

iSONEA LIMITED

[ABN 98 009 234 173]

PROSPECTUS

A renounceable pro-rata rights issue of three (3) new fully paid ordinary shares for every four (4) fully paid ordinary shares held on the Record Date at an issue price of 0.5 cents (\$0.005) each, together with one (1) free-attaching option for every four (4) new shares issued to raise up to approximately \$4.3 million before costs of the issue.

Each option will have an exercise price of 0.7 cents (\$0.007) each exercisable on or before 30 June 2014 and will, upon exercise, entitle the holder to one ordinary share.

Shareholders eligible to participate in the rights issue and who accept their maximum entitlement under the rights issue may also apply for additional new fully paid ordinary shares and free attaching options from any shortfall in acceptances.

The Rights Issue is partly underwritten by Patersons Securities Limited [ABN 69 008 896 311] [AFSL No: 239 052] to \$3.7 million. Patersons Securities Limited has been appointed as Lead Manager to the Rights Issue.

THIS DOCUMENT IS IMPORTANT AND SHOULD BE READ IN ITS ENTIRETY

If you do not understand its contents, you should consult your stockbroker, accountant or other professional adviser without delay.

The securities offered under this Prospectus are considered speculative.

CORPORATE DIRECTORY

Directors

Mr Ross Haghighat

Mr Paul Hopper

Mr Jerome Korten

Mr Fabio Pannuti

Secretaries

Mr Peter Vaughan

Mr Phillip Hains

Registered Office

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Share Registry

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153

Postal Address for Return of Acceptances

iSonea Limited
Security Transfer Registrars Pty Ltd
PO Box 535
Applecross WA 6953
Telephone: 08 9315 2333 (within Australia)
Telephone: +61 8 9315 2333 (outside Australia)

ANTICIPATED TIMETABLE

Lodgement of Prospectus	18 November 2011
Existing Shares quoted "ex" entitlement basis. Rights trading commences	23 November 2011
Proposed record date to identify Shareholders entitled to participation in the Rights Issue ("the Record Date ")	29 November 2011
Dispatch of Prospectus	1 December 2011
Rights trading ends	8 December 2011
Securities quoted on deferred settlement basis	9 December 2011
Closing Date	15 December 2011
ASX to be notified of under subscriptions	19 December 2011
Dispatch date of holding statements	22 December 2011

*The above dates should be regarded as **indicative only**. Subject to the Corporations Act, the Listing Rules and other applicable laws, the Company in consultation with the Underwriter reserves the right to change the above dates, to close the Offer before the date stated above, to extend the Closing Date and subsequent dates, or not to proceed with the Offer described in this Prospectus.*

No securities will be issued on the basis of this Prospectus after 18 December 2012, being the expiry date of this Prospectus.

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This prospectus ("this **Prospectus**") is dated 18 November 2011. A copy of this Prospectus was lodged with the Australian Securities & Investments Commission ("**ASIC**") on the same date. Neither ASIC nor ASX Limited ("**ASX**") nor their respective officers take any responsibility as to the contents of this Prospectus.

1. THE OFFER

1.1 Pro Rata Entitlement

iSonea Limited [ABN 98 009 234 173] ("the **Company**" or "**iSonea**") offers its Shareholders, as recorded on the share registry records on the Record Date and who are otherwise eligible to accept the offer made under this Prospectus (each an "**Eligible Shareholder**"), the right to participate in a pro-rata renounceable rights issue of three (3) new Shares for every four (4) Shares held at the Record Date at an issue price of 0.5 cents (\$0.005) each ("a **New Share**"), together with one (1) free attaching option for every four (4) New Shares accepted and issued ("the **Rights Issue**"). Each option will have an exercise price of 0.7 cents (\$0.007) and may be exercised at any time prior to 30 June 2014 ("a **New Option**"). Each New Option will, upon exercise, entitle the holder to one (1) Share (further details regarding the New Shares and New Options are set out in section 10).

The Offer is only made to holders of fully paid ordinary shares and not the holders of partly paid shares or redeemable convertible preference shares. No partly paid shares or redeemable convertible preference shares will be issued under this Prospectus.

Fractional entitlements will be rounded up.

1.2 Additional Shares and Options

In addition to being able to apply for New Shares and New Options in the manner described in this Prospectus, Eligible Shareholders also will have the opportunity to apply for New Shares that are not subscribed for under the Rights Issue ("**Shortfall Shares**").

The Shortfall Shares will be issued at the same price and on the same terms as the New Shares. Eligible Shareholders may only make an application for Shortfall Shares if they accepted their maximum entitlement of New Shares under the Rights Issue. Eligible Shareholders that apply for Shortfall Shares will also receive the requisite attaching New Options in respect of the Shortfall Shares issued to them.

Shortfall Shares will only be issued if the Rights Issue is undersubscribed and will only be issued to the extent necessary to make up any shortfall in subscriptions. If the Company receives applications for Shortfall Shares that would result in the Rights Issue being oversubscribed then the Company will not accept any oversubscriptions and will scale back all applications received for Shortfall Shares at the Directors' discretion. In the event of a scale back, all application monies received but not applied towards subscriptions under the Rights Issue will be refunded as soon as practicable without interest. No Shortfall Shares will be issued to an applicant if to do so would result in a breach of the Listing Rules, the Corporations Act or any other law, including (without limitation) the restrictions on obtaining or increasing relevant interests of greater than 20% of the Company's issued voting shares under Chapter 6 of the Corporations Act. No interest will be paid on application monies returned. Any Shortfall Shares taken up by Shareholders will reduce the number of shares issued to the Underwriter or sub-underwriters.

The Rights Issue and the Shortfall Shares are collectively referred to as "the **Offer**".

1.3 Allotment of Shortfall Shares

The Company may following the Closing Date of the Offer also, subject to the Corporations Act and the ASX Listing Rules and the Underwriting Agreement, accept applications for the issue of any or all of the Shortfall Shares (and attaching New Options) that are not successfully subscribed for under the Offer at an issue price not less than the price being offered under this Prospectus. The Company may pay fees or commissions determined at the time of offering or issuing New Shares and New Options from the shortfall. Recipients of Shortfall Shares (and attaching New Options) need not be existing shareholders of iSonea.

1.4 Underwriting of Rights Issue

The Rights Issue is partly underwritten by Patersons Securities Limited to \$3.7 million. Details of the underwriting arrangement, including New Options proposed to be issued to the Underwriter and the fees and other amounts payable to the Underwriter, are set out in section 9.1 of this Prospectus.

The Underwriter may appoint sub-underwriters to sub-underwrite the Offer at its discretion. As an incentive for sub-underwriters, the Company will grant the Underwriter or its nominee 185,000,000 New Options ("**Commitment Options**"). The offer of Commitment Options under this Prospectus is distinct from the Pro Rata Offer and the offer of Shortfall Shares and New Options. The Commitment Options will be issued to or at the direction of the Underwriter for distribution to sub-underwriters as identified by the Underwriter.

2. PURPOSE OF THE OFFER

The funds raised by the Offer will be used to advance the steps necessary for commercialization and launch of the Company's Acoustic Respiratory Monitoring technology products in the United States of America, Asia Pacific region, and other key asthma markets. The activities will inherently require expenditure in the areas of clinical development and regulatory approval, product development, business development, sales, marketing and manufacture. The Offer will also provide the Company with working capital. Set out in the table below is an estimated breakdown of the expenditure of the funds in each of the areas of activity together with a working capital estimate and the costs of the Issue in circumstances of the Offer being fully subscribed and if only the minimum subscription (being the underwritten amount of \$3.7 million) is received.

Activity	Amount if minimum subscription is received (\$3.7 million)	Amount if Offer fully subscribed (\$4.3 million)
Clinical Development and Regulatory Approval	\$ 650,000	\$ 750,000
Product Development and Enhancement	\$ 900,000	\$ 1,000,000
Business Development	\$ 200,000	\$ 250,000

Activity <i>(Continued)</i>	Amount if minimum subscription is received (\$3.7 million)	Amount if Offer fully subscribed (\$4.3 million)
Sales, Marketing and Manufacture	\$ 900,000	\$ 1,000,000
Costs of Issue (Refer to section 4.3)	\$ 315,000	\$ 315,000
Working Capital	\$ 735,000	\$ 985,000
Total	\$ 3,700,000	\$ 4,300,000

3. EFFECT OF THE OFFER ON ISONEA

The effect of the Offer on iSonea will be to:

- Provide the funds to undertake the activities described in section 2; and
- Alter the capital structure of iSonea as described in section 4.

4. EFFECT ON THE CAPITAL STRUCTURE OF ISONEA

4.1 Shares and Options

The tables and information below set out the existing capital structure of the Company, and the effect on the Company's capital structure of issuing the securities offered under this Prospectus. The information set out below assumes that none of the holders of the Company's existing options or the convertible security exercise their options or make a conversion prior to the Record Date and assuming that full acceptances are received for all Shares and Options offered under this Prospectus.

SHARES

<i>Description</i>	<i>Number</i>
Existing issued fully paid ordinary shares	1,147,004,309*
New Shares (fully paid ordinary) offered under this Prospectus (maximum)*	860,253,232
TOTAL*	2,007,257,541

**Shareholder approval was obtained at the Annual General Meeting held on Thursday 17 November 2011 in respect of the issue of 5,000,000 ordinary shares to each of the Directors of the Company. The existing issued fully paid ordinary shares total includes the 5,000,000 ordinary shares the Company intends to issue to each of the Directors of the Company prior to the Record Date for the Offer (being a total issue of 20,000,000 ordinary shares).*

OPTIONS

	<i>Number of options</i>	<i>Expiry date</i>	<i>Exercise price</i>
Existing Options			
Listed Options (ISNOA)	47,355,657	30 April 2014	\$0.024 (2.4 cents)
Unlisted Options	29,737,497	30 June 2012	\$0.050 (5 cents)
Existing Share Option Plan [^]	3,812,500	15 December 2013	\$0.050 (5 cents)

