Dear shareholders

Your Company has taken a number of important steps forward to expand the sales reach of, and market for, trophon® EPR. We have dramatically expanded the number of probe types that have been assessed and certified for high level disinfection using trophon® EPR. We have also recently signed Toshiba as a non-exclusive distributor in the UK. Toshiba’s sales team is now actively representing, and selling, trophon® EPR in UK healthcare facilities where we are seeing strong interest from the National Health Service. With this new partnership, Nanosonics’ technology now enjoys the backing of the sales force from not one but two of the world’s leading ultrasound manufacturers. Together, GE Healthcare and Toshiba account for almost 40% of the global ultrasound market.

Our technology is now certified for use with 458 approved probes from 11 ultrasound system manufacturers. In response to growing demand for certification from ultrasound manufacturers, the number of trophon® EPR-approved probes has doubled (up 92%) within six months. This comprises 219 probes from ultrasound probe manufacturers Esaote, Hitachi-Aloka, Ultrasonix and Zonare, and is in addition to the already extensive list of approved probes from GE, Philips, Siemens, Sonosite, Toshiba, BK Medical, and Prosonic. We’re seeing growth in total number of manufacturers that want their intra-cavity probes certified for use with trophon® EPR, while manufacturers who have already achieved this certification are seeking the same for a broader array of devices. This shift in the market is indicating that trophon® EPR is emerging as the new Standard of Care for ultrasound probe disinfection. Probe manufacturers are recognising this and are accelerating their efforts toward broader probe testing and approvals. The expansion of this list also has important implications for ultrasound practitioners. Health facilities may be reluctant to introduce a new disinfection system where there is uncertainty over its compatibility with all probes in use. The growth in the list of trophon® EPR-certified probes will support increased interest and purchases by healthcare facilities.

Growing sales

As awareness and the reach of trophon® EPR grows, so are sales. I am happy to report Q3 sales totalling $4.207 million, up 38% compared to the previous corresponding period ($3.047 million). Sales revenue is also 30% up on those achieved in Q2 which amounted to $3.234 million. Our cash position remains strong at $24.9 million. In terms of the international outlook we are seeing increasing sales, and interest in sales, across the UK’s National Health Service. Germany is progressing very well and trophon® EPR is also being trialed in about half-a-dozen key facilities. Our key market remains North America where there is a lot stronger awareness and uptake is accelerating. Awareness is also continuing to grow in Australia and New Zealand.
Leading healthcare facilities happy to endorse trophon® EPR

Prestigious healthcare facilities are continuing to buy our product based on awareness of the value proposition and the significant improvement it provides in terms of automation and overall disinfection. A number of these facilities have also had post roll-out analysis of the efficiencies gained as a result of trophon® EPR, and some results are described later in this newsletter.

It is extremely encouraging to see where leading facilities have undertaken analysis of trophon® EPR, the result strongly supports their decision to invest in our technology. Scripps Clinics, a highly respected facility in the key US market, has also offered its strong endorsement of our technology. As we see these leading healthcare facilities introduce trophon® EPR, in keeping with efforts to remain on the cutting edge of infection control, it grows the traction and awareness of our technology.

Dr Ron Weinberger
CEO Nanosonics

Ensuring our IP is protected

Nanosonics has an expanding patent portfolio to support trophon® EPR in existing, and new, markets.

The Company has secured patents - which provide IP protection for trophon® EPR’s disinfectant technology - in key markets including North America, Europe, China, India, Mexico, Singapore, Australia and South Africa.

Further patent applications are pending in these countries as IP protections are being expanded. Patent applications are also pending in new markets including Brazil, Korea, Taiwan, Indonesia, Japan and Thailand.

“We are focused on growing awareness and sales - and expanding the market reach - for trophon® EPR,” said Nanosonics CEO Dr Ron Weinberger.

“It is important to note this cannot occur in the absence of sufficient IP protection. I’m happy to report that our patent portfolio is robust, and is expanding to bolster IP protections in key markets and also to facilitate entry to new markets.

Head-to-head study confirms superiority of trophon® EPR

The first study to assess use of trophon® EPR in an Australian clinical setting has given the unit a 100% strike rate for eliminating bacteria that can remain on ultrasound probe handles that undergo manual reprocessing.

The study, conducted by Dr Andrew Ngu who is president elect of the International Society of Ultrasound in Obstetrics and Gynecology (ISUOG), also underscores the risk of patient cross-infection associated with standard manual reprocessing of probes.

Dr Ngu, Senior Obstetrician and Gynaecologist at the East Melbourne Ultrasound Clinic, took swabs to check for bacteria on probe handles after they had undergone a decontamination process - either manually with liquid high-level disinfectant [OPA] or using trophon® EPR.

Almost all (96%) of swab samples collected from 51 manually decontaminated probes showed signs of bacteria on the handle after the disinfection process.

