



Appendix 4D

For the Half Year Ended 31 December 2009

Results for Announcement to the Market

Current Reporting Period - Half year Ended 31 December 2009
Previous Reporting Period - Half year Ended 31 December 2008

Revenues	up	9.98%	to	\$70,391
Loss after tax attributable to members	down	35.53%	to	(\$2,900,302)
Net loss for the period attributable to members	down	35.53%	to	(\$2,900,302)

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

Net Tangible Asset per Security (cents per security)

As at 31 December 2009	0.72
As at 30 June 2009	0.46

Loss per share for loss attributable to the ordinary equity

(Basic and Diluted)	
As at 31 December 2009	(0.47)
As at 31 December 2008	(1.49)

Record date for determining entitlements to the dividend, (in the n/a)

Explanation of the above information:

KarmelSonix Ltd recorded revenue of \$70,391 for the period ended 31 December 2009 (2008: \$64,005), this consists of sales revenue from medical devices and interest revenue, last year the majority of this revenue related to interest earned on company bank accounts.

The decline in the loss for the period is predominantly associated with the reduction in share based payments recorded during in the period. In the corresponding period, the share based payments totalled approximately \$1,800,000, the majority of this expense related to the conversion of D Class Performance Shares. The value of these converted shares was included in Consulting, Employee and Director Expenses in the Consolidated Statement of Comprehensive Income.

Please refer to the Directors' Report - Review of Operations for further information on the Company operations over the past six months.



Appendix 4D Interim Financial Report

For the Half Year Ended 31 December 2009
(previous corresponding period: half year ended 31 December 2008)

To be read in conjunction with the 30 June 2009 Annual Report.
In compliance with Listing Rule 4.2A

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This interim financial report does not include all notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2009 and any public announcements made by KarmelSonix Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Directors' Report

Your directors present their report on the consolidated entity consisting of KarmelSonix Ltd and the entities it controlled at the end of, or during, the half year ended 31 December 2009.

Directors

The following persons were directors of KarmelSonix Ltd during the whole of the half-year and up to the date of this report, unless stated otherwise:

Peter Marks	Executive Chairman
Prof Noam Gavriely	Executive Director, CEO & CMO
Dr Henry Pinski	Executive Director
Mr Paul Eisen	Executive Director (appointed 11 February 2010)
Mr Amir Ohad	Executive Director (appointed 11 February 2010)
Prof Nathan Intrator	Non-Executive Director

Operating Result

The consolidated loss of the Company after providing for income tax amounted to \$2,900,302 (2008: \$4,498,765). For further detail, refer to the Review of Operations below.

Review of Operations

The half year to 31 December 2009, was another very active period for the Company which included the completion of the first batch of WheezoMeters™, the preparations for submissions of the WHolter™ and the Wireless PulmoTrack® to the European CE regulatory body, and the successful completion of a capital raising program raising approximately \$4.5m before costs associated with the raising.

Some of the key highlights for the half year include:

- Appointment of Mr. Paul Eisen as MD, KarmelSonix Asia Pacific & Europe;
- Signing of the Australian pharmacy distribution agreement;
- Signing of an Agreement with the first Australian Private Health Fund;
- Appointment of distributors for the Southern and Northern parts of India;
- Signing of distribution agreements in Germany, Romania and South Korea;
- The completion in Australia of the Sleep Centre integration model incorporating Wheeze detection and cough detection. This model is currently being evaluated in sleep centres in Australia as well as the United States;
- Receipt of FDA Clearance for Clinical WheezoMeter™;
- The technical completion of the WHolter™ and the Pulmotrack® Wireless in readiness for submission to regulatory authorities with European CE being the first;
- The acceptance for publication in the noted Journal of Asthma of the clinical study regarding Children and Nocturnal Asthma and Wheeze;
- Receipt of regulatory approval for the Pulmotrack® and WheezoMeter™ in Canada; and
- Completion of capital raising which secured an additional \$4.5m (approximately), a large part of which is being directed towards bolstering sales and marketing activities.

Directors' Report (continued)

The Directors would like to thank shareholders for their continued support and interest in the Company. The 2010 financial year has commenced with a significant amount of activity and growing interest in the KarmelSonix Ltd products across a range of health professionals and users. Importantly, the Company is putting in place the building blocks necessary for it to become a successful medical devices company. We look forward to providing further updates to the market in the coming months.

Auditors' Independence Declaration

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

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

A handwritten signature in blue ink, appearing to read 'P. Marks', is written over a light blue rectangular background.