	Number of options	Expiry date	Exercise price
Unlisted Options	13,000,000	15 December 2015	\$0.050 (5 cents)
Unlisted Options	6,000,000	30 November 2011	\$0.030 (3 cents)
Unlisted Options	2,000,000	15 December 2011	\$0.020 (2 cents)
Unlisted Options	6,500,000	31 July 2012	\$0.020 (2 cents)
Unlisted Options	14,500,000	31 July 2012	\$0.030 (3 cents)
Unlisted Options	2,000,000	30 November 2012	\$0.040 (4 cents)
Unlisted Options	12,777,314	15 December 2012	\$0.030 (3 cents)
Unlisted Options	2,300,000	15 December 2012	\$0.015 (1.5 cents)
Unlisted Options	4,500,000	15 December 2013	\$0.040 (4 cents)
Existing Share Option Plan [^]	750,000	31 July 2012	\$0.012 (1.2 cents)
Existing Share Option Plan [^]	28,000,000	31 July 2016	\$0.013 (1.3 cents)
Existing Share Option Plan [^]	4,000,000	31 December 2011	\$0.015 (1.5 cents)
Existing Share Option Plan [^]	12,000,000	31 December 2012	\$0.020 (2 cents)
Existing Share Option Plan [^]	16,000,000	31 December 2013	\$0.020 (2 cents)
Existing Share Option Plan [^]	900,000	15 December 2014	\$0.130 (13 cents)
Existing Share Option Plan [^]	900,000	15 June 2015	\$0.130 (13 cents)
Unlisted Options	25,000,000	29 September 2015	\$0.023 (2.3 cents)
Existing Share Option Plan [^]	1,500,000	1 July 2013	\$0.015 (1.5 cents)
Existing Share Option Plan [^]	20,000,000	1 July 2014	\$0.030 (3 cents)
Offered under this Prospectus (free attaching options) ASX code to be advised	215,063,308*	30 June 2014	\$0.007 (0.7 cents)
Underwriters' Commitment Options ASX code to be advised	185,000,000*	30 June 2014	\$0.007 (0.7 cents)
Total options (existing and offered)	653,596,276		

* Subject to rounding up of fractional entitlements.

[^]Subject to adjustment following the Rights Issue, in accordance with the Listing Rules

The above tables assume acceptances are received for all New Shares and New Options offered under this Prospectus. The percentage shareholding in the Company of Shareholders who do not take up all of their rights pursuant to the Rights Issue will be diluted.

Convertible Securities

The Company has an uncertificated convertible security in place with Bergen Global Opportunity Fund, LP with an outstanding amount of \$870,000.

4.2 Pro Forma Balance Sheet

Set out below is the pro-forma Balance Sheet of iSonea Limited as at 30 June 2011. The financial information has been extracted from the audited accounts of the Company to 30 June 2011.

The Pro Forma balance sheet provided below sets out:

- the adjusted balance sheet if the Offer is fully subscribed and raises \$4.3 million; and
- the adjusted balance sheet if the minimum subscription (being the underwritten amount of \$3.7 million) is received,

less the estimated costs of the Offer (set out in section 4.3).

	Consolidated Entity		
	30 June 2011 (Audited) \$	Proforma 30 June 2011 (Unaudited) if minimum subscription is received (\$3.7 million) \$	Proforma 30 June 2011 (Unaudited) if the Rights Issue is fully subscribed (\$4.3 million) \$
Assets			
Current Assets			
Cash and cash equivalents*	1,312,065	4,697,066	5,277,066 [^]
Trade and other receivables	276,548	276,548	276,548
Inventories	386,423	386,423	386,423
Other	38,722	38,722	38,722
Total Current Assets*	2,013,758	5,398,759	5,978,759[^]
Non-Current Assets			
Plant and equipment	195,074	195,074	195,074
Intangible assets	1,134,116	1,134,116	1,134,116
Other	10,570	10,570	10,570
Total Non-Current Assets	1,339,760	1,339,760	1,339,760
Total Assets*	3,353,518	6,738,518	7,318,518[^]
Liabilities			
Current Liabilities			
Trade and other payables	716,852	716,852	716,852
Other financial liabilities	-	-	-
Provisions	22,354	22,354	22,354
Total Current Liabilities	739,206	739,206	739,206

Non-Current Liabilities

Other financial liabilities	504,516	504,516	504,516
Provisions	-	-	-
Total Non-Current Liabilities	504,516	504,516	504,516
Total Liabilities	1,243,722	1,243,722	1,243,722
Net Assets*	2,109,796	5,494,796	6,074,796[^]

Equity

Issued capital	67,479,141	70,864,141	71,444,141
Reserves	1,139,314	1,139,314	1,139,314
Accumulated losses	(66,508,659)	(66,508,659)	(66,508,659)
Total Equity*	2,109,796	5,494,796	6,074,796[^]

* The pro-forma adjustment for this Offer: if fully subscribed \$3,965,000; and if only the minimum subscription (being the underwritten amount of \$3.7 million) is received \$3,385,000.

[^]Shareholder approval was obtained at the Annual General Meeting held on Thursday 17 November 2011 in respect of the issue of 5,000,000 ordinary shares to each of the Directors of the Company. The pro-forma adjustment for the Offer if fully subscribed includes the potential funds raised as a consequence of the Directors fully exercising their rights entitlement obtained in respect of the 5,000,000 ordinary shares the Company intends to issue to each of the Directors of the Company prior to the Record Date for the Offer (being a total issue of 20,000,000 ordinary shares).

4.3 Costs of the Issue

The estimated costs of the Offer (excluding GST) are:

Particulars	Amount if minimum subscription is received (\$3.7 million)	Amount if the Offer is fully subscribed (\$4.3 million)
Legal, administrative and regulatory	\$33,000	\$53,000
Printing, postage and dispatch costs	\$10,000	\$10,000
Lead Managers Fee	\$50,000	\$50,000
Underwriting Fee	\$222,000	\$222,000
Total	\$315,000	\$335,000

4.4 General Meeting

The Offer is not conditional on the Company receiving prior shareholder approval. The Company proposes calling a General Meeting of Shareholders for early 2012 to consider resolutions to approve among other things, by way of ratification, the issue of New Options and Commitment Options to the Underwriter and any sub-underwriters. The Notice of Meeting and accompanying Explanatory Memorandum will be sent to Shareholders at the time of dispatch of the initial notice to Shareholders.

Shareholders should refer to the Notice of Meeting and accompanying Explanatory Memorandum regarding the matters to be considered at the General Meeting. A copy of the Notice of Meeting will be released to ASX as an announcement. Copies will be able to be obtained from the ASX website (www.asx.com.au) or the Company's website (www.isoneamed.com). The results of the General Meeting will also be released as an announcement to ASX after the meeting.

5. ACCEPTANCE INSTRUCTIONS AND ENTITLEMENTS

5.1 Choices available under Rights Issue

Eligible Shareholders may either:

- exercise their rights to participate in the Rights Issue in full;
- exercise their rights to participate in the Rights Issue in full and apply for Shortfall Shares as described in section 1;
- exercise their rights to participate in the Rights Issue in part and instruct their stockbrokers to sell the balance on the ASX;
- exercise their right to participate in the Rights Issue in part and allow the balance to lapse;
- instruct their stockbrokers to sell their Rights Issue Entitlements on the ASX;
- sell or transfer the whole or part of their Rights Issue Entitlements other than on the ASX; or
- take no action under this Offer, thereby allowing their rights to lapse.

Details of how to exercise these alternatives are set out in sections 5.2 to 5.6 (inclusive) and section 5.8 below. Further information regarding the transfer of Rights Issue Entitlements is set out in section 5.5.

Nominees holding on behalf of multiple beneficiaries should contact the Company if they propose taking up an entitlement for some accounts only and applying for Shortfall Shares on behalf of those accounts.

5.2 Selling your Rights Issue Entitlement on ASX

If you wish to sell your Rights Issue Entitlement on ASX, complete the appropriate section on the back of the accompanying Entitlement and Acceptance Form marked "Instructions to Your Stockbroker" and lodge the Entitlement and Acceptance Form with your stockbroker as soon as possible, or otherwise provide instructions to your stockbroker regarding the number of Rights you wish to sell on ASX. You can sell your Rights on ASX from 23 November 2011 until 5:00pm Perth, Western Australia time on 8 December 2011. The Company accepts no responsibility for any failure by your stockbroker to carry out your instructions.

5.3 Taking up part of your Rights Issue Entitlement and selling the balance on ASX

If you wish to take up only part of your Rights Issue Entitlement, complete the accompanying Entitlement and Acceptance Form for the number of New Shares and New Options you wish to take up and follow the steps required in accordance with section 5.8. You may then provide instructions to your stockbroker in accordance with section 5.2 regarding any remaining Rights you wish to sell on ASX.

5.4 Taking up part of your Rights Issue Entitlement and allowing the balance to lapse

If you wish to take up part of your Rights Issue Entitlement and allow the balance to lapse, complete the accompanying Entitlement and Acceptance Form for the number of New Shares and New Options you wish to take up and follow the steps required in accordance with section 5.8. Your Rights may have value. If you take no further action, the balance of your Rights Issue Entitlement will lapse and you will have forfeited any potential benefit to be gained from selling/trading your Rights.

5.5 Dealing with part or all of your Rights Issue Entitlement other than on the ASX

You may transfer all or part of your Rights to another person other than on ASX provided that the purchaser is not a Non-qualifying Foreign Shareholder or would not be a Non-qualifying Foreign Shareholder if the purchaser were the registered holder of New Shares.

If you wish to transfer all of your Rights Issue Entitlement to another person other than on ASX, forward a completed standard renunciation form (obtainable from the Company's Share Registry) and the applicable transferee's cheque or bank draft for any application money for the New Shares and New Options they wish to subscribe for to the Company's Share Registry by 5:00 pm Perth, Western Australia time on the 8 December 2011. If the completed standard renunciation form and the applicable transferee's cheque or bank draft for any application moneys is submitted to the Company's share registry in New Zealand, they must be received by 5:00pm New Zealand time on 8 December 2011. Do not make any payment by way of BPay for any Rights Issue Entitlement transferred to another person.

If you wish to transfer part of your Rights Issue Entitlement to another person other than on ASX only, but also want to take up some or all of the balance of your Rights Issue Entitlement, you will need to forward a completed standard renunciation form (obtainable from the Company's Share Registry) and the applicable transferee's cheque or bank draft for any application money in relation to the Rights you wish to transfer to the Company's Share Registry by 5:00pm Perth, Western Australia time on the 8 December 2011 and also complete the accompanying Entitlement and Acceptance Form in respect of the Rights you wish to take up. If the standard renunciation form and Entitlement and Acceptance Form are submitted to the Company's share registry in New Zealand, it must be received by 5:00pm New Zealand time on 8 December 2011. You will need to lodge the form in accordance with the procedure in section 5.8. If you have transferred any Rights Issue Entitlement to another person, do not make any payment by way of BPay for any Rights Issue Entitlement you wish to take up or any of the Rights Issue Entitlement you have transferred.