Swabs were also taken from handles of 42 probes decontaminated using the trophon® EPR unit and none showed signs of bacterial contamination.

Dr Ngu said a major factor was manufacturer advice which prevented the probes from being fully submerged in liquid disinfectant.

“The inability to fully submerge these probes in the liquid disinfectant creates a safe haven for bacteria on the handle,” said Dr Ngu.

“We found large quantities of bacteria on most handles when probes were reprocessed this way, and this was not an entirely unexpected result.

“While it is important to note these probes are used with a protective sheath, and the handle does not enter the body, the presence of bacteria on a medical device does pose a risk of cross-infection for patients.”
The study concludes with a call for stricter disinfection standards which require use of devices – such as trophon® EPR - or techniques that ensure high-level disinfection of the entire probe including its handle.

Dr Ngu presented his study results at the World Federation for Ultrasound in Medicine and Biology (WFUMB) conference, in São Paulo, Brazil (May 2 – 5).

Nanosonics CEO Dr Ron Weinberger said the research was further validation of the superior results achieved via use of trophon® EPR, which encases and disinfects the entire probe. This study highlights one of the major shortcomings of manual reprocessing of ultrasound probes - the exposure and non-treatment of the probe handle,” Dr Weinberger said.

“Healthcare facilities are increasingly recognising this and they are turning to trophon® EPR.”

**Key findings of Dr Ngu’s study:**

- Ultrasound probe handles were often contaminated with large quantities of bacteria following routine disinfection with OPA.
- This was not unexpected as the handle is not immersed in the disinfectant.
- New technologies such as nebulised hydrogen peroxide can effectively disinfect ultrasound probes and probe handles.
- Samples taken after automated reprocessing with the trophon® EPR showed no growth indicating successful disinfection of the probe handle.
- High-level disinfection of probe handles should be mandated through the use of devices or techniques that can safely accomplish handle disinfection.
- More work is needed to better understand the potential risks brought about by cross-contamination of ultrasound probe handles.

**Toshiba signs on as UK distributor for trophon® EPR**

In April, the Company announced it had signed Toshiba Medical Systems (Toshiba) as a non-exclusive distributor of trophon® EPR in the United Kingdom.

Nanosonics CEO Dr Ron Weinberger said this strategic engagement would give trophon® EPR greater exposure in the UK market and help to facilitate its adoption as the new Standard of Care.

The UK health system has moved to lift probe decontamination practices after a coronial inquest into a 2011 patient death highlighted deficiencies.

“We estimate that the UK opportunity for trophon® EPR is likely to be significant in light of the recent regulatory drivers,” Dr Weinberger said.

“It is early days yet and it will take time to build sales volume. However, the signs are encouraging that the UK operations will make an important contribution to global sales revenue.”

Dr Weinberger said the Company was “delighted to be working with Toshiba, a rapidly growing leader in the UK ultrasound market” and that trophon EPR® was attracting “strong interest by both sonographers and decontamination professionals throughout the UK”.

Mark Hitchman, General Manager of Toshiba Medical Systems, UK, said trophon® EPR was an important and complementary technology.

“We see trophon® EPR as complementary to the Toshiba range of ultrasound machines, and as playing an important role in reducing infection control risk across the healthcare system,” Mr Hitchman said.

“Toshiba looks forward to working with Nanosonics in the roll out of this important technology.”

Nanosonics will continue to sell directly into the UK market.

“**We estimate that the UK opportunity for trophon® EPR is likely to be significant in light of the recent regulatory drivers,**”

– Dr Weinberger
Eric Rosenberg, Manager of the Scripps’ Gooding Imaging Center in San Diego, said conversion from a manual to automated process for the high level disinfection of ultrasound probes was underway and: “We have selected the trophon® EPR device to achieve this goal.”

“As a result of our conversion, thus far we have improved efficiency of the cleaning process, created more standardization and eliminated non-value added variation, reduced chances for human error, and improved safety by reducing exposure to harsh chemicals previously used during the manual cleaning process,” Mr Rosenberg said.

“Scripps is focused on remaining a leader in making improvements in healthcare through the use of innovative technology.”

Candace Goldstein, Clinical Educator for Scripps Clinic, also highlighted the efficiency gains flowing from trophon® EPR’s automated record keeping and internal system monitors that ensure a consistent and readily verifiable decontamination result.

“The labour savings are also significant because ultrasound technicians can spend more of their valuable time performing ultrasound procedures not reprocessing probes for high level disinfection.”

Feedback to Nanosonics has been overwhelmingly positive following the Scripps Clinic roll out.

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You can register to receive this shareholder update and other announcements from Nanosonics via email. Please contact McGregor Grant, CFO at info@nanosonics.com.au.

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Eric Rosenberg, Manager of the Scripps’ Gooding Imaging Center in San Diego.

Candace Goldstein, Clinical Educator for Scripps Clinic, with recently installed trophon® EPR.