Peter Marks
Executive Chairman

Melbourne
Dated 26 February 2010

Auditors' Independence Declaration



Chartered Accountants
& Business Advisers

AUDITOR'S INDEPENDENT DECLARATION

As lead auditor for the review of Karmel Sonix Limited for the half-year ended 31 December 2009, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Karmel Sonix Limited and the entities it controlled during the year.

A handwritten signature in blue ink that reads 'David Garvey'.

David Garvey
Partner
PKF

26 February 2010
Melbourne

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Consolidated Statement of Comprehensive Income

For the Half Year Ended 31 December 2009

	Note	31 December 2009 \$	Consolidated Entity 31 December 2008 \$
Revenue	3	70,391	64,005
Cost of Goods Sold		(192,516)	-
Gross Profit		(122,125)	64,005
Other Income		2,075	52,248
Amortisation Expenses		(88,323)	(96,674)
Consulting, Employee and Director Expenses		(922,528)	(2,276,564)
Corporate Administration Expenses		(232,091)	(249,681)
Depreciation Expenses		(33,479)	(55,525)
Marketing and Promotion Expenses		(579,023)	(482,250)
Research and Development Expenses		(739,083)	(1,417,997)
Travel and Entertainment Expenses		(185,725)	(36,327)
Loss Before Income Tax		(2,900,302)	(4,498,765)
Income Tax Expense		-	-
Loss for the Half Year		(2,900,302)	(4,498,765)
Other Comprehensive Income			
Exchange differences on translation of foreign operations		63,342	460,009
Total Comprehensive Loss for the Half Year		(2,836,960)	(4,038,756)

		Cents	Cents
Loss per share attributable to the ordinary equity holders of the company:			
Basic loss per share	8	(0.47)	(1.49)
Diluted loss per share	8	(0.47)	(1.49)

The accompanying notes form part of this financial report.

Consolidated Statement of Financial Position

As at 31 December 2009

	Note	31 December 2009 \$	Consolidated Entity 30 June 2009 \$
Current Assets			
Cash and Cash Equivalents		5,021,332	2,959,130
Trade and Other Receivables		350,277	221,470
Inventories		172,838	76,899
Other		108,939	145,079
Total Current Assets		5,653,386	3,402,578
Non-Current Assets			
Plant and Equipment		191,826	143,069
Other Intangible Assets		1,417,538	1,536,960
Other		17,785	18,849
Total Non-Current Assets		1,627,149	1,698,878
Total Assets		7,280,535	5,101,456
Current Liabilities			
Trade and Other Payables		903,179	826,990
Other Financial Liabilities		44,940	323,820
Provisions		17,655	15,268
Total Current Liabilities		965,774	1,166,078
Non-Current Liabilities			
Provisions		6,907	5,991
Total Non-Current Liabilities		6,907	5,991
Total Liabilities		972,681	1,172,069
Net Assets		6,307,854	3,929,387
Equity			
Issued Capital	6	61,640,211	56,571,097
Reserves	7	5,087,548	4,877,893
Accumulated Losses		(60,419,905)	(57,519,603)
Total Equity		6,307,854	3,929,387

The accompanying notes form part of this financial report.

Consolidated Statement of Changes in Equity

For the Half Year Ended 31 December 2009

	Issued Capital \$	Option Reserve \$	Consolidated Entity Foreign Currency Translation Reserve \$	Accumulated Losses \$	Total \$
Balance at 30 June 2008	51,796,073	4,094,270	(219,116)	(50,818,511)	4,852,716
Total Comprehensive Income for the Half Year	-	-	460,009	(4,498,765)	(4,038,756)
Transactions with equity holders in their capacity as equity holders:					
Shares Issued	1,708,600	-	-	-	1,708,600
Capital Raising Costs	(356,332)	-	-	-	(356,332)
Options Exercised Net of Costs	7,175	-	-	-	7,175
Options Issued	-	218,333	-	-	218,333
Transfer to/from Reserves	39,969	(39,969)	-	-	-
	1,399,412	178,364	-	-	1,577,776
Balance at 31 December 2008	53,195,485	4,272,634	240,893	(55,317,276)	2,391,736
Total Comprehensive Income for the Half Year	-	-	190,944	(2,202,327)	(2,011,383)
Transactions with equity holders in their capacity as equity holders:					
Shares Issued	3,401,944	-	-	-	3,401,944
Capital Raising Costs	(26,332)	-	-	-	(26,332)
Options Issued	-	173,422	-	-	173,422
	3,375,612	173,422	-	-	3,549,034
Balance at 30 June 2009	56,571,097	4,446,056	431,837	(57,519,603)	3,929,387
Total Comprehensive Income for the Half Year	-	-	63,342	(2,900,302)	(2,836,960)
Transactions with equity holders in their capacity as equity holders:					
Shares Issued	5,678,030	-	-	-	5,678,030
Capital Raising Costs	(608,916)	-	-	-	(608,916)
Options Issued	-	146,313	-	-	146,313
	5,069,114	146,313	-	-	5,215,427
Balance at 31 December 2009	61,640,211	4,592,369	495,179	(60,419,905)	6,307,854

The accompanying notes form part of this financial report.