If the Share Registry receives both a completed renunciation form and a completed Entitlement and Acceptance Form in respect of the same Rights, the renunciation form will be given effect in priority to the acceptance.

5.6 **Allow all or part of your Rights Issue Entitlement to lapse**

Your Rights may have value. Rights are renounceable, which enable Eligible Shareholders who do not wish to accept some or all of their Rights Issue Entitlement to sell or trade all or part of their Rights on ASX. If you take no further action, the balance of your Rights Issue Entitlement will lapse and you will have forfeited any potential benefit to be gained from selling/trading your Rights.

5.7 **Rights Trading**

Trading of Rights commences on ASX on 23 November 2011 with the last day of trading being 5:00pm Perth, Western Australia time on 8 December 2011. All or part of an Eligible Shareholder's Rights may be traded on ASX or otherwise sold between these dates.

5.8 **Accepting your Rights Entitlement**

If paying by cheque or money order

To apply and pay by cheque or money order, you should:

- read this Prospectus and the attached Entitlement and Acceptance Form in their entirety and seek appropriate professional advice if necessary; and
- complete the personalised Entitlement and Acceptance Form which accompanies this Prospectus (instructions for completing and returning the Entitlement and Acceptance Form are set out on the form); and
- The completed Entitlement and Acceptance Forms together with a cheque or money order for the applicable application monies (being the offer price of 0.5 cents (\$0.005) per New Share multiplied by the number of New Shares applied for) must be mailed to the postal address, or delivered by hand to the delivery address set out below:

In Australia:

POSTAL Security Transfers Registrars
PO Box 535
Applecross WA 6953
Australia

HAND DELIVERY Security Transfers Registrars
770 Canning Highway
Applecross WA 6153
Australia

In New Zealand:

POSTAL iSonea Limited
C/- Goodman Tavendale Reid Limited
PO Box 442
Christchurch 8140
New Zealand

HAND DELIVERY iSonea Limited
C/- Goodman Tavendale Reid Limited
Level 1, 96 Oxford Terrace
Christchurch 8140
New Zealand

All acceptances must be received at the Company's Australian share registry by 5:00pm Perth, Western Australia time ("**WST**") on 15 December 2011 being the Closing Date of the Offer or such later date as the Company may specify. If the acceptance is submitted to the Company's share registry in New Zealand, it must be received by 5:00pm New Zealand time on 15 December 2011. Any standard renunciation form (obtainable from the Company's Share Register) in respect of a transfer of a Rights Issue Entitlement to another person other than on the ASX, together with the applicable transferee's cheque or bank draft for the New Shares and New Options they wish to subscribe for must be received at the Company's Australian share registry by 5:00pm Perth, Australia time on 8 December 2011. If the standard renunciation form is submitted to the Company's share registry in New Zealand, it must be received by 5:00pm New Zealand time on 8 December 2011.

The Company, Security Transfer Registrars Pty Ltd ("the **Share Registrar**") and Goodman Tavendale Reid Limited accept no responsibility for delayed or misdelivered Entitlement and Acceptance Forms or payments.

If you choose to pay by cheque or money order you must submit the completed Entitlement and Acceptance Form.

Payment must be made by cheque drawn on an Australian bank or money order in Australian currency. Cheques should be made payable to "iSonea Limited – Trust Account" and crossed "Not Negotiable". The amount payable on application will be deemed not to have been received until iSonea is in receipt of clear funds.

If paying by BPAY¹:

To apply and pay via BPAY, you should:

- read this Prospectus and the Entitlement and Acceptance Form in their entirety and seek appropriate professional advice if necessary; and
- make your payment via BPAY for the number of Shares you wish to subscribe for (being the offer price of 0.5 cents (\$0.005) per New Share multiplied by the number of New Shares you

¹ © Registered to Bpay Pty Ltd ABN 69 079 137 518

are applying for) so that it is received no later than 5:00pm (WST) on 15 December 2011, or such later date as the Company may specify. You can only make a payment via BPAY if you are the holder of an account with an Australian financial institution.

If you choose to pay via BPAY you are not required to submit the Entitlement and Acceptance Form. However, if you have transferred any of your Rights Issue Entitlements or you have had Rights Issue Entitlements transferred to you, BPay must not be used. Refer to section 5.5 for further details.

If your BPAY payment is received by 5:00pm (WST) on 15 December 2011 or such later date as the Company may specify, New Shares (offered on a 3 for 4 basis) up to the payment amount received and attaching New Options (issued on a 1 for 4 basis) are anticipated to be allotted to you on the Despatch Date (which date may change without notice). The issue of any Shortfall Shares and attaching New Options for which payment is received is dependent upon sufficient Shortfall Shares being available. Any payment made by BPAY for an amount greater than the amount of an applicant's entitlement under the Rights Issue, will be taken to amount to an application for Shortfall Shares for the total of that additional amount.

Applicants should be aware that their own financial institution may implement earlier cut off times with regards to electronic payment, and should therefore take this into consideration when making payment. You may also have your own limit on the amount that can be paid via BPAY. It is your responsibility to check that the amount you wish to pay via BPAY does not exceed your limit.

If you have multiple holdings you will have multiple BPAY reference numbers. To ensure that you receive your entitlement in respect of each holding, you must use the customer reference number shown on each personalised Entitlement and Acceptance Form when paying for any New Shares that you wish to apply for in respect of that holding.

For payments by cheque, money order or BPAY:

Your application or payment may not be accepted if received after 5:00pm (WST) on the Closing Date or such later date as the Company may specify, in which case no New Shares or New Options would be issued to you in respect of that application or payment, and any payment received will be refunded to you after the allotment date in accordance with the Corporations Act, without interest.

The Directors in consultation with the Underwriter may at their discretion issue New Shares and New Options in response to Entitlement and Acceptance Forms received after the Closing Date and time, but are under no obligation to do so.

The amount payable on application will be deemed not to have been received until the Company is in receipt of cleared funds. Payments in cash will not be accepted.

If the amount of payment is insufficient to pay in full for the number of New Shares you applied for, or is more than the number of New Shares you applied for, you will be taken to have applied for such whole number of New Shares (together with free attaching New Options) which you are entitled to and which is covered in full by your payment. Alternatively, the Company may in its discretion reject your application, in which case any payment will be refunded to you after the allotment date in accordance with the Corporations Act, without interest.

If you apply for Shortfall Shares in excess of your entitlement and you are not allocated all or some of the Shortfall Shares (together with free attaching New Options) applied for, the relevant payment in respect of the un-allocated Shortfall Shares will be refunded to you after the allotment date in accordance with the Corporations Act, without interest.

If you have any questions about your entitlement, please contact the Company's Share Registry on 08 9315 2333 (within Australia) or +61 8 9315 2333 (outside Australia). Alternatively, contact your stockbroker or other professional adviser.

The issue of New Shares and New Options will occur as soon as practicable after the Offer has closed. Thereafter, statements of your Share and Option holdings will be despatched. It is the responsibility of recipients to determine their allocation prior to trading in New Shares or New Options. Recipients

trading New Shares or New Options before they receive their statements will do so at their own risk. The Company may reject an Entitlement and Acceptance Form where payment of the application monies is not received or a cheque is not honoured, or without prejudice to its rights accept an Entitlement and Acceptance Form and issue New Shares and New Options in response to the acceptance and recover outstanding application monies from the recipient.

Subject to the requirements of the Corporations Act and the ASX Listing Rules, the Directors may (at their discretion) issue New Shares and New Options for which acceptances or payments have not been received by the Closing Date, up to the maximum number referred to in this Prospectus to third-party investors who may or may not be existing shareholders of the Company.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer. Persons resident in countries outside Australia and New Zealand should consult their professional advisers as to whether any governmental or other consents are required or whether formalities need to be observed to enable them to acquire New Shares and New Options. Return of a duly completed Entitlement and Acceptance Form or payment will be taken by the Company to constitute a representation that there has been no breach of such requirements.

No account has been taken of the particular objectives, financial situation or needs of recipients of this Prospectus. Because of this, recipients of this Prospectus should have regard to their own objectives, financial situation and needs.

Recipients of this Prospectus should make their own independent investigation and assessment of the Company, its business, assets and liabilities, prospects and profits and losses, and the risks associated with investing in the Company. Independent expert advice should be sought before any decision is made to accept the Offer, or to acquire New Shares and New Options or other securities of the Company.

5.9 **Sub-Underwriters**

Sub-underwriters will receive a personalised Entitlement and Acceptance Form which is to be returned in accordance with the instructions in the form by the date specified in the form.

6. **CONTINUOUS DISCLOSURE OBLIGATIONS**

This Prospectus is issued by the Company in accordance with the provisions of the Corporations Act applicable to a prospectus for continuously quoted securities.

Section 713 of the Corporations Act enables a company to issue a special prospectus where the securities or options offered to acquire securities under that prospectus are continuously quoted securities within the meaning of the Corporations Act. This generally means that the relevant securities are in a class of securities that were quoted enhanced disclosure securities at all times during the 12 months before the date of the prospectus and, as such, the issuing company was subject to the continuous disclosure regime provided for under the Corporations Act and the Listing Rules of ASX.

In summary, special prospectuses are required to contain information in relation to the effect of the offer of securities on the company, and the rights and liabilities attaching to the securities. It is not necessary to include general information in relation to all of the assets and liabilities, financial position, profits and losses or prospects of the issuing company. Accordingly, this Prospectus does not contain the same level of disclosure as a prospectus of an unlisted company or an initial public offering prospectus.

Having taken such precautions and having made such enquiries as are reasonable, the Company believes that it has complied with the general and specific requirements of ASX as applicable from time to time throughout the 12 months before the date of this Prospectus which required the Company to notify ASX of information about specified events or matters as they arise for the purpose of ASX making that information available to the stock market conducted by ASX. For the purposes of satisfying section 713(5) of the Corporations Act, a prospectus must also incorporate such information if such information:

- (a) has been excluded from a continuous disclosure notice in accordance with the Listing Rules; and

- (b) is information that investors and their professional advisors would reasonably require for the purpose of making an informed assessment of:
- (i) the assets and liability, financial position and performance, profits and losses and prospects of the body; and
 - (ii) the rights and liabilities attaching to the securities being offered.

