
Financial Liabilities:							
Trade and other payables		-	-	-	-	933,548	933,548
Provisions		-	-	-	-	41,213	41,213
Total Financial Liabilities		-	-	-	-	974,761	974,761

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 +/- 1.75% (2010: 1.00%), being reflective of the movement of the weighted average interest rates from financial years 2010 to 2011, and all other variables had remained constant, would impact the consolidated entity's loss after tax and equity as follows:

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
+1.75% (175 basis points)	22,961	22,997
-1.75% (175 basis points)	(22,961)	(22,997)

(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

2011

Consolidated Entity	0-30 Days	30-60 Days	60-90 Days	90+ Days
Trade and other receivables	235,160	-	-	41,388

2010

Consolidated Entity	0-30 Days	30-60 Days	60-90 Days	90+ Days
Trade and other receivables	382,502	-	-	-

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.

Maturities of Financial Liabilities

2011				
Consolidated Entity	Less than 6 months	6-12 months	Total contracted cashflows	Carrying Amounts
Trade and other payables	716,852	-	716,852	716,852
Other financial liabilities	-	-	-	-

2010				
Consolidated Entity	Less than 6 months	6-12 months	Total contracted cashflows	Carrying Amounts
Trade and other payables	933,548	-	933,548	933,548
Other financial liabilities	-	-	-	-

(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 registered office of the Company is:
iSonea Limited
Suite 2
1233 High Street
ARMADALE VIC 3143

The principal place of business of iSonea Limited is:
iSonea Limited
Suite 2
1233 High Street
ARMADALE VIC 3143

DIRECTORS' DECLARATION

The directors of the Company declare that:

(a) In the Directors' opinion the financial statements and notes and the Remuneration report in the Directors Report set out on pages 15 to 20, are 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 2011 and of its performance, for the financial year ended on that date; and
  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001, and other mandatory professional reporting requirements.

(b) the financial report also complies with International Financial Reporting Standards issued by the International Accounting Standards Board as disclosed in note 1; and

(c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations of the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2011, as required by Section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the board of directors.

Mr Ross Haghighat
Executive Chairman
Dated this the 30th day of September 2011

PKF

Chartered Accountants
& Business Advisers

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 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of Isonea Limited (the company) and the consolidated entity. The consolidated entity comprises 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 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 entity'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 entity'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.

Auditor's 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 2011 and its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001, and

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

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PKF

Chartered Accountants
& Business Advisers

INDEPENDENT AUDITOR'S REPORT (CONT'D)
TO THE MEMBERS OF ISONEA LIMITED

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the consolidated entity incurred a net loss of $6,677,311 during the year ended 30 June 2011 and as of that date, the consolidated entity had negative cash flow from operating cash flows of $5,353,963. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern, and therefore, the company 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 15 to 20 of the directors' report for the year ended 30 June 2011. 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.

Auditor's Opinion

In our opinion, the Remuneration Report of Isonea Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

PKF

PKF

30 September 2011
Melbourne

D J Garvey
Partner

As at 28th September 2011

NUMBER OF HOLDERS OF EQUITY SECURITIES

Ordinary Shares

1,080,504,309 fully paid ordinary shares are held by 4,037 individual shareholders

All ordinary shares carry one vote per share.

Options

Listed options

47,355,657 [ASX: ISNOA] listed options exercisable at $0.024 on or before 30/04/2012, are held by 51 individual shareholders.

Unlisted options

29,737,497 [ASX: ISNAM] unlisted options exercisable at $0.05 on or before 30/06/2012, are held by 34 individual shareholders.
3,812,500 [ASX:ISNAM] unlisted options exercisable at $0.05 on or before 15/12/2013, are held by 2 individual shareholders.
13,000,000 [ASX: ISNAO] unlisted options exercisable at $0.05 on or before 15/12/2015, are held by 2 individual shareholders.
900,000 [ASX: ISNAZ] unlisted options exercisable at $0.13 on or before 15/12/2014, are held by 3 individual shareholders.
900,000 [ASX: ISNAZ] unlisted options exercisable at $0.13 on or before 15/6/2015, are held by 2 individual shareholders.
163,994,313 [ASX:ISNAW] unlisted options exercisable at various prices on or before various dates, are held by 33 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	
	Listed Options	Ordinary Shares
1 - 1,000	-	1,780
1,001 - 5,000	-	244
5,001 - 10,000	-	216
10,001 - 100,000	9	925
100,001 - and over	42	872
Total number of securities	51	4,037
Unmarketable parcels		2,661