Consolidated Statement of Cash Flows

For the Half Year Ended 31 December 2009

	31 December 2009 \$	Consolidated Entity 31 December 2008 \$
Cah Flows Related to Operating Activities		
Receipts from customers	54,999	-
Payments to Suppliers and Employees	(2,572,024)	(2,411,586)
Interest Received	37,078	64,005
Receipt of Grant Funding	-	52,049
Net Cash Used in Operating Activities	(2,479,947)	(2,295,532)
Cah Flows Related to Investing Activities		
Payment for Purchases of Plant and Equipment	(78,213)	(51,394)
Net Cash Used in Investing Activities	(78,213)	(51,394)
Cah Flows Related to Financing Activities		
Proceeds from Issues of Securities	5,119,400	7,175
Capital Raising Costs	(494,416)	(356,332)
Net Cash From/(Used in) Financing Activities	4,624,984	(349,157)
Net Increase/(Decrease) in Cash and Cash Equivalents	2,066,824	(2,696,083)
Cash and Cash Equivalents at the Beginning of the Half Year	2,959,130	3,370,543
Effects of Exchange Rate Changes on Cash and Cash Equivalents	(4,622)	157,956
Cash and Cash Equivalents at the End of the Half Year	5,021,332	832,416

The accompanying notes form part of this financial report.

Notes to the Consolidated Financial Statements

Note 1. Basis of Preparation

(a) Basis of Preparation

The general purpose financial report for the interim half year reporting period ended 31 December 2009 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This interim financial report does not include all notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2009 and any public announcements made by KarmelSonix Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Accounting Standards include Australian equivalents to International Financial Reporting Standards (A-IFRS). Compliance with AASB134 "Interim Financial Report" ensures that the financial statements and notes of the entity comply with International Financial Reporting Standards equivalent IAS34 "Interim Financial Reporting".

(b) Summary of the Significant Accounting Policies

Apart from the changes in accounting policy noted below, the half year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2009.

AASB 2009-101 Presentation

The revised AASB 101 separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners with non-owners changes in equity presented in a reconciliation of each component of equity and included in a new statement of comprehensive income. The Group has elected to present all items of recognized income and expense in one single statement of comprehensive income.

AASB 2009-8 Amendments to Australian Accounting Standards - Segment Reporting

Adoption of this standard has resulted in a change in the disclosure of operating segments as noted in Note 4.

Adoption of these Standards did not have any effect on the financial position or performance of the Group. The Group has not elected to early adopt any other new Standards or amendments that are issued by not yet effective.

(c) Going Concern

For the half year ended 31 December 2009 the consolidated entity has incurred a loss of \$2,900,302 and has had operating cash outflows of \$2,479,947. Furthermore, the consolidated entity as yet does not have a source of income sufficient to meet its operating costs and is reliant on equity capital or loans from third parties to meet its operating costs. For the period covering 12 months from the signing of the half year report, the consolidated entity expects an increase in operating costs as the Directors are continuing to commercialise the intellectual property owned by the company. These conditions indicate a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern.

The financial statements have been prepared on the basis that the consolidated entity is a going concern, which contemplates the continuity of normal business activity, realisation of assets and the settlement of liabilities in the normal course of business.

Notes to the Consolidated Financial Statements

(continued)

Note 1. Basis of Preparation

(c) Going Concern (continued)

The ability of the consolidated entity to continue as a going concern is dependent upon a number of factors, one being the continuation and availability of funds. To this end, the consolidated entity is expecting funding from the following sources:

- A number of the Company's products have reached commercialisation stage and the Company is expected to produce income from sales, which will provide additional cash flow to the Company. To December 2009 the Company has recorded cash from sales from distributors and targeted customers for the PulmoTrack and WheezoMeter units amounting to A\$54,999.

- The Company has access to an equity draw down facility of up to \$7,200,000 with Trafalgar Capital Specialised Investment Fund, as announced to the ASX on 28 August 2008. No amounts have been drawn down to date on the facility however, the facility remains available to the Company. The directors have received no indication that Trafalgar are unable to provide the funding when required.