The prospectus must contain this information only to the extent to which it is reasonable for investors and their professional advisors to expect to find such information in the prospectus. iSonea is not aware of any matters that need to be disclosed under this section of the Corporations Act that have not been previously disclosed or which have not been set out in this Prospectus. The Company has from time to time entered into and continues confidential discussions and/or negotiations with potential commercial partners. While the Company continues to seek potential commercial partners and to advance discussions or negotiations, there is no certainty that any arrangement(s) will be finalised on particular terms, at a specific time, or at all. The Company will make further announcements in respect of any such discussions or negotiations in accordance with its disclosure obligations as developments occur.

As a disclosing entity under the Corporations Act, iSonea is subject to regular reporting and disclosure obligations. Copies of documents lodged with ASIC in relation to iSonea may be obtained from, or inspected at, an office of ASIC.

Any person may request, and the Company will provide free of charge, a copy of each of the following documents during the acceptance period of this Prospectus:

- (a) the annual financial report for the year ended 30 June 2011 lodged with ASIC on 30 September 2011;
- (b) any continuous disclosure notices given by the Company since the lodgement of the annual financial report referred to in (i) above and before lodgement of this Prospectus. Continuous disclosure notices given by the Company since the lodgement of the annual financial report to the date of this Prospectus are listed in section 7 of this Prospectus.

7. ASX ANNOUNCEMENTS

The following announcements (continuous disclosure notices) have been made by the Company to ASX since lodging its Annual Report for the year ended 30 June 2011 with ASIC:

Date	Headline
17/11/2011	Results of Annual General Meeting and Change of Registered Office
16/11/2011	Suspension from Official Quotation
14/11/2011	Trading Halt
10/11/2011	iSonea appoints Bank of New York Mellon for its US Listing
31/10/2011	Appendix 4C - Quarterly Report
21/10/2011	Appendix 3B and 708A Notice
19/10/2011	Notice of Annual General Meeting/Proxy Form
19/10/2011	Annual Report to shareholders
11/10/2011	iSonea Company Update by CEO Michael Thomas - Audio Broadcast
05/10/2011	Resignation and Appointment of Joint Company Secretary
04/10/2011	Letter to Shareholders
30/09/2011	Appendix 3B and 708A notice

Any person may request, and the Company will provide free of charge, a copy of any of the above announcements during the application period of this Prospectus.

The Company may make further announcements to ASX from time to time. Copies of announcements are released by ASX on its website, www.asx.com.au, and will also be made available on the Company's web site, www.isoneamed.com. Copies of announcements can also be obtained from the Company upon request. Prospective investors are advised to refer to ASX's website or the Company's website for updated releases about events or matters affecting iSonea.

In making statements in this Prospectus regard has been had to the fact that the Company is a disclosing entity for the purposes of the Corporations Act and certain matters may reasonably be expected to be known to investors and professional advisers whom potential investors may consult.

No person is authorised to give information or to make any representation in connection with this Prospectus which is not contained in this Prospectus. Any such information not so contained may not be relied on as having been authorised by iSonea in connection with this Prospectus.

8. KEY RISKS

The New Shares and New Options offered under this Prospectus are considered speculative because of the inherent risks associated with a medical device/R&D company. In addition, there are risks inherent in investing in the share market in general.

The Directors have considered and identified in this section of the Prospectus the critical areas of risk associated with investing in the New Shares and New Options. The risks identified by the Directors are not exhaustive and potential investors should read this Prospectus in full and seek professional advice if they require further information on material risks in deciding whether to subscribe for New Shares and New Options.

This investment is regarded as highly speculative and neither the Company nor any of its Directors or any other party associated with the preparation of this Prospectus guarantees that any specific objectives of the Company will be achieved or that any particular performance of the Company or of its New Shares or New Options, including those offered by this Prospectus, will be achieved.

8.1 Specific risks

(a) Medical Device R&D

Medical Device R&D involves scientific uncertainty and long lead times and there is no certainty that any particular event will occur within a set period or by a certain date. Risks inherent in these activities include:

- uncertainty of the outcome of the Company's research results;
- difficulties or delays in development of any of the Company's medical devices; and
- general uncertainty related to the scientific development of a new medical therapy.

Examples of such risks include, but are not limited to, the following:

- the possibility that the Company's medical devices may have insufficient efficacy, adverse side effects or be unsafe for use with humans; and
- the possibility that the Company's level of expenditure is higher than budgeted.

Few R&D projects produce a commercial product. As some of the Company's proposed medical devices are in an early stage of development, product candidates may appear promising in early stages of development but ultimately fail to reach the market for many reasons, including unacceptable clinical results, a medical device candidate that is not cost-effective or economic to manufacture, or concerns regarding product safety.

The Company's medical devices require pre-clinical and human clinical development prior to commercialisation, which may be uncertain, expensive and time consuming. There may be inadequate diagnostic sensitivity of the Company's medical devices which would prevent further commercialisation. There may be difficulties or delays in testing any of the Company's medical devices.

The Company will rely on other parties including contractors, universities, hospitals and clinics to conduct research and development and clinical trials and these parties may not perform to expectation. If the Company is unable to retain suitable organisations on favourable terms, or if any resulting agreement is terminated and the Company is unable to quickly replace the applicable organisation with another qualified institution, the research could be delayed and the Company may be unable to complete development or commercialisation of its medical devices. The Company may be unable to secure licensing deals with medical device companies to complete the development and/or commercialisation of its products.

No assurance can be given that the Company's product development efforts will be successful, that any potential product will be safe and efficacious, that required regulatory approvals will be obtained, that the Company's products will be capable of being produced in commercial quantities at an acceptable cost or at all, that the Company will have access to sufficient capital to successfully advance the products through development or to find suitable development or commercial partners for the development and or commercialisation of the products and that any products, if introduced, will achieve market acceptance.

Specifically, the Company's success depends on the acceptance of its technology and products by the medical community. The Company plans to minimize this risk by partnering with large medical device companies which have significantly greater financial resources and marketing reach to commercialize its products once the Company has demonstrated the safety and efficacy of its technology in a range of human breathing disorders.

Many of the Company's projects will be carried out overseas (and the Company may purchase raw materials from overseas suppliers) under contracts denominated in foreign currencies. Any adverse movement in the Australian dollar against these foreign currencies may adversely impact on the Company's ability to complete its development programs within its available funds.

(b) **Partnering and licensing**

Due to the significant costs in medical device development it is common for medical device companies to partner with larger medical device or medical equipment manufacturing companies to help progress development of a medical device. Partnering can potentially reduce the development and commercial risk for the small medical device company by involving an experienced or a larger established medical device manufacturer and or medical device marketing company in the medical device's development and commercialisation however there is no guarantee that such arrangements will lead to the successful commercialisation of products as a larger partner may not have the same motivation as iSonea to quickly advance the product through clinical trials and commercialization. The perceived risk reduction is generally traded off for the value of the project asset, with the small medical device company generally receiving a reduced benefit in the commercial potential of the new medical device. Generally the licensor receives milestone payments on the successful progress of the medical device through R&D and a percentage of the eventual product sales in the form of a royalty. Commercial terms can differ widely and depend on the quality of the data generated in R&D, the stage of development of the medical device and the perceived commercial potential or value of the medical device. Licensing deals also vary considerably in the type of conditions specified in the agreements relating to obligations on the licensee and licensor and also on boilerplate agreement terms such as warranties and indemnities termination, disputes and dispute resolution, termination events and what happens upon termination.

There is no certainty that the Company will be able to partner or license its products in the future. There is also no guarantee that the Company will receive back all the data generated or related intellectual property from its licensing partners. In the event that the Company does license or partner its medical devices, there is no assurance as to the attractiveness of the commercial terms nor any certainty that the agreements will generate a material commercial return for the Company.

(c) **Regulatory Approvals**

The products of medical devices companies are regulated by government agencies and must be approved for commercial sales. Complex government health regulations, which are subject to change, add uncertainty to obtaining approval to undertake clinical development and obtain marketing approval for medical devices and the risk exists that the Company's new products may not satisfy the stringent requirements for approval, or that the approval process may take longer than expected. Any approval will be limited to those disease states and conditions for which the product has shown safety and efficacy. Approval by a regulatory authority such as the Food and Drug Administration in the United States does not automatically mean or imply that the respective Government agency or private insurers will provide reimbursement for the cost of treatment.

Delays may be experienced in obtaining such approvals or the regulatory authorities may require different or expanded trials and these may add to the development cost and delay the medical devices from moving into the next phase of development and up to the point of entering the market place or qualifying for the receipt of reimbursement funds. This may adversely affect the products' competitive position and the financial value of the medical devices to the Company. It may also adversely affect the prospects of the Company being able to partner these products with other companies and/or the commercial terms for these partnering arrangements.

There can be no assurance that regulatory clearance will be obtained for a product or that the data obtained from clinical trials will not be subject to varying interpretations or that the data will demonstrate equivalent or superior outcomes for the Company's medical device by comparison with current devices for asthma diagnosis and monitoring (spirometer and peak flow meter). There can be no assurance that the FDA or other regulatory authorities will agree with the Company's assessment of future clinical trial results.

Medical Device manufacturers must adhere to current manufacturing practice requirements, which are enforced through facilities inspection programs. The Company or its contractors may not be able to comply or maintain compliance with these requirements, nor may they be able to make medical devices that are compliant with the manufacturing specifications or manufacturing requirements. Non-compliance could significantly delay clinical development and in turn receipt of marketing approval or result in enforcement action.

The nature of the Company's operations makes it subject to laws, regulatory restrictions and certain governmental directives, recommendations and guidelines relating to, amongst other things, occupational safety, laboratory practice, the use and handling of hazardous materials, prevention of illness and injury, environmental protection, animal testing and hazardous substance control. There can be no assurance that future legislation will not impose further government regulation with which the Company will be required to comply.

As previously indicated, there can be no assurance that any medical device developed by the Company will prove to be safe and efficacious in clinical trials or that any of the Company's future products will be approved on a timely basis, if at all. The approval process for new medical devices could take up to several years and will involve substantial expenditures. In addition, governmental policies may change and additional regulations may be promulgated that could delay or prevent regulatory approval of the Company's potential products. If regulatory approval of a product is granted, such approval will be limited to the states and conditions the product is used for, as demonstrated through clinical studies. Furthermore, approval may entail ongoing requirements for post marketing studies. Even if such approvals are obtained a product and its manufacturer are subject to continued review and periodic inspections and subsequent discovery of previously unknown problems with respect of a product or manufacturer may result in the imposition of restrictions on the product or manufacturer, including recall or withdrawal of the product from the market.

(d) **Competition**

Intense competition exists in the medical device industry, including the respiratory devices industry that relates to:

- developing products for existing and new markets;
- obtaining and sustaining proprietary rights to technology; and
- marketing, selling and distributing medical device products.