TWENTY LARGEST HOLDERS OF QUOTED SECURITIES

	Fully Paid Ordinary Shares		
Shareholders		Number	%
1	Karmel Medical Acoustic Technologies Ltd *	71,177,506	6.59
2	Renlyn Bell Investments Pty Ltd *	70,198,788	6.50
3	Maple Management Ltd	33,442,210	3.10
4	Triton Systems Inc	27,730,319	2.57
5	Australian Executor Trustees Limited	26,605,057	2.46
6	Mr Paul David McKee	21,000,000	1.94
7	Mr Garry Bonaccorso & Mrs Dorothy Bonaccorso *	20,000,000	1.85
8	Mrs Ingrid Hills *	18,743,652	1.73
9	MND Australia Pty Ltd	14,783,333	1.37
10	Mr Nathan Intrator *	14,500,000	1.34
11	HSBC Custody Nominees (Australia) Limited *	13,646,520	1.26
12	J R Properties Pty Ltd	12,933,621	1.20
13	Salavente Pty Ltd	11,933,333	1.10
14	Bono Australia Pty Ltd *	11,927,273	1.10
15	John W King Nominees Pty Ltd *	10,576,182	0.98
16	Tanglo Holdings Pty Ltd	10,560,000	0.98
17	Yelena Two Pty Ltd *	10,332,653	0.96
18	Mars Constructions Pty Ltd	10,000,000	0.93
19	Carldem Pty Limited	8,373,000	0.77
20	Mr Garry Bonaccorso *	8,203,803	0.76
		426,667,250	39.49

* Denotes merged holders

Listed Options

Optionholders		Number	%
1	Queensland MM Pty Ltd	5,000,000	10.56
2	Mr Garry Bonaccorso *	5,000,000	10.56
3	Riveck Nominees Pty Ltd *	3,500,000	7.39
4	Mr Troy Robert Valentine *	2,187,500	4.62
5	Zero Nominees Pty Ltd *	2,100,000	4.43
6	Negus Dental Services Pty Ltd *	1,718,750	3.63
7	Jetfire Nominees Pty Ltd	1,562,500	3.30
8	Glory Resources Limited	1,562,500	3.30
9	EZR Systems Pty Ltd *	1,562,500	3.30
10	Nino Constructions Pty Ltd *	1,562,500	3.30
11	KAL Capital Pty Ltd	1,500,000	3.17
12	Tranaj Nominees Pty Ltd	1,500,000	3.17
13	Murdoch Capital Pty Ltd *	1,125,000	2.38
14	Syracuse Capital Pty Ltd *	1,125,000	2.38
15	Zani Holdings Pty Ltd *	1,093,750	2.31
16	John W King Nominees Pty Ltd *	1,093,750	2.31
17	Ms Gina Claire Grimaldi & Miss Mia Louise Grimaldi	1,000,000	2.11
18	Westernstar Limited	1,000,000	2.11
19	Mr Eli Eliyahu Koren	1,000,000	2.11
20	Accbell Nominees Pty Ltd	968,750	2.05
		37,162,500	78.49

* Denotes merged holders

SUBSTANTIAL SHAREHOLDERS

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

Karmel Medical Acoustic Technologies Ltd *	83,970,808 ordinary shares
Triton Systems Inc	61,172,529 ordinary shares
Renlyn Bell Investments Pty Ltd *	87,185,924 ordinary shares

SHAREHOLDER ENQUIRIES

Shareholders with enquiries about their shareholders should contact the share
Security Transfer Registrars
770 Canning Highway
Applecross WA 6153
Telephone +61 (0)8 9315 2333
Facsimile +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.

UNCERTIFICATED SHARE REGISTER

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