- Since inception, the consolidated entity has been able to raise funds to pursue commercialisation of its medical devices. In the past six months, the consolidated entity has demonstrated that it can raise capital by raising in excess of \$5,000,000 through the issue of equity, before costs. If required, the Directors believe that there is a reasonable expectation that they can raise additional funding to enable the consolidated entity to continue to pursue the current business objectives.

- Notwithstanding, the company has the ability to sufficiently scale down its operations and continue certain programs should the need arise.

Cash flow forecasts prepared by management demonstrate that the consolidated entity has sufficient cash flows to meet their commitments over the next twelve months based on the above factors, and for that reason the financial report has been prepared on the basis that the consolidated entity is a going concern, which contemplates the continuity of normal business activity, realisation of assets and the settlement of liabilities in the normal course of business.

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

Note 2. Dividends

The company resolved not to declare any dividends in the period ended 31 December 2009.

31 December 2009
\$

31 December 2008
\$

Note 3. Revenue

Revenue from Operating Activities

Sales - Medical devices	33,307	-
Interest	37,084	64,005
	70,391	64,005

Notes to the Consolidated Financial Statements

(continued)

Note 4. Segment Information

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

The executive management team considers the business from both a product and a geographic perspective and has identified three reportable segments. Medical devices consists of research and development, commercialisation and sale of a suite of medical devices being developed by the company by subsidiaries in Israel and Australia. Management monitors the performance in these two regions separately. Corporate, administration and support services are provided in Australia and performance is monitored separately to the medical device business.

The reportable segments are based on aggregated operating segments determined by similarity of expenses, where expenses in the reportable segments exceed 10% of the total expenses for either the current and/or previous reporting period.

	---- Medical Devices ----			
	Israel	Australia	Corporate	Total
	\$	\$	\$	\$
31 December 2009				
<u>Revenue</u>				
External Sales	30,580	2,727	-	33,307
Interest Revenue	-	-	-	37,084
Total Revenue	30,580	2,727	-	70,391
<u>Result</u>				
Segment Result	(1,791,761)	(363,556)	(782,069)	(2,937,386)
Interest Revenue	-	-	-	37,084
Net Result	(1,791,761)	(363,556)	(782,069)	(2,900,302)
Total Segment Assets	2,286,704	201,229	4,792,602	7,280,535
Total Segment Liabilities	641,576	42,684	288,420	972,680
31 December 2008				
<u>Revenue</u>				
External Sales	-	-	-	-
Interest Revenue	-	-	-	64,005
Total Revenue	-	-	-	64,005
<u>Result</u>				
Segment Result	(2,227,838)	(176,715)	(2,158,217)	(4,562,770)
Interest Revenue	-	-	-	64,005
Net Result	(2,227,838)	(176,715)	(2,158,217)	(4,498,765)
Total Segment Assets	2,539,731	325,914	345,577	3,211,222
Total Segment Liabilities	609,335	51,372	158,780	819,487

Notes to the Consolidated Financial Statements

(continued)

Note 5. Contingent Liabilities and Assets

In December 2009, the Company redeemed the G & H Class shares on issue. In accordance with the Sale of Shares Agreement, if the set milestones relating to the Class shares were not achieved within thirty six (36) months from the date of issue, the Company would automatically redeem these shares.

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

Note 6. Issued Capital

	Notes	31 December 2009		30 June 2009	
		No.	\$	No.	\$
Shares					
Fully Paid Ordinary Shares	(a)	678,876,239	61,585,281	524,896,573	56,497,267
Partly Paid Shares	(b)	27,465,000	54,930	36,915,000	73,830
G Class Shares	(c)	-	-	12,500,000	-
H Class Shares	(c)	-	-	12,500,000	-
Total Issued Capital			61,640,211		56,571,097

(a) Fully Paid Ordinary Shares

At the beginning of the period		524,896,573	56,497,267	273,824,583	51,796,073
Shares issued		153,979,666	5,696,930	250,784,990	5,036,714
Shares issued on exercise of options				287,000	7,175
Transfers from Reserves				-	39,969
Transaction costs relating to share issues			(608,916)		(382,664)
		678,876,239	61,585,281	524,896,573	56,497,267

(b) Partly Paid Shares

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

On the 23 June 2009, 450,000 unlisted partly paid ordinary shares were converted into ordinary shares in KarmelSonix Limited on becoming fully paid to \$0.01. On the 21 August 2009, 9,450,000 unlisted partly paid ordinary shares were converted into ordinary shares in KarmelSonix Limited on becoming fully paid to \$0.01.