The risk exists that one or more of the competitive products in development now or in the future may prove more efficacious, safer, more cost effective or more acceptable to patients than the Company's product. It is possible that a competitor may be in that market place sooner than the Company and establish itself as the preferred product.

Such competition and new technologies can have the effect of:

- rendering R&D obsolete;
- decreasing attractiveness to potential or existing licensing partners which could lead to termination of licensing agreements while the medical devices are still in R&D;
- decreasing the financial value of products, intellectual property or research projects; and
- reducing pricing and profit margins.

(e) **Market Acceptance**

Market acceptance of the Company's products is uncertain. These uncertainties can be caused by:

- difficulties in marketing any of the Company's medical devices including those associated with price and claims that can be made about the product;
- acceptability of the product to patients and clinicians, including the side effect profile (if any) and the ease and frequency of use;
- delays in marketing any of the Company's medical devices;
- the advancement of new competitive products; and
- the discovery and development of new devices by companies developing competing products.

The Company's initial Acoustic Monitoring technology device may be considered a first of its kind in the chronic monitoring and non-invasive asthma monitoring market and to achieve sales the Company must convince medical practitioners, hospitals, health funding providers and consumers of the product's efficacy and clinical utility. The current standard of asthma care utilises products that are relatively inexpensive by comparison with the Company's product and they usually have a long product life cycle. Further, the Company does not use the traditional asthma monitoring static (FEV1) for the purposes of evaluating asthma, but instead uses a metric invented by the Company and referred to as the wheezeRATE™, which may potentially hamper product acceptance. Unless the Company can demonstrate the efficacy and clinical utility of its device there is no real incentive for medical practitioners to switch from using the existing products.

If the Company cannot manufacture its products or contract with a third party to manufacture its products at costs that allow the Company to charge competitive prices to buyers, the Company will not be able to market products profitably.

The assembly, testing and quality control of all the Company's products is undertaken at its facility based in Israel. A major portion of the sub-assembly manufacturing and sourcing of components is undertaken in countries such as China and Vietnam. Consequently, any disruption in sourcing key raw materials or difficulties faced by its suppliers could adversely impact ISN's operational performance

Accordingly there can be no assurance that the Company's medical device products, if approved for marketing, will be successful in the market place or that the Company will receive any profits from the sale of its products.

(f) **Additional Capital Requirements**

Medical device R&D activities require a high level of funding over a long period of time. The proceeds of the Offer are expected to be sufficient to fund the planned activities of the Company to the end of the second quarter of the 2013 financial year. However, additional development costs may arise within this period, and substantial additional funding will be required to complete the development and commercialisation of the Company's medical devices beyond this time. The Company constantly evaluates existing data from its pre-clinical and clinical studies that could open up new indications for the Company's medical devices and allow the Company to file patents thereby providing potential new development and partnering opportunities. Accordingly the Company may alter its funding strategy to take advantage of such new opportunities as and when they present.

There is no assurance that additional funding will be available to the Company in the future or be secured on acceptable terms or at acceptable rates. If adequate additional funds are not available, the Company may be required to curtail significantly one or more of its R&D programs or to obtain funds for the sale or licence of certain technology or product rights. If adequate funds are not available, the Company's business operations could be negatively affected and the advance of the Company's pipeline of medical device candidates into clinical trials may be hampered.

(g) **Technology and Intellectual Property Rights**

Obtaining, securing and maintaining rights to technology and patents are an integral part of securing potential product value in the outcomes of medical device R&D. Competition in retaining and sustaining protection of technology and the complex nature of technologies can lead to patent disputes.

The Company's success depends, in part, on its ability to obtain patents, maintain trade secret protection and operate without infringing the proprietary rights of third parties. Additionally, success may depend on the Company enforcing and defending its intellectual property against third-party challengers. Because the patent positions of medical device companies can be highly uncertain and frequently involve complex legal and factual questions, neither the breadth of claims allowed in patents for medical devices nor their enforceability can be predicted. There can be no assurance that any patents which the Company may own, access or control will afford the Company commercially significant protection of its technology or its products or have commercial application, or that access to these patents will mean that the Company will be free to commercialise its medical devices.

The Company believes it is strongly positioned by its IP portfolio and the competitive advantages of its asthma monitoring technology as compared with alternative technologies. However, the risk exists that the Company's medical devices may be rendered obsolete by a new product or technology that is more effective, safer, and/or easier to use and manufacture. The granting of a patent does not guarantee that the rights of others are not infringed or that competitors will not develop technology or products to avoid the Company's patented technology. Patenting strategies do not cover all countries which may lead to generic competition arising in those markets.

To date the Company has experienced no patent litigation issues. There is no certainty that this will continue, however.

(h) **Dependence on Key Personnel**

The Company is dependent on the principal members of its scientific and management team, the loss of whose services could materially and adversely affect the Company and might impede the achievements of its R&D objectives. Because of the specialised nature of the Company's business, the Company's ability to effectively maintain its program will depend in part upon its ability to attract and retain qualified research people either within the Company or via its contracted activities. There can be no assurance that the Company will be able to retain sufficient qualified personnel on a timely basis, retain its key scientific and management personnel or maintain its relationships with its collaborators. The failure to retain such personnel and develop such expertise could materially adversely affect the Company's prospects for success.

(i) **Risk of Product Liability**

The Company's business exposes it to potential product liability risks which are inherent in the R&D, preclinical study, clinical trials, manufacturing, marketing and use of medical device products in and with humans. The Company will also need to provide broad indemnities to any organisation contracted to perform pre-clinical studies, clinical trials and to the medical device partners who will conduct the development and commercialisation of its products. In addition, it may be necessary for the Company to secure certain levels of insurance as a condition to the conduct of clinical trials. The Company will seek to obtain adequate product liability insurance whenever prudent. There can be no assurance that adequate or necessary insurance coverage will be available at an acceptable cost or in sufficient amounts, if at all, or that a product liability or other claim would not materially and adversely affect the business or financial condition of the Company.

(j) **Absence of Dividends**

As noted in section 2 of the Prospectus the funds raised by the Offer will be used to advance the steps necessary for commercialisation and launch of Company's Acoustic Monitoring technology products in certain markets, which will require expenditure in the areas of clinical development and regulatory, product development, business development, sales, marketing and manufacturing. The balance of the funds will provide the Company with underlying working capital and strengthen the balance sheet.

The ability of the Company to pay any dividend in the future is dependent on many factors including the outcome of its R&D and its ability to commercialise any resultant product, at that time. The amount, timing and payment of any future dividend will depend on a range of factors including future capital and R&D requirements and the financial position generally of the Company at the time. There will also be factors that affect the ability of the Company to pay dividends and the timing of those dividends that will be outside the control of the Company and its Directors. The Directors are therefore unable to give any assurance regarding the payment of dividends in the future, if at all.

8.2 General Risks

(a) **General Economic Climate**

Factors such as inflation, currency fluctuations, interest rates, legislative changes, political decisions and industrial disruption have an impact on the Company's operating costs.

The Company's future income, asset values and share price can be affected by these factors and, in particular, by the market price for any services that the Company may sell.

(b) **Stock Market Conditions**

The New Shares and (subject to the satisfaction of the requirements of ASX for a new secondary class of securities) the New Options offered are expected to be listed on the ASX, where their price may rise or fall. The market for medical device and biotechnology company shares has historically experienced significant fluctuations in price and trading volumes which may be unrelated to the performance of individual companies. The New Shares and New Options allotted under this Prospectus carry no guarantee in respect of profitability,

dividends, return of capital, liquidity or the price on which they may trade on the ASX. It is likely that the Company will record losses and negative cash flows, and will not pay a dividend for a number of years, if at all. The stock market has in the past and may in the future be affected by a number of matters including:

- market confidence;
- supply and demand for money; and
- currency exchange rates.

(c) **Government Policy Changes**

Any material adverse changes in government policies or legislation of any countries in which it may operate may affect the viability and profitability of the Company.

(d) **Foreign Currency and Exchange Rate Fluctuations**

Revenue and expenditure of the Company is often in currencies other than Australian dollars and as such expose the Company to foreign exchange movements, which may have a positive or negative influence on the Australian dollar equivalent of such revenue and expenditure and may impact the Company's operating results.

The Company will appropriately monitor and assess such risks and may from time to time implement measures, such as foreign exchange currency hedging, to assist managing these risks. However, the implementation of such measures may not eliminate all such risks and the measures themselves may expose the Company to related risks.

(e) **Speculative Nature of Investment**

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the New Shares and New Options offered under this Prospectus.

Therefore, the New Shares and New Options to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those New Shares and New Options.

Potential investors should consider that the investment in the Company is speculative and should consult their professional advisers before deciding whether to apply for New Shares and New Options in the Company.

9. MATERIAL AGREEMENTS

9.1 Underwriting Agreement

Pursuant to an agreement between Patersons Securities Limited and iSonea ("the **Underwriting Agreement**"), the Underwriter has agreed to underwrite the Rights Issue to \$3.7 million.

Pursuant to the Underwriting Agreement, the Company has agreed to:

- (a) pay the Underwriter an underwriting fee of 6% on the amount underwritten (being \$3.7 million);
- (b) pay the Underwriter a lead manager fee of \$50,000; and
- (c) issue to the Underwriter (or its nominees) 185,000,000 Commitment Options.

If the Underwriter is required to subscribe for the entire amount of the underwritten securities then its interest in the Company would potentially be approximately 39.2%. The Underwriter has informed the Company that it has sub-underwriting commitments from sub-underwriters for all of the underwritten shares and options, and that none of the sub-underwriters would (alone or with their associates) receive or hold relevant interests in 20% or more of the issued voting shares of the Company after the completion of the Offer. Accordingly the Company does not anticipate that entry into and implementation of the Underwriting Agreement would result in a change of control of the Company, notwithstanding that the underwritten shares would represent 39.2% of the issued voting shares after completion of the Offer.

The Underwriting Agreement is conditional upon the Underwriter entering into sub-underwriting agreements with sub-underwriters for the entire Offer on terms and conditions satisfactory to the Underwriter.

Representations and Warranties

- (a) Prospectus complies with section 713 of the Corporations Act;
- (b) Forecasts are made with reasonable grounds;
- (c) Due diligence results are correct and there is no material omissions;
- (d) No rights to securities;
- (e) Permits held by relevant Companies;
- (f) No encumbrances over assets;
- (g) No litigation pending or current;
- (h) No event of insolvency has occurred;
- (i) Corporate authority exists for the Company to enter into Underwriting Agreement;
- (j) Underwriting Agreement does not result in any breach;
- (k) Underwriting Agreement constitutes a binding obligation;
- (l) No breach by the Company of any material agreements;
- (m) No prescribed occurrence has taken place;
- (n) Certificate correct;
- (o) Information provided to the Underwriter is materially true and correct;
- (p) Company is in compliance with Acts;
- (q) Accounts present a true and fair view of the financial position of the Company;
- (r) Constitution compliant;
- (s) Uncalled capital;
- (t) Shares to be issued will be fully paid;
- (u) Options will be free of all encumbrances and will rank equally;
- (v) Register of members has been diligently and properly kept.

The obligation of the Underwriter to underwrite the Offer is subject to certain events of termination. The Underwriter may terminate its obligations under the Underwriting Agreement on the occurrence of specified events including:

- (a) **(Indices fall)**: the All Ordinaries Index (IRESS XAO.ASX), the S&P/ASX 200 (IRESS:XJO.ASX) or the S&P/ASX Small industrials (IRESS:XSI.ASX) as published by ASX is at any time after the date of this Agreement 7.5% or more below its respective level as at the close of business on the Business Day prior to the date of this Agreement; or
- (b) **(Share Price)**: the ordinary fully paid shares of the Company finish trading on the ASX under the ASX code of "ISN" on any trading days with a closing price that is less than the price of the shares offered under the Rights Issue.
- (c) **(Prospectus)**: the Company does not lodge the Prospectus on the Lodgement Date or the Prospectus or the Offer is withdrawn by the Company; or
- (d) **(Copies of Prospectus)**: the Company fails to provide the Underwriter with 25 copies of the Prospectus within 7 days of the lodgement date and such failure is not remedied within 2 days; or
- (e) **(No Official Quotation)**: Official Quotation has not been granted for all the Shares and Options offered under the Rights Issue by the date upon which the Company is required to give notice to the Underwriter of any shortfall securities or, having been granted, is subsequently withdrawn, withheld or qualified; or
- (f) **(Supplementary prospectus)**:
 - (i) the Underwriter, having elected not to exercise its right to terminate its obligations, forms the view on reasonable grounds that a supplementary or replacement prospectus should be lodged with ASIC for any of the reasons referred to in section 719 of the Corporations Act and the Company fails to lodge a supplementary or replacement prospectus in such form and content and within such time as the Underwriter may reasonably require; or
 - (ii) the Company lodges a supplementary or replacement prospectus without the prior written agreement of the Underwriter; or
- (g) **(Non compliance with disclosure requirements)**: it transpires that the Prospectus does not contain all the information required by section 713 of the Corporations Act; or
- (h) **(Misleading Prospectus)**: it transpires that there is a statement in the Prospectus that is misleading or deceptive or likely to mislead or deceive, or that there is an omission from the Prospectus (having regard to the provisions of section 713 of the Corporations Act) or if any statement in the Prospectus becomes or misleading or deceptive or likely to mislead or deceive or if the issue of the Prospectus is or becomes misleading or deceptive or likely to mislead or deceive;
- (i) **(Restriction on allotment)**: the Company is prevented from allotting the shares offered under the Rights Issue and options to the Underwriter within the time required by the Underwriting Agreement, the Corporations Act, the Listing Rules, any statute, regulation or order of a court of competent jurisdiction by ASIC, ASX or any court of competent jurisdiction or any governmental or semi governmental agency or authority;
- (j) **(Withdrawal of consent to Prospectus)**: any person (other than the Underwriter) who has previously consented to the inclusion of its, his or her name in the Prospectus or to be named in the Prospectus, withdraws that consent;
- (k) **(ASIC application)**: an application is made by ASIC for an order under section 1324B or any other provision of the Corporations Act in relation to the Prospectus, the date upon which the Company is required to notify the Underwriter of any shortfall securities has arrived, and that application has not been dismissed or withdrawn;

- (l) (**ASIC hearing**): ASIC gives notice of its intention to hold a hearing under section 739 or any other provision of the Corporations Act in relation to the Prospectus to determine if it should make a stop order in relation to the Prospectus or the ASIC makes an interim or final stop order in relation to the Prospectus under section 739 or any other provision of the Corporations Act;
- (m) (**Takeovers Panel**): the Takeovers Panel makes a declaration that circumstances in relation to the affairs of the Company are unacceptable circumstances under Pt 6.10 of the Corporations Act, or an application for such a declaration is made to the Takeovers Panel;
- (n) (**Hostilities**): there is an outbreak of hostilities or a material escalation of hostilities (whether or not war has been declared) after the date of this agreement involving one or more of Australia, New Zealand, Indonesia, Japan, Russia, the United Kingdom, the United States of America, or the Peoples Republic of China, Israel or any member of the European Union, or a terrorist act is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries anywhere in the world;
- (o) (**Authorisation**): any authorisation which is material to anything referred to in the Prospectus is repealed, revoked or terminated or expires, or is modified or amended in a manner unacceptable to the Underwriter;
- (p) (**Indictable offence**): a director or senior manager of a the Company or any of its subsidiaries is charged with an indictable offence;
- (q) (**Sub-underwriters**): any Sub-underwriters that are introduced by the Company do not comply with its obligation under the sub-underwriting agreements or threaten to not comply with all of its respective obligations under the sub-underwriting agreements with the Underwriter;
- (r) (**Bergen**): Bergen Asset Management, LLC sells Shares during the Offer totalling more than \$100,000.00;
- (s) (**Monthly Share Purchase**): the Company draws down any amount pursuant to the monthly share purchase facility with Bergen (as announced the ASX on 29 September 2011);
- (t) (**Termination Events**): any of the following events occurs:
 - (i) (**Default**): material default or material breach by the Company under the Underwriting Agreement of any terms, condition, covenant or undertaking;
 - (ii) (**Incorrect or untrue representation**): any representation, warranty or undertaking given by the Company in the Underwriting Agreement is or becomes untrue or incorrect;
 - (iii) (**Contravention of constitution or Act**): a material contravention by a Relevant Company of any provision of its constitution, the Corporations Act, the Listing Rules or any other applicable legislation or any policy or requirement of ASIC or ASX;
 - (iv) (**Adverse change**): an event occurs which gives rise to a material adverse effect or any adverse change or any development including a prospective adverse change after the date of the Underwriting Agreement in the assets, liabilities, financial position, trading results, profits, forecasts, losses, prospects, business or operations of the Company or any subsidiary including, without limitation, if any forecast in the Prospectus becomes incapable of being met or in the Underwriter's reasonable opinion, unlikely to be met in the projected time;
 - (v) (**Error in Due Diligence Results**): it transpires that any of the due diligence results or any part of the verification material was false, misleading or deceptive or that there was an omission from them;
 - (vi) (**Significant change**): a "new circumstance" as referred to in section 719(1) of the Corporations Act arises that is materially adverse from the point of view of an investor;

- (vii) (**Public statements**): without the prior approval of the Underwriter a public statement is made by the Company in relation to the Offer or the Prospectus;
- (viii) (**Misleading information**): any information supplied in writing at any time by the Company or any person on its behalf to the Underwriter in respect of any aspect of the Offer or the Issue or the affairs of the Company or any subsidiary is or becomes materially misleading or deceptive or likely to materially mislead or deceive;
- (ix) (**Official Quotation qualified**): the official quotation is qualified or conditional other than as set out in the definition of "Official Quotation" within the Listing Rules;
- (x) (**Change in Act or policy**): there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia or any of its States or Territories any Act or prospective Act or budget or the Reserve Bank of Australia or any Commonwealth or State authority adopts or announces a proposal to adopt any new, or any major change in, existing, monetary, taxation, exchange or fiscal policy;
- (xi) (**Prescribed Occurrence**): a specified prescribed occurrence occurs;
- (xii) (**Suspension of debt payments**): the Company suspends payment of its debts generally;
- (xiii) (**Event of Insolvency**): an event of insolvency occurs in respect of the Company or any subsidiary;
- (xiv) (**Judgment against a Relevant Company**): a judgment in an amount exceeding \$25,000 is obtained against a the Company or any subsidiary and is not set aside or satisfied within 7 days;
- (xv) (**Litigation**): litigation, arbitration, administrative or industrial proceedings are after the date of this Agreement commenced or threatened against any the Company or any subsidiary which could have a material adverse effect, other than any claims foreshadowed in the Prospectus;
- (xvi) (**Board and senior management composition**): other than as previously advised to the Underwriter by the Company, there is a change in the composition of the Board or a change in the senior management of the Company before completion of the Offer without the prior written consent of the Underwriter;
- (xvii) (**Change in shareholdings**): there is a material change in the major or controlling shareholdings of a the Company or any subsidiary or a takeover offer or scheme of arrangement pursuant to Chapter 5 or 6 of the Corporations Act is publicly announced in relation to the Company or any subsidiary;
- (xviii) (**Timetable**): there is a delay in any specified date in the Offer timetable which is greater than 3 business days;
- (xix) (**Force Majeure**): a force majeure affecting the Company's business or any obligation under the Agreement lasting in excess of 7 days occurs;
- (xx) (**Certain resolutions passed**): a the Company or any subsidiary passes or takes any steps to pass a resolution under section 254N, section 257A or section 260B of the Corporations Act or a resolution to amend its constitution without the prior written consent of the Underwriter;
- (xxi) (**Capital Structure**): any the Company or any subsidiary alters its capital structure in any manner not contemplated by the Prospectus;
- (xxii) (**Investigation**): any person is appointed under any legislation in respect of companies to investigate the affairs of a the Company or any subsidiary; or

- (xxiii) **(Market Conditions)**: a suspension or material limitation in trading generally on ASX occurs or any material adverse change or disruption occurs in the existing financial markets, political or economic conditions of Australia, Japan, the United Kingdom, the United States of America or other international financial markets.
- (xxiv) **(Material Breach)**: if the Underwriter fails to rectify any material breach of the mandate letter entered into by it and the Company having been given 10 business days notice in writing by the Company of such breach having occurred.