(c) G & H Class Shares

In December 2009, the Company redeemed the G & H Class shares on issue for A\$1.00. In accordance with the Sale of Shares Agreement, if the set milestones relating to the Class shares were not achieved within thirty six (36) months from the date of issue, the Company would automatically redeem these shares.

Note 7. Reserves

	31 December 2009		30 June 2009		
	No.	\$	No.	\$	
Listed Options Over Shares		-	373,560	-	373,560
Unlisted Options Over Shares		126,668,330	4,218,809	120,525,569	4,072,496
Foreign Currency Translation Reserve			495,179		431,837
Total Reserves			5,087,548		4,877,893

Notes to the Consolidated Financial Statements

(continued)

Note 8. Loss per Share

	31 December 2009	31 December 2008
	\$	\$
Basic loss per share (cents)	(0.47)	(1.49)
Diluted loss per share (cents)	(0.47)	(1.49)
	\$	\$
a) Net Loss used in the calculation of basic and diluted loss per share	(2,900,302)	(4,498,765)
	No.	No.
b) Weighted average number of ordinary shares	620,071,089	302,873,247

Options that are considered to be potential ordinary shares are excluded from the weighted average number of ordinary shares used in the calculation of basic loss per share. Where dilutive, potential ordinary shares are included in the calculation of diluted loss per share. All the options on issue do not have the effect to dilute the loss per share. Therefore they have been excluded from the calculation of diluted loss per share.

Note 9. Net Tangible Assets

	31 December 2009	30 June 2009
	\$	\$
Net Tangible Assets	4,890,316	2,392,427
	No.	No.
Shares	678,876,239	524,896,573
	\$	\$
Net Tangible Assets (cents)	0.72	0.46

Note 10. Events Subsequent to Reporting Date

On the 11 February 2010, the Company announced the appointment of two additional Executive Directors. Mr Paul Eisen, who joined the company in August 2009, will assume the title, Managing Director, KarmelSonix, Asia Pacific and Europe, and Mr. Ohad who joined the Company in early 2009 has been appointed to the position of Finance Director and CFO.

Further on the 16 February 2010, the Company announced a range of new appointments which significantly strengthen the leadership team in Australia, Europe and the Asia Pacific region. Commencing immediately, Mr Adrian Smith (former Chief Financial Officer and Chief Operating Officer ResMed, Europe) has been appointed General Manager Europe and Mr Lasse Beijer (former Managing Director Nordics ResMed) has been appointed manager Nordics KarmelSonix. Also Mr Steve Bartley has been appointed by the Company in the capacity Director of Sales for North & South America.

Additional information on the background of all the new appointments can be found in the ASX announcements, released on 11 and 16 February 2010.

On 18 February 2010, the Company announced the appointment of Pneumo Care Healthcare Private Limited as its distribution partner covering the North, East and West of India. The appointment is in line with the Company's strategy to rapidly expand distribution in the key Asia Pacific markets where India is a major focus.

No other matters or circumstances have arisen since the end of the reporting period, other than the above, which significantly affected or may significantly affect the operations of the economic entity, the result of those operations or the state of affairs of the economic entity in subsequent financial years.

Directors' Declaration

The directors' of the company declare that:

1. The financial statements and notes, as set out on pages 6 to 14:

(a) comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and

(b) give a true and fair view of the economic entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date.

2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

A handwritten signature in blue ink, appearing to read 'Peter Marks', is written over a light blue rectangular background.

Peter Marks
Executive Chairman

Dated 26 February 2010

Independent Auditor's Review Report

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF KARMELSONIX LIMITED



Chartered Accountants
& Business Advisers

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of KarmelSonix Limited, which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement or description of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at 31 December 2009 or from time to time during the half year ended on that date.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the company's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of KarmelSonix Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

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Independent Auditor's Review Report (continued)



Chartered Accountants
& Business Advisers

Emphasis of Matter – Material Uncertainty Regarding Continuation As a Going Concern

Without qualification to the conclusion expressed above, attention is drawn to the following matter:

As referred to in Note 1(c) to the financial report, under "Going Concern", the consolidated entity incurred a loss for the half-year ended 31 December 2009 of \$2,900,302 and had net cash outflows from operating activities amounting to \$2,479,947. These conditions along with other matters set forth in Note 1(c) give rise to a material uncertainty which may cast significant doubt about the ability of the consolidated entity to continue as a going concern, and therefore whether it will be able to pay its debts as and when they fall due and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report has been prepared on a going concern basis and therefore does not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

PKF

PKF

26 February 2010
Melbourne

A handwritten signature in blue ink that reads "David Garvey".

D J Garvey
Partner