The Underwriting Agreement also contains a number of indemnities provided by the Company for the benefit of the Underwriter to hold the Underwriter and all its officers, employees, agents and advisors harmless from and against all prosecutions, losses, penalties, actions, suits, claims, expenses, costs, liabilities, charges, outgoings, payments, demands and proceedings arising out of or in respect of:

- (a) the Offer;
- (b) non-compliance with or breach of any legal requirement or the ASX Listing Rules in relation to the Prospectus or any documents in respect of the Offer which accompany the Prospectus;
- (c) any statement, misstatement, misrepresentation, non-disclosure, inaccuracy or omission from the Prospectus or any documents in respect of the Offer which accompany the Prospectus;
- (d) any advertising, publicity, announcements, statements and reports in relation to the Offer made with the agreement of the Company; or
- (e) any breach or failure by the Company to observe any of the terms of the Underwriting Agreement or any breach of the representations and warranties given by the Company in the Underwriting Agreement.

Additionally, the Company will indemnify the Underwriter in respect of any payment made by the Underwriter to reimburse or provide for payment of any loss suffered personally by the Underwriter and an officer, employee, agents or advisor of the Underwriter in respect of the matters described in (a) to (e) above.

These indemnities are limited by any contravention by the Underwriter of the Corporations Act or anything done which results in losses for willful default, misconduct, fraud, negligence or breach of contract of the person claiming the indemnity.

In the event that there is a dispute as to a party's liability for an indemnity, the Company agrees to pay or reimburse the amount claimed until such time as the matter is determined. The Company is obliged to reimburse the Underwriter's expenses incurred in connection with the matters described in (a) to (e) above.

The indemnities contained in the Underwriting Agreement survive termination of the Underwriting Agreement.

All the obligations of the Underwriter under the Underwriting Agreement are discharged when any of the following occurs:

- (a) On the date on which all Rights Shares have been subscribed;
- (b) Underwriter lodges application for Shortfall Securities accompanied by the price;
- (c) On the date the Underwriter terminates the Underwriting Agreement;
- (d) The Company fails to give the Underwriter a valid notice by the Shortfall Notice Deadline Date;
- (e) Approval for official quotation has not been obtained by the Shortfall Notice Deadline Date;
or

- (f) If Completion has not taken place within five business days of the Closing Date other than by reason of a default by the Underwriter in the performance of its obligations under the Underwriting Agreement.

9.2 Convertible Security and Share Purchase Agreement

The Company entered into a Convertible Security Agreement with Bergen Global Opportunity Fund, LP ("**Bergen**") on 28 September 2011 under which Bergen provided funding to the Company by way of an interest-free, unsecured, subordinated convertible instrument. The Convertible Security Agreement also provides the Company with the right to activate a share purchase facility with Bergen (the "**Share Purchase Facility**") within 60 days of the date of execution of the Convertible Security Agreement. Under the Share Purchase Facility, broadly, Bergen would purchase \$200,000 to \$400,000 of shares per month from the Company for a period of up to 24 months. The key terms of the Convertible Security Agreement and the Company's rationale for entering into the agreement and the proposed use of funds were set out in an announcement on the ASX on 29 September 2011.

The Company has varied the arrangements with Bergen whereby:

- (a) Bergen has agreed to certain limitations on sales of the Company's shares that it holds, both during the offer period of the Rights Issue and for a certain period following the Closing Date for the Rights Issue; and
- (b) The notice period during which the Company may activate the Share Purchase Facility set out in the Convertible Security Agreement is extended from 60 to 90 days following the date of execution of the Convertible Security Agreement.

The Underwriting Agreement requires that if the Rights Issue raises funds equal to or in excess of the amount underwritten (being \$3.7 million) then the Company will not activate the Share Purchase Facility, and the Company and Bergen have agreed that, if the Rights Issue raises funds equal to or in excess of the amount underwritten (being \$3.7 million) then the Company will not activate the Share Purchase Facility.

10. TERMS OF SECURITIES OFFERED

10.1 New Shares

The New Shares will be fully paid ordinary shares in the capital of the Company, which will rank equally with, and will have the same voting and other rights as the existing issued fully paid ordinary shares of the Company. The rights attaching to the Company's fully paid ordinary shares are set out in the Company's constitution, the Listing Rules and the Corporations Act. The Company's constitution has been lodged with ASIC. The constitution contains provisions of the kind commonly found in constitutions of listed public companies in Australia and are taken to be included in this Prospectus by operation of section 712 of the Corporations Act. Any person may request a copy of the constitution during the application period of the Prospectus, which the Company will provide free of charge. The constitution is also available at the Company's web site, www.isoneamed.com.

10.2 New Option Terms

The terms of the New Options (and Commitment Options) offered under this Prospectus are as follows:

- (a) each option entitles the holder to one (1) Share in the Company;
- (b) the New Options are exercisable at any time on or prior to 5.00pm (Eastern Standard time) on 30 June 2014 ("**Expiry Date**") by completing a New Option exercise form and delivering it together with the payment for the number of Shares in respect of which the New Options are exercised to the registered office of the Company. Any New Option that is not exercised before the Expiry Date automatically lapses;
- (c) the New Option exercise price is \$0.007 (0.7 cents) per New Option;
- (d) a New Option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the option can be exercised;

- (e) subject to the Corporations Act, the Listing Rules and the Company's Constitutions, the New Options are freely transferrable;
- (f) all Shares issued upon exercise of the New Options will rank *pari passu* in all respects with the Company's then issued Shares. The Company will apply for quotation of the New Options and all Shares issued upon exercise of the New Options on ASX subject to any restriction obligations imposed by ASX;
- (g) The New Options will not give any right to participate in dividends until Shares are issued pursuant to the exercise of the relevant New Options;
- (h) There are no participation rights or entitlements inherent in the New Options. New Option holders are not entitled to participate in new issues of securities offered to shareholders without first exercising the New Options. Subject to any waiver granted by ASX, the Company will send notices to New Option holders at least five business days prior to the record date applying to offers of securities made to shareholders during the currency of the New Options; and
- (i) In the event of any reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company prior to the Expiry Date, the number of New Options or the exercise price of the New Options or both shall be reconstructed in accordance with the ASX Listing Rules applying to a reorganisation of capital at the time of the reconstruction.

Shares issued upon the exercise of New Options will fully be fully paid ordinary shares and will have the same voting and other rights as the existing shares of the Company.

10.3 ASX Listing and Allocation

Application will be made to ASX within seven days after the date of issue of this Prospectus for quotation of New Shares. If the application for quotation is unsuccessful, all application monies will be repaid to applicants without interest.

The Board will, subject to being able to satisfy any requirements imposed by the ASX Listing Rules, make an application to quote the New Options. Official quotation of New Options will be conditional upon there being a sufficient number of holders of the New Options to satisfy the requirements of ASX for the creation of a new class of listed security. No application monies will be repaid to applicants in the event that the New Options offered under this Prospectus are not admitted to official quotation.

The Company will issue the New Shares and New Options as soon as possible after the Closing Date.

11. DIRECTORS' INTERESTS

11.1 Securities

Existing Interests

As at the date of this Prospectus, the Directors' direct and indirect interests in Shares and options of iSonea are as follows:

Director	Shares*	Options
Mr Ross Haghighat	66,172,529	5,000,000
Mr Paul Hopper	5,000,000	1,500,000
Mr Jerome Korten	5,000,000	1,500,000
Mr Fabio Pannuti	5,000,000	1,500,000

* Shareholder approval was obtained at the Annual General Meeting held on Thursday 17 November 2011 in respect of the issue of 5,000,000 ordinary shares to each of the Directors of the Company. The Share totals include 5,000,000 ordinary shares the Company intends to issue to each of the Directors of the Company prior to the Record Date for the Offer.

Participation by Directors in the Rights Issue

The Directors are entitled, but not obliged, to participate in the Rights Issue without the need for Shareholder approval. Shareholder approval would however be required for the Company to issue the Directors with any Shortfall Shares. If the Directors each participate to the maximum extent permissible for their entitlement then their respective direct and indirect interests will increase and upon issue of the New Shares and New Options they will have the following direct or indirect interests:

Director	Entitlement under the Rights Issue (shares)*	Entitlement under the Rights Issue (options)*	Total interest if full entitlement taken up (shares)*	Total interest if full entitlement taken up (options)*
Mr Ross Haghghat	49,629,397	12,407,349	115,801,926	17,407,349
Mr Paul Hopper	3,750,000	937,500	8,750,000	2,437,500
Mr Jerome Korten	3,750,000	937,500	8,750,000	2,437,500
Mr Fabio Pannuti	3,750,000	937,500	8,750,000	2,437,500

* Shareholder approval was obtained at the Annual General Meeting held on Thursday 17 November 2011 in respect of the issue of 5,000,000 ordinary shares to each of the Directors of the Company. The totals include the Rights Issue Entitlements in respect of the 5,000,000 ordinary shares the Company intends to issue to each of the Directors of the Company prior to the Record Date for the Offer.

The Directors have all indicated they intend to participate in the Offer.

Except as disclosed in the Prospectus, no Director or proposed Director has, or has had within two years of lodgement of this Prospectus, any interest in

- (a) the formation or promotion of the Company; or
- (b) any property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer; or
- (c) the Offer.

11.2 Remuneration

Directors are entitled to receive directors' fees and other remuneration (which may include consulting fees) from the Company in relation to services provided to the Company. Details of the remuneration paid to Directors to 30 June 2011 are set out in the financial statements of the Company for the financial year ended 30 June 2011.

The total amounts paid or payable (excluding GST) to current Directors as fees and executive service remuneration in the 2 year period prior to lodgement of this Prospectus are:

Director	Period		
	September 2009 – June 2010	July 2010 – June 2011	July 2011 – November 2011 Total
Mr Ross Haghghat	Nil	\$ 220,449	US\$ 45,000
Mr Paul Hopper	Nil	\$ 38,306	\$ 23,750
Mr Jerome Korten	Nil	\$ 37,004	\$ 22,500
Mr Fabio Pannuti	Nil	\$ 38,818	\$ 23,750

Except as disclosed in this Prospectus, no person has paid or agreed to pay any amount to any Director or has given or agreed to give any benefit to any Director, to induce the Director to become, or to qualify as, a Director of the Company or otherwise for services rendered by the Director in connection with the formation or promotion of the Company or the Offer.

11.3 Interests of Advisors

Except as set out elsewhere in this Prospectus, no person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus, or a promoter or stockbroker to iSonea has, or had within two years before lodgement of this Prospectus with ASX any interest in:

- (a) the formation or promotion of iSonea;
- (b) property acquired or proposed to be acquired by iSonea in connection with its formation, promotion or the securities offered under this Prospectus; or
- (c) securities offered under this Prospectus,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any of those persons for services rendered by him or her in connection with the formation or promotion of iSonea or the securities offered under this Prospectus.

12. TAXATION

Recipients of the Offer should seek and obtain their own taxation advice before applying for New Shares and New Options so that they may first satisfy themselves of any taxation implications associated with acquiring New Shares and New Options.

13. OVERSEAS SHAREHOLDERS

13.1 Overseas Investors

The Company is of the view that it is unreasonable to make the Offer to Shareholders outside of Australia and New Zealand having regard to:

- (a) the number of Shareholders registered outside of Australia and New Zealand;
- (b) the number and value of the securities to be offered to Shareholders registered outside of Australia and New Zealand; and
- (c) the cost of complying with the legal requirements and requirements of regulatory authorities in overseas jurisdictions.

Accordingly, the Company is not required to make the Offer to Shareholders registered outside of Australia and New Zealand ("**Excluded Shareholders**").

The Company has appointed Patersons Securities Limited as nominee for the Excluded Shareholders to arrange the sale of the Rights Issue Entitlements which would have been offered to the Excluded Shareholders. The Company will transfer the Rights Issue Entitlements of the Excluded Shareholders to the nominee who will instruct the Company's share registry to dispatch the funds (if any) to each individual Excluded Shareholder. The nominee will have absolute and sole discretion to determine the timing and the price at which the Rights Issue Entitlements may be sold and the manner of any such sale. Neither the Company nor the nominee will be subject to any liability for failure to sell the Rights Issue Entitlements that would have been offered to Excluded Shareholders or to sell them at a particular price. Further details regarding the appointment of Patersons Securities Limited are set out in section 9.1.

If, in the reasonable opinion of the nominee, there is not a viable market for the Rights Issue Entitlements or a surplus over the expenses of sale cannot be obtained for the Rights Issue Entitlements that would have been offered to Excluded Shareholders, then those Rights Issue Entitlements will be allowed to lapse and will form part of the Shortfall Shares.

No offer is made under this Prospectus to any person in a country or jurisdiction outside Australia and New Zealand if any such offer would be unlawful.

13.2 **New Zealand Regulatory Requirements**

This Rights Issue to New Zealand investors is a regulated Rights Issue made under Australian and New Zealand Law. In Australia, this is Chapter 8 of the Corporations Act 2001 and Regulations. In New Zealand, this is Part 5 of the Securities Act 1978 and the Securities (Mutual Recognition of Securities Offerings - Australia) Regulations 2008. This Rights Issue and the content of the offer document are principally governed by Australian rather than New Zealand law. In the main, the Corporations Act 2001 and Regulations (Australia) set out how the Rights Issue must be made.

There are differences in how securities are regulated under Australian law. For example, the disclosure of fees for collective investment schemes is different under the Australian regime.

The rights, remedies, and compensation arrangements available to New Zealand investors in Australian securities may differ from the rights, remedies and compensation arrangements for New Zealand securities.

Both the Australian and New Zealand securities regulators have enforcement responsibilities in relation to this Rights Issue. If you receive this Offer in New Zealand and need to make a complaint about this Rights Issue, please contact the Securities Commission, Wellington, New Zealand. The Australian and New Zealand regulators will work together to settle your complaint.

The taxation treatment of Australian securities is not the same as for New Zealand securities.

If you are uncertain as to whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial advisor.

The Rights Issue may involve a currency exchange risk. The currency for the securities is not New Zealand dollars. The value of the securities will go up or down according to changes in the exchange rate between that currency and New Zealand dollars. These changes may be significant. If you expect the securities to pay any amounts in a currency that is not New Zealand dollars, you may incur significant fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.

If the securities are able to be traded on a financial market and you wish to trade the securities through that market, you will have to make arrangements for a participant in that market to sell the securities on your behalf. If the securities market does not operate in New Zealand, the way in which the market operates, the regulation of participants in that market, and the information available to you about the securities and trading may differ from markets that operate in New Zealand.

13.3 **Other Countries**

This Prospectus does not constitute an offer for securities in any place where, or to any person whom, it would be unlawful to make such an offer. The distribution of this Prospectus in jurisdictions outside Australia and New Zealand may be restricted by law, and persons outside Australia and New Zealand who come into possession of this Prospectus should seek advice on, and observe any, such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. No action has been taken to register or qualify the New Shares and New Options or the Rights Issue or otherwise to permit a public offering of the securities in any jurisdiction outside Australia and New Zealand. The New Shares and New Options have not been, and will not be, registered under the United States Securities Act of 1933 and should not be offered or sold within the USA. Any person accessing the electronic version of this Prospectus for the purpose of investing in the Company must only access it from within Australia or New Zealand.

14. **PRIVACY**

Personal information is collected on the Entitlement and Acceptance Forms by the Company and its Share Registrar for maintaining registers of security holders, facilitating distribution payments and other corporate actions and communications. Acceptances might not be processed efficiently, or at all, if the information requested is not provided. Personal information about recipients may be disclosed to external service providers such as print or mail service providers as required or permitted by law. A recipient who would like details of their personal information held by the Company or its Share Registrar, or who would like to correct information that is incorrect or out of

date, should contact the Share Registrar's Privacy Officer at Security Transfer Registrars Pty Ltd (by email to registrar@securitytransfer.com.au, by telephoning +61 8 9315 2333, or by facsimile to +61 8 9315 2233) or the address shown in the Corporate Directory. In accordance with the Corporations Act, recipients may be sent material (including marketing material) in addition to general corporate communications. Recipients may elect not to receive marketing material by contacting the Share Registrar's Privacy Officer. Recipients can also request access to, or corrections of, personal information held by the Company by writing to the Company.

15. ELECTRONIC PROSPECTUS

This Prospectus is available in electronic format at www.isoneamed.com. Offers constituted by this Prospectus in electronic form (if any) are only available to Eligible Shareholders receiving this Prospectus in electronic form within Australia. Persons having received this Prospectus in electronic form may, during the offer period, obtain a paper copy of this Prospectus (free of charge) by telephoning Security Transfer Registrars Pty Ltd +61 8 9315 2333. Acceptances for New Shares and New Options may only be made on the Entitlement and Acceptance Form which accompanied or was attached to a copy of this Prospectus in its paper copy form or a print out of the form which formed part of or was accompanied by the complete and unaltered electronic version of this Prospectus. The Corporations Act prohibits any person from passing on to another person an Entitlement and Acceptance Form unless it is attached to or accompanied by a hard copy of this Prospectus or by the complete and unaltered electronic version of this Prospectus.

16. CONSENTS

Security Transfer Registrars Pty Ltd ("Security Transfer Registrars") has given and, as at the date hereof, not withdrawn, its written consent to be named as Share Registry in the form and context in which it is named. Security Transfer Registrars has had no involvement in the preparation of any part of the Prospectus other than being named as Share Registry to the Company. Security Transfer Registrars has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of the Prospectus.

Patersons Securities Limited has given, and at the time of lodgement of this Prospectus, has not withdrawn its consent to be named as Lead Manager and Underwriter to the offer of securities under this Prospectus, in the form and context in which it is named.

Patersons Securities Limited was not included in the preparation of any part of this Prospectus and did not authorise or cause the issue of this Prospectus. The Underwriter makes no express or implied representation or warranty in relation to iSonea, this Prospectus or the Offer and does not make any statement in this Prospectus, nor in any statement in it based on any statement made by Patersons Securities Limited. Patersons Securities Limited expressly disclaims and takes no responsibility for any material in, or omission from, this Prospectus other than the reference to its name.

Goodman Tavendale Reid Limited has given, and, as at the date hereof, not withdrawn, its written consent to be named as New Zealand agent to the Rights Issue in the form and context in which it is named. Goodman Tavendale Reid Limited has had no involvement in the preparation of any part of the Prospectus other than being named as New Zealand agent to the Rights Issue. Goodman Tavendale Reid Limited has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of the Prospectus.

17. ENQUIRIES

If you have any questions regarding the content of this Prospectus or how to complete the Entitlement and Acceptance Form, please contact the Company's Share Registry +61 8 9315 2333. Alternatively, you should contact your stockbroker, accountant or independent professional financial adviser prior to accepting the Offer.

Any questions concerning the Offer should be directed in the first instance to Security Transfer Registrars on telephone +61 8 9315 2333.

18. INVESTMENT DECISIONS

The information in this Prospectus does not constitute financial product advice. This Prospectus does not take into account the investment objectives, financial situation, tax position and particular

needs of individual investors. Investors should obtain their own independent advice and consider the appropriateness of the offer of New Shares and New Options pursuant to this Prospectus having regard to their objectives, financial situation, tax position and needs.

19. FUTURE PERFORMANCE

Except as required by law, and only then to the extent so required, neither iSonea nor any other person warrants the future performance of iSonea, or any return on any investment made pursuant to this Prospectus. An investment in the securities (shares and options) offered by this Prospectus should be considered speculative.

20. GENERAL

No person is authorised to give information or to make any representation in connection with this Prospectus which is not contained in the Prospectus. Any information or representation not so contained may not be relied on as having been authorised by iSonea in connection with this Prospectus.

In making representations in this Prospectus regard has been had to the fact that iSonea is a disclosing entity for the purposes of the Corporations Act and certain matters may reasonably be expected to be known to investors and professional advisers whom potential investors may consult.

21. GLOSSARY

"ASIC" means the Australian Securities and Investments Commission.

"ASX" means ASX Limited [ACN 008 624 691] and/or the prescribed financial market operated by ASX Limited and/or its subsidiaries.

"Commitment Options" has the meaning given in section 1.4.

"Corporations Act" means the Corporations Act 2001 (Cth).

"Dispatch Date" means 22 December 2011.

"Listing Rules" means the listing rules from time to time of ASX.

"Non-qualifying Foreign Shareholder" means a Shareholder whose registered address is not in Australia or New Zealand.

"Record Date" means 5pm Perth, Western Australia time on 29 November 2011 for the purpose of identifying the persons who are entitled to acquire New Shares and New Options pursuant to the Rights Issue.

"Rights Issue Entitlement" means the entitlement to apply for New Shares and New Options under the Offer.

"Rights" means the rights of Shareholders to participate in the renounceable pro-rata rights issue described in this Prospectus and subscribe for New Shares and New Options.

"Shareholders" means holders of fully paid ordinary shares in the capital of iSonea.

"Shares" means fully paid ordinary shares in the capital of iSonea.

"Underwriter" means Patersons Securities Limited [ABN 69 008 896 311].

Directors' Responsibility Statement

The Directors of the Company have authorised the lodgement of this Prospectus with ASIC.

A handwritten signature in blue ink, appearing to read "R Haight", is positioned above the printed name of the director.

**Mr Ross Haight
